

\$27,225,000

Certificates of Participation
(1993 Community Center Refinancing Project)
Series A

Evidencing Direct, Undivided Fractional Interests of the
Owners Thereof in Lease Payments to be Made by the

CITY OF MODESTO, CALIFORNIA

As Rental For Certain Property Pursuant to a Lease Agreement
With the Modesto Public Financing Authority

Dated: May 1, 1993

\$8,130,000

Certificates of Participation
(1993 Golf Course Refinancing Project)
Series B

Evidencing Direct, Undivided Fractional Interests of the
Owners Thereof in Lease Payments to be Made by the

CITY OF MODESTO, CALIFORNIA

As Rental For Certain Property Pursuant to a Lease Agreement
With the Modesto Public Financing Authority

Due: November 1, as shown herein

The Certificates are being executed, sold and delivered in two separate series as noted above pursuant to two separate trust agreements. The Series A Certificates and the Series B Certificates are collectively referred to herein as the "Certificates." However, each series of Certificates is separately secured by the revenues and assets pledged under a separate trust agreement, and none of the revenues and assets pledged to one series of Certificates is available for the payment of principal and interest with respect to the other series of Certificates.

Each series of Certificates is being sold in connection with the lease-leaseback of certain real property and the capital improvements thereon (collectively, the "Projects") owned by the City of Modesto (the "City") all as more fully described herein. The Projects will be leased by the City to the Modesto Public Financing Authority (the "Authority") and leased back to the City by the Authority. The proceeds of the Series A Certificates will be used to (i) refund the \$24,280,000 outstanding principal amount of the Certificates of Participation (1991 Community Center Refinancing Project) (the "Community Center Certificates"), (ii) fund a Reserve Fund for the Series A Certificates and (iii) pay certain delivery costs in connection with the execution, delivery and sale of the Series A Certificates. The proceeds of the Series B Certificates will be used to (i) refund the \$6,430,000 outstanding principal amount of the Certificates of Participation (1990 Golf Course Financing Project) (the "Golf Course Certificates"), (ii) finance the construction, installation and equipping of certain improvements for the City, (iii) fund a Reserve Fund for the Series B Certificates and (iv) pay certain delivery costs in connection with the execution, delivery and sale of the Series B Certificates.

The Certificates will be registered in the name of CEDE & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Certificates. Individual purchases of interests in the Certificates will be made in book-entry form only, in the denomination of \$5,000 or any integral multiple thereof. Purchasers of such interests will not receive certificates representing their interest in the Certificates purchased. Principal and interest are payable directly to DTC by First Trust of California, National Association, as Trustee. Principal is payable on the dates set forth herein. Interest represented by the Certificates is payable semiannually on each May 1 and November 1, commencing November 1, 1993. Upon receipt of payments of principal and interest, DTC is obligated in turn to remit such principal and interest to the DTC Participants (as defined herein) for subsequent disbursement to purchasers of the Certificates, as described herein. **The Certificates are subject to mandatory redemption, as described herein, prior to their stated maturities.**

The City has agreed in two separate Lease Agreements, each dated as of May 1, 1993 (the "Lease Agreements"), each by and between the City and the Authority, to make all Lease Payments subject to abatement of such Lease Payments resulting from substantial interference with the beneficial use and occupancy of the applicable Project being leased thereunder or any portion thereof by reason of damage or destruction, or from a taking of such Project (either in whole or in part, temporarily, or in part, permanently) under the powers of eminent domain. The City has also covenanted in the Lease Agreements to take such action as may be necessary to include such Lease Payments in its annual budgets and to make the necessary annual appropriations therefor.

Payment of the principal and interest represented by the Series A Certificates when due will be insured by a municipal bond insurance policy to be issued by AMBAC Indemnity Corporation simultaneously with the delivery of the Series A Certificates.

AMBAC

Payment of the principal and interest represented by the Series B Certificates when due for payment will be insured by a municipal bond insurance policy to be issued by Financial Guaranty Insurance Company simultaneously with the delivery of the Series B Certificates.

FGIC Financial Guaranty Insurance
Company

Service mark used by Financial Guaranty Insurance Company, a private company not
affiliated with any U.S. government agency.

THE OBLIGATION OF THE CITY TO PAY LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION NOR DOES IT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

In the opinion of Jones Hall Hill & White, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however, to certain qualifications described herein, under existing law, the portion of Lease Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

Maturity schedules are set forth on the inside front cover.

This cover page contains certain information for general reference only. It is not a summary of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Certificates are offered when, as and if sold and received by the Underwriters, subject to approval by Jones Hall Hill & White, A Professional Law Corporation, San Francisco, California, Special Counsel. Certain legal matters will be passed upon for the Underwriters by Kutak Rock, and for the City by the City Attorney. It is anticipated that the Certificates in book-entry form will be available for delivery on or about May 27, 1993.

Smith Barney, Harris Upham & Co.
Incorporated

Grigsby Brandford & Co., Inc.

May 11, 1993

TABLE OF CONTENTS

INTRODUCTION	1
PLAN OF REFUNDING	3
THE CERTIFICATES	4
SOURCE OF PAYMENT FOR THE CERTIFICATES	11
BOND INSURANCE	18
ESTIMATED SOURCES AND USES OF FUNDS	22
THE PROJECTS	23
THE IMPROVEMENTS	25
RISK FACTORS	25
CITY GENERAL INFORMATION	28
CITY FINANCES	29
DISCUSSION OF FINANCIAL OPERATIONS	31
REVENUE SOURCES OF THE CITY	34
EXPENDITURES	43
CAPITAL IMPROVEMENT PROGRAM	45
DEBT OF THE CITY	45
LEASE OBLIGATIONS	48
ECONOMIC AND DEMOGRAPHIC INFORMATION CONCERNING THE CITY . . .	48
THE AUTHORITY	57
UNDERWRITING	57
RATINGS	58
TAX MATTERS	59
LITIGATION	60
APPROVAL OF LEGALITY	61
VERIFICATION	61
OTHER MATTERS	61
APPENDIX A—City of Modesto Audited Financial Statements, June 30, 1992	A-1
APPENDIX B—Summary of Principal Legal Documents	B-1
APPENDIX C—Form of Legal Opinions	C-1
APPENDIX D—Specimen Municipal Bond Insurance Policy for Series A Certificates . .	D-1
APPENDIX E—Specimen Municipal Bond Insurance Policy for Series B Certificates . .	E-1

CITY COUNCIL

Richard A. Lang, Mayor

David Cogdill, Vice Mayor

Kenni Friedman, Member

Stan Dobbs, Member

Frank T. Muratore, Member

Richard G. Patterson, Member

Charles V. Bird, Member

CITY OFFICIALS

**J. Edward Tewes
City Manager**

**Michael D. Milich
City Attorney**

**Andrea Daroca
Interim Finance Director**

**Doug Gaynor
Director of Parks and Recreation**

SPECIAL COUNSEL

**Jones Hall Hill & White,
A Professional Law Corporation
San Francisco, California**

TRUSTEE

First Trust of California, National Association

FINANCIAL ADVISOR

Rauscher Pierce Refsnes, Inc.

[THIS PAGE INTENTIONALLY LEFT BLANK]

\$27,225,000
Certificates of Participation
(1993 Community Center
Refinancing Project)
Series A

\$8,130,000
Certificates of Participation
(1993 Golf Course Refinancing Project)
Series B

Evidencing Direct, Undivided Fractional Interests
of the Owners thereof in Lease Payments
to be made by the

CITY OF MODESTO, CALIFORNIA

As Rental For Certain Property
Pursuant to Two Separate Lease Agreements with the
Modesto Public Financing Authority

INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, provides certain information concerning the offering of the Certificates of Participation (1993 Community Center Refinancing Project) Series A (the "Series A Certificates") in the aggregate principal amount of \$27,225,000 and the Certificates of Participation (1993 Golf Course Refinancing Project) Series B (the "Series B Certificates") in the aggregate principal amount of \$8,130,000. The Series A Certificates and the Series B Certificates are collectively referred to herein as the "Certificates." **HOWEVER, EACH SERIES OF CERTIFICATES IS SEPARATELY SECURED BY THE REVENUES AND ASSETS PLEDGED UNDER A SEPARATE TRUST AGREEMENT AND NONE OF THE REVENUES AND ASSETS PLEDGED TO ONE SERIES OF CERTIFICATES IS AVAILABLE FOR THE PAYMENT OF PRINCIPAL AND INTEREST WITH RESPECT TO THE OTHER SERIES OF CERTIFICATES.**

The Series A Certificates evidence direct, undivided fractional interests of the registered owners thereof (the "Series A Owners") in lease payments (the "Series A Lease Payments") to be made by the City of Modesto (the "City") to the Modesto Public Financing Authority (the "Authority") for the use and occupancy by the City of certain real property (the "Series A Site") and the community center improvements thereon (the "Series A Facility," and together with the Series A Site, the "Series A Project," as described herein) pursuant to a Lease Agreement, dated as of May 1, 1993 (the "Series A Lease Agreement"), by and between the City and the Authority. The Series B Certificates evidence direct, undivided fractional interests of the registered owners thereof (the "Series B Owners") in lease payments (the "Series B Lease Payments") to be made by the City to the Authority for the use and occupancy by the City of certain real property (the "Series B Site") and the golf course improvements thereon (the "Series B Facility" and together with the Series B Site, the "Series B Project," as described herein) pursuant to a Lease Agreement, dated as of May 1, 1993 (the "Series B Lease Agreement"), by and between the City and the Authority. The rights of the Authority to receive payments under each Lease Agreement will be assigned to First Trust of California, National Association, as

trustee (the "Trustee") under two separate Assignment Agreements, each dated as of May 1, 1993 (the "Assignment Agreements"), whereby the Authority shall assign to the Trustee for the benefit of the Owners of the applicable series of Certificates its rights (i) to receive all Lease Payments payable by the City under the Lease Agreements, (ii) to receive and collect any proceeds of any insurance maintained under the Lease Agreements and of any condemnation award rendered with respect to the Project being leased thereunder and (iii) to exercise such rights and remedies conferred on the Authority pursuant to the Lease Agreement securing such series of Certificates as may be necessary or convenient (a) to enforce payment of the applicable Lease Payments and prepayments thereof and any other amounts required to be deposited in the applicable Lease Payment Fund or the applicable Insurance and Condemnation Fund (as herein described) or (b) otherwise to protect the interests of such Owners in the event of a default by the City under the Lease Agreement securing such series of Certificates. In addition, under two separate Trust Agreements, each dated as of May 1, 1993 (the "Trust Agreements"), by and among the City, the Trustee and the Authority, each series of Certificates will be executed and delivered.

The City will use the proceeds of the Series A Certificates to (i) refund the \$24,945,000 original aggregate principal amount of Certificates of Participation (1991 Community Center Refinancing Project) Evidencing the Direct, Undivided Fractional Interests of the Owners thereof in Lease Payments to be made by the City to the Redevelopment Agency of the City of Modesto (the "Community Center Certificates"), of which \$24,280,000 are currently outstanding, (ii) fund the Reserve Fund (as described below) for the Series A Certificates and (iii) pay delivery costs incurred in connection with the execution, delivery and sale of the Series A Certificates.

The City will use the proceeds of the Series B Certificates to (i) refund the \$6,570,000 original aggregate principal amount of Certificates of Participation (1990 Golf Course Financing Project) Evidencing the Direct, Undivided Fractional Interests of the Owners thereof in Lease Payments to be made by the City to the Authority (the "Golf Course Certificates"), of which \$6,430,000 are currently outstanding, (ii) finance the construction, installation and equipping of certain miscellaneous improvements for the City, (iii) fund the Reserve Fund for the Series B Certificates, and (iv) pay delivery costs incurred in connection with the execution, delivery and sale of the Series B Certificates. See "PLAN OF REFUNDING" and "THE PROJECTS" herein.

In general, the City is required to pay to the Trustee all of the Lease Payments required under each Lease Agreement for use of the Project being leased thereunder, which amounts are designed to be sufficient, together with other available funds held by the Trustee, in both time and amount to pay, when due, the principal and interest represented by the Certificates of the applicable series payable from such Lease Payments, subject to abatement of such Lease Payments resulting from substantial interference with the beneficial use and occupancy of such Project or any portion thereof by reason of damage or destruction or from a taking of such Project (either in whole or in part, temporarily, or in part, permanently) under the powers of eminent domain. See "RISK FACTORS" and "APPENDIX B—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS." Under each Lease Agreement, the City is also required to pay any

taxes, assessments or maintenance and repair costs in connection with the Project being leased thereunder. The City has also covenanted in each Lease Agreement to take such action as may be necessary to include the Lease Payments, subject to abatement of such Lease Payments as described above, in its annual budgets and to make the necessary annual appropriations therefor.

AMBAC Indemnity Corporation ("AMBAC Indemnity") will issue a municipal bond insurance policy (the "Series A Policy") simultaneously with the delivery of the Series A Certificates, insuring payment of the principal and interest represented by the Series A Certificates when due. Financial Guaranty Insurance Company (the "Financial Guaranty") will issue a municipal bond insurance policy (the "Series B Policy") simultaneously with the delivery of the Series B Certificates, insuring payment of the principal and interest represented by the Series B Certificates when due. For a discussion of AMBAC Indemnity, Financial Guaranty (collectively, the "Insurers"), the Series A Policy and the Series B Policy (collectively, the "Policies"), see "BOND INSURANCE" herein.

Brief descriptions of the Certificates, the Authority, the City, the Insurers and the Projects are included in this Official Statement, together with summaries of the Site and Facility Leases, the Lease Agreements, the Assignment Agreements, the Escrow Agreements, the Trust Agreements and the Policies. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Certificates, the Site and Facility Leases, the Lease Agreements, the Assignment Agreements, the Escrow Agreements, the Trust Agreements and the Policies are qualified in their entirety by reference to the actual documents or with respect to the Certificates, the form thereof included in the Trust Agreements, copies of all of which are available for inspection at the principal corporate trust office of the Trustee in San Francisco, California and, during the period of the offering, Smith Barney, Harris Upham & Co. Incorporated, 20th Floor, 350 California Street, San Francisco, California 94104.

PLAN OF REFUNDING

In June 1991, the Community Facilities Certificates were executed, sold and delivered for the purpose of refunding certain certificates of participation sold in July 1987, which were executed, sold and delivered for the purpose of effecting a current refunding of certain certificates of participation sold to finance the costs of acquisition and construction of the Community Center Improvements. In February 1990, the Golf Course Certificates were executed, sold and delivered for the purpose of financing the costs of acquisition and construction of the Golf Course Improvements. The Community Center Certificates and the Golf Course Certificates are collectively referred to herein as the "Prior Certificates."

The net proceeds of the Series A Certificates (other than the proceeds deposited into the Delivery Costs Fund for the Series A Certificates), together with other moneys which are held in certain funds and accounts with respect to the Community Center Certificates, will be deposited into an escrow fund (the "Community Center Certificates Escrow Fund"). The Community Center Certificates Escrow Fund will be established and held by First Interstate Bank of California, as escrow bank (the "Community Center Certificates Escrow Bank") under

an Escrow Deposit and Trust Agreement, dated May 27, 1993 between the City and the Community Center Certificates Escrow Bank (the "Community Center Certificates Escrow Agreement"). The net proceeds of the Series B Certificates (other than the proceeds deposited into the Delivery Costs Fund and the Acquisition and Construction Fund for the Series B Certificates), together with other moneys which are held in certain funds and accounts with respect to the Golf Course Certificates, will be deposited into an escrow fund (the "Golf Course Certificates Escrow Fund"). The Golf Course Certificates Escrow Fund will be established and held by Bank of America National Trust and Savings Association, as escrow bank (the "Golf Course Certificates Escrow Bank"), under an Escrow Deposit and Trust Agreement, dated May 27, 1993 between the City and the Golf Course Certificates Escrow Bank (the "Golf Course Certificates Escrow Agreement").

Upon each such deposit pursuant to each Escrow Agreement, such proceeds and amounts will immediately be invested in certain direct obligations of the United States of America (the "Escrowed Federal Securities"). Pursuant to each Escrow Agreement, the principal and interest on the Escrowed Federal Securities will be applied to pay principal, premium, if any, and interest when due with respect to the Prior Certificates.

Upon such deposit to the respective Escrow Funds, the obligations of the City with respect to the Prior Certificates shall be discharged and the Prior Certificates shall no longer be deemed to be outstanding.

THE CERTIFICATES

General Provisions

The Series A Certificates will be executed and delivered in the aggregate principal amount of \$27,225,000. The Series B Certificates will be executed and delivered in the aggregate principal amount of \$8,130,000. The Certificates are deliverable in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof (not exceeding the principal amount maturing in any one year). The Certificates will be dated May 1, 1993, and interest represented thereby will be payable from the May 1 or November 1 (each an "Interest Payment Date") next preceding the date of execution thereof, unless: (a) it is executed as of an Interest Payment Date, in which event interest represented thereby shall be payable from such Interest Payment Date; or (b) it is executed after a Record Date (hereinafter defined) and before the following Interest Payment Date, in which event interest represented thereby shall be payable from such Interest Payment Date; or (c) it is executed on or before October 15, 1993, in which event interest represented thereby shall be payable from May 1, 1993. The Record Date is the 15th day of the month preceding each Interest Payment Date.

The interest represented by the Certificates will be calculated from May 1, 1993, at the rates per annum set forth on the cover page hereof, payable semiannually on May 1 and November 1 of each year commencing November 1, 1993, and will represent the portion of the

Lease Payments designated as interest coming due during the six-month period preceding each Interest Payment Date.

The principal represented by the Certificates will be payable, subject to prior redemption, on November 1 in each of the designated years and in the principal amounts set forth on the cover page hereof.

Book-Entry System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Certificates. The ownership of one fully registered Certificate for each maturity of each series as set forth in the cover page hereof, each in the aggregate principal amount of such maturity, will be registered in the name of CEDE & Co., as nominee for DTC. DTC is a limited purpose trust company organized under New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities of its participants (the "Participants") on deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of Participants, thereby eliminating the need for physical movement of certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, securities brokers and dealers, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on the records of DTC. The ownership interest of each actual purchaser of each Certificate (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Participants with DTC are registered in the name of DTC's partnership nominee, CEDE & Co. The deposit of Certificates

with DTC and their registration in the name of CEDE & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to CEDE & Co. If less than all of the Certificates within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor CEDE & Co. will consent or vote with respect to Certificates. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns CEDE & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credit on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments with respect to the Certificates will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the City, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Certificates are required to be printed and delivered as described in the Trust Agreement. The Beneficial Owner, upon registration of Certificates held in the Beneficial Owner's name, will become the registered owner of the Certificates.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In such event, Certificates are required to be printed and delivered as described in the Trust Agreements.

THE CITY CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OR INDIRECT PARTICIPANTS, PAYMENTS OF CERTIFICATES PAID TO DTC OR ITS NOMINEE AS THE REGISTERED OWNER, OR ANY REDEMPTION OR OTHER NOTICES SENT TO DTC OR ITS NOMINEE, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CITY IS NOT RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC OR ANY PARTICIPANT TO MAKE ANY PAYMENTS OR GIVE ANY NOTICE TO A BENEFICIAL OWNER WITH RESPECT TO THE CERTIFICATES OR ANY ERROR OR DELAY RELATING THERETO.

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Certificates, payment of principal, interest and other payments with respect to the Certificates to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Certificates with other related transactions by and between DTC, the Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the Participants, as the case may be.

Discontinuance of DTC Services

In the event of (i) the resignation of DTC from its functions as depository or (ii) a determination by the City that DTC is no longer able to carry out its functions as depository, the use of the book-entry system will be discontinued and upon receipt of all Outstanding Certificates by the Trustee, together with a written request of the City, new Certificates shall be executed and delivered in such denominations and registered in the names of such persons as are requested by the City within 60 days from the date of receipt of such a written request of the City.

In the event that the book-entry system is discontinued, the following provisions would also apply: (a) Certificates may be exchanged for an equal aggregate principal amount of such Certificates in other authorized denominations and of the same series and maturity, upon surrender thereof at the principal corporate trust office of the Trustee; (b) the transfer of any Certificate may be registered on the books maintained by the Trustee under the applicable Trust Agreement for such purpose only upon the surrender thereof to the Trustee together with a written instrument of transfer in a form satisfactory to the Trustee; (c) for every exchange or registration of transfer of Certificates, the Trustee may make a charge sufficient to pay them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer; (d) the Trustee will not be required to register the transfer or exchange of any Certificate during the period between the date five days prior to the date of selection of any Certificates for redemption and the date of redemption or to register the transfer or exchange of any Certificate selected for redemption; (e) all interest payments will be made by check

mailed to the registered owners thereof, as they appear on the registration books maintained by the Trustee on the Record Date next preceding such Interest Payment Date or, upon written request filed with the Trustee prior to the Record Date by an owner of at least \$1,000,000 in aggregate principal amount of Certificates by wire transfer in immediately available funds to an account in the continental United States designated by such Owner in such written request; and (f) all payments of principal and any premium with respect to the Certificates will be made by check upon surrender thereof at the principal office of the Trustee.

Redemption

No Optional Redemption. The Certificates of each series are not subject to optional redemption prior to maturity.

Redemption from Net Proceeds of Insurance and Condemnation. The Certificates of each series are subject to mandatory redemption in whole on any date or in part on any Interest Payment Date, from the Net Proceeds of insurance, title insurance or condemnation award credited towards the prepayment of the Lease Payments securing such series of Certificates by the City pursuant to the applicable Lease Agreement, at a redemption price equal to 100% of the principal amount to be redeemed plus accrued interest represented thereby to the date fixed for redemption, without premium.

Mandatory Redemption. The Series A Certificates maturing on November 1, 2014 are subject to mandatory redemption in part on November 1 in each year on and after November 1, 2011, from the principal components of scheduled Series A Lease Payments required to be paid by the City pursuant to the Series A Lease Agreement with respect to each such redemption date, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium as follows (subject to modification in the event of optional or extraordinary mandatory redemption described above):

<u>Redemption Date</u> <u>(November 1)</u>	<u>Principal Amount</u>
2011	\$1,090,000
2012	1,150,000
2013	1,215,000
2014*	1,285,000

*Maturity

The Series A Certificates maturing on November 1, 2023 are subject to mandatory redemption in part on November 1 in each year on and after November 1, 2015, from the

principal components of scheduled Series A Lease Payments required to be paid by the City pursuant to the Series A Lease Agreement with respect to each such redemption date, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium as follows (subject to modification in the event of optional or extraordinary mandatory redemption described above):

<u>Redemption Date</u> <u>(November 1)</u>	<u>Principal Amount</u>
2015	\$1,340,000
2016	1,135,000
2017	1,195,000
2018	1,260,000
2019	1,320,000
2020	1,385,000
2021	1,455,000
2022	1,535,000
2023*	1,610,000

***Maturity**

The Series B Certificates maturing on November 1, 2014 are subject to mandatory redemption in part on November 1 in each year on and after November 1, 2010, from the principal components of scheduled Series B Lease Payments required to be paid by the City pursuant to the Series B Lease Agreement with respect to each such redemption date, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium as follows (subject to modification in the event of optional or extraordinary mandatory redemption described above):

<u>Redemption Date</u> <u>(November 1)</u>	<u>Principal Amount</u>
2010	\$250,000
2011	265,000
2012	275,000
2013	290,000
2014*	310,000

***Maturity**

The Series B Certificates maturing on November 1, 2023 are subject to mandatory redemption in part on November 1 in each year on and after November 1, 2015, from the

principal components of scheduled Series B Lease Payments required to be paid by the City pursuant to the Series B Lease Agreement with respect to each such redemption date, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium as follows (subject to modification in the event of optional or extraordinary mandatory redemption described above):

<u>Redemption Date</u> <u>(November 1)</u>	<u>Principal Amount</u>
2015	\$325,000
2016	340,000
2017	355,000
2018	380,000
2019	400,000
2020	410,000
2021	435,000
2022	460,000
2023*	480,000

*Maturity

Manner of Selection of Certificates for Redemption

Whenever less than all of the outstanding Certificates of a series are called for redemption, the Trustee will select Certificates for redemption in the manner the City shall determine, and if the City shall fail to make such determination, pro rata among their maturities. The Trustee shall select Certificates for redemption within a maturity by lot or in any other manner deemed appropriate and fair by the Trustee in its sole discretion. For the purposes of selection of Certificates for redemption, Certificates shall be deemed to be composed of \$5,000 portions and any such portion may be separately redeemed. The Trustee will promptly notify the City and the Authority in writing of the Certificates selected for redemption.

Notice of Redemption

Unless waived in writing by an Owner of Certificates to be redeemed, notice of redemption will be mailed by the Trustee by first-class mail, at least 30 days but not more than 60 days prior to the date fixed for redemption, to the Owners of Certificates to be redeemed at their addresses appearing on the Certificate registration books maintained by the Trustee or at such other address as is furnished in writing by such Owner to the Trustee; provided, however, that failure to receive such notice shall not affect the validity of any such redemption of the Certificates.

All notices of redemption shall be dated and shall state: (a) the redemption date; (b) the redemption price; (c) if less than all outstanding Certificates of a series are to be redeemed, the Certificates numbers (and, in the case of partial redemption, the respective principal amounts) of the Certificates of such series to be redeemed; (d) that on the redemption date the redemption price will become due and payable upon each such Certificate or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after such date; (e) the place where such Certificates are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Trustee; and (f) the CUSIP numbers of all Certificates being redeemed.

So long as a book-entry system is used for determining beneficial ownership of the Certificates, the notice of redemption will be given to DTC as registered owner of the Certificates.

Partial Redemption of Certificates

Upon surrender by the Owner of a Certificate for partial redemption, the Trustee will execute and deliver to the Owner of such surrendered Certificate, a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Certificate surrendered and of the same series, interest rate and maturity.

Trustee

First Trust of California, National Association, has been appointed as Trustee. The Trustee will receive and deposit the proceeds of the Certificates of each series into the funds established by it under the Trust Agreement pursuant to which such Certificates were executed and delivered and will disburse moneys in conformity with such Trust Agreement. In addition to holding and administering those funds, the Trustee will invest the funds held in trust and will be the recipient of the Lease Payments payable by the City for the Projects. The Trustee will also act as paying agent for the purpose of disbursing payments of interest and principal represented by the Certificates. The Trustee will act as Certificate registrar and will execute all Certificates.

SOURCE OF PAYMENT FOR THE CERTIFICATES

General

Each Series A Certificate represents a direct, undivided fractional interest in Series A Lease Payments to be made by the City to the Authority under the Series A Lease Agreement. The Authority, pursuant to the Series A Assignment Agreement, has assigned all its rights to receive Series A Lease Payments under the Series A Lease Agreement to the Trustee for the benefit of the Owners of the Series A Certificates.

Each Series B Certificate represents a direct, undivided fractional interest in Series B Lease Payments to be made by the City to the Authority under the Series B Lease Agreement. The Authority, pursuant to the Series B Assignment Agreement, has assigned all its rights to receive Series B Lease Payments under the Series B Lease Agreement to the Trustee for the benefit of the Owners of the Series B Certificates.

Additional lease payments due from the City will include all costs and expenses incurred by the City and the Authority to comply with the provisions of the Trust Agreements, or otherwise arising from the refinancing of the applicable Project, including all costs of delivery of the applicable series of Certificates (to the extent not paid from the applicable Delivery Costs Fund), compensation and indemnification due to the Trustee and all costs and expenses of the Authority, auditors, engineers, attorneys and accountants. The City is also responsible for repair and maintenance of each Project during the term of the applicable Lease Agreement.

THE CITY HAS COVENANTED IN THE LEASE AGREEMENTS TO TAKE SUCH ACTION AS MAY BE NECESSARY TO INCLUDE ALL LEASE PAYMENTS IN ITS ANNUAL BUDGETS AND TO MAKE THE NECESSARY ANNUAL APPROPRIATIONS THEREFOR. SUCH OBLIGATIONS AND THE OBLIGATION TO MAKE LEASE PAYMENTS DO NOT CONSTITUTE DEBTS OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION NOR OBLIGATIONS OF THE CITY FOR WHICH THE CITY IS OBLIGATED OR PERMITTED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Should the City default in its payment obligation under either Lease Agreement, the Trustee, as assignee of the Authority, may retain such Lease Agreement and hold the City liable for all remaining Lease Payments due under such Lease Agreement on an annual basis and have the right to re-enter and relet the Project being leased thereunder. Such re-entry and reletting will not effect a surrender of such Lease Agreement. Alternatively, the Trustee may terminate such Lease Agreement and proceed against the City to recover damages pursuant to such Lease Agreement. Due to the nature of the Projects, no assurance can be given that the Trustee will be able to relet either Project so as to provide rental income sufficient to make principal and interest payments with respect to the Certificates of the series related to such Project in a timely manner. See "RISK FACTORS—Limited Recourse on Default."

Abatement

Lease Payments due under a Lease Agreement are subject to abatement in the event of substantial interference with the beneficial use and occupancy by the City of the Project being leased thereunder or any portion thereof by reason of damage or destruction, or in the event of taking of the Project being leased thereunder (either in whole or in part, temporarily, or in part, permanently) under the powers of eminent domain. In the event of substantial interference with the beneficial use and occupancy by the City of the Project being leased under a Lease

Agreement or any portion thereof, Lease Payments under such Lease Agreement will be subject to abatement in an amount to be agreed upon by the City and the Authority such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of such Project not damaged or destroyed. If the entire Project being leased under a Lease Agreement or so much thereof as to have materially affected the operation of such Project or the ability of the City to meet any of its obligations with respect to such Project under such Lease Agreement is taken under the power of eminent domain or sold to a governmental entity threatening to exercise the power of eminent domain, the proceeds therefrom will be used to redeem the Certificates of the series related to such Project. If less than the entire Project being leased under a Lease Agreement is taken under the power of eminent domain or sold to a government entity threatening to exercise the power of eminent domain and such eminent domain proceedings shall not have materially affected the operation of such Project or the ability of the City to meet any of its obligations with respect to such Project under such Lease Agreement, then Lease Payments under such Lease Agreement will be subject to a partial abatement in an amount to be agreed upon by the City and the Authority at the time of such taking, such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of such Project not taken by eminent domain.

Reserve Funds

A separate Reserve Fund (the "Reserve Funds") securing each series of Certificates will be established and maintained with the Trustee pursuant to each Trust Agreement and will be funded from proceeds of the applicable series of Certificates in an amount equal to the Reserve Requirement for such series of Certificates. Amounts in the Series A Reserve Fund are to be used for the payment of Series A Lease Payments when such Lease Payments have been abated in whole or in part or when other moneys of the City are not otherwise available to make such Lease Payments. Upon receipt of any delinquent Series A Lease Payment with respect to which moneys have been advanced from the Series A Reserve Fund, such Lease Payments will be deposited in the Series A Reserve Fund to the extent of such advance. Amounts in the Series B Reserve Fund are to be used for the payment of Series B Lease Payments when such Lease Payments have been abated in whole or in part or when other moneys of the City are not otherwise available to make such Lease Payments. Upon receipt of any delinquent Series B Lease Payment with respect to which moneys have been advanced from the Series B Reserve Fund, such Lease Payments will be deposited in the Series B Reserve Fund to the extent of such advance.

Insurance

Each Lease Agreement requires the City to maintain or cause to be maintained the following insurance for the protection of the Certificate Owners, the Authority and the Trustee, such insurance to be maintained during the term of each Lease Agreement:

- (i) *Public Liability and Property Damage.* The City shall maintain a standard comprehensive general insurance policy or policies in protection of the Authority, the

City, the Trustee and their respective members, officers, agents and employees. Such policy or policies shall provide for indemnification of such parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damaged by reason of operation of the applicable Project. Minimum coverage shall be \$1,000,000 for personal injury or death per person and \$3,000,000 for personal injury or death of two or more persons per accident or event, and in a minimum amount of \$100,000, subject to a deductible not to exceed \$5,000, for damage to property resulting from each accident or event. Such insurance may be maintained in the form of a \$3,000,000 single limit policy covering all such risks. Such insurance may be carried as part of or in conjunction with any other liability insurance coverage or in the form of self-insurance.

(ii) *Fire and Extended Coverage Insurance.* Coverage shall be equal to the greater of the replacement cost of the applicable Facility or the aggregate principal amount of the outstanding Certificates of the series related to such Facility and shall be subject to a maximum deduction per loss not to exceed \$100,000. Extended coverage insurance shall, as nearly as practicable, include loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and other hazards normally covered. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried by the City and may be maintained in the form of insurance provided through a joint exercise of powers authority created for such purpose.

The City shall procure and maintain, or cause to be procured and maintained, insurance against earthquake loss or damage to the portions of the applicable Project that constitute structures in such amounts as the City risk manager shall annually determine is necessary to protect the City for such risk. Such insurance may be subject to a deductible clause of not to exceed 10% for any one loss. If the City cannot purchase such insurance in the open market from reputable insurers at reasonable cost, the City agrees to self-insure for such coverage.

(iii) *Rental Interruption Insurance.* The City shall maintain, or cause to be maintained, rental interruption or use and occupancy insurance, if commercially available, to cover loss, total or partial, of the use of any part of the applicable Project as a result of any of the hazards covered in the insurance described in clause (ii) above during the term of the applicable Lease Agreement in an amount at least equal to two times the maximum annual Lease Payments with respect to the Series A Certificates, and an amount equal to at least two times the Reserve Requirement with respect to the Series B Certificates.

(vi) *Title Insurance.* The City shall provide a CLTA title insurance policy insuring the City's leasehold estate in the applicable Project, subject only to certain permitted encumbrances, in an amount not less than the aggregate original principal amount of the Certificates of the series related to such Project.

All policies of insurance (except the policy of public liability insurance) must provide that all net proceeds thereof shall be payable to the Trustee. The net proceeds of any insurance award resulting from any damage to or destruction of any portion of the Series A Project shall be deposited in the Series A Insurance and Condemnation Fund and applied to rebuild the Series A Project or redeem outstanding Series A Certificates. The net proceeds of any insurance award resulting from any damage to or destruction of any portion of the Series B Project shall be deposited in the Series B Insurance and Condemnation Fund and applied to rebuild the Series B Project or redeem outstanding Series B Certificates. (See APPENDIX A—"SUMMARY OF PRINCIPAL DOCUMENTS—Trust Agreements—Funds—Insurance and Condemnation Fund.") The proceeds of title insurance shall be deposited in the applicable Lease Payment Fund and applied to the prepayment of Lease Payments and the corresponding redemption of outstanding Certificates of the series related to such Lease Payment Fund. The City has agreed to pay or cause to be paid when due the premiums on all insurance policies and furnish evidence of such payments promptly to the Trustee.

Series A Lease Payment Schedule

Series A Lease Payments are required to be paid by the City under the Series A Lease Agreement on each April 15 and October 15, commencing October 15, 1993. Pursuant to the Series A Trust Agreement, the Series A Lease Payments will be deposited in the Series A Lease Payment Fund and applied on each May 1 and November 1 to pay the principal and interest represented by the Series A Certificates in accordance with the following schedule:

SCHEDULE OF SERIES A CERTIFICATE PAYMENTS

<u>Dates</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total Payment</u>
November 1, 1993	\$210,000	\$700,966	\$910,966
May 1, 1994		698,341	698,341
November 1, 1994	40,000	698,341	738,341
May 1, 1995		697,742	697,742
November 1, 1995	95,000	697,741	792,741
May 1, 1996		696,079	696,079
November 1, 1996	145,000	696,079	841,079
May 1, 1997		693,179	693,179
November 1, 1997	195,000	693,178	888,178
May 1, 1998		689,035	689,035
November 1, 1998	285,000	689,035	974,035
May 1, 1999		682,623	682,623
November 1, 1999	350,000	682,622	1,032,622
May 1, 2000		674,573	674,573
November 1, 2000	625,000	674,572	1,299,572
May 1, 2001		659,573	659,573
November 1, 2001	655,000	659,572	1,314,572
May 1, 2002		643,525	643,525
November 1, 2002	690,000	643,525	1,333,525
May 1, 2003		626,275	626,275
November 1, 2003	720,000	626,275	1,346,275
May 1, 2004		607,915	607,915
November 1, 2004	760,000	607,915	1,367,915
May 1, 2005		588,155	588,155
November 1, 2005	800,000	588,155	1,388,155
May 1, 2006		566,955	566,955

November 1, 2006	835,000	566,955	1,401,955
May 1, 2007		544,410	544,410
November 1, 2007	885,000	544,410	1,429,410
May 1, 2008		520,515	520,515
November 1, 2008	935,000	520,515	1,455,515
May 1, 2009		494,803	494,803
November 1, 2009	985,000	494,802	1,479,802
May 1, 2010		467,715	467,715
November 1, 2010	1,040,000	467,715	1,507,715
May 1, 2011		438,595	438,595
November 1, 2011	1,090,000	438,595	1,528,595
May 1, 2012		408,075	408,075
November 1, 2012	1,150,000	408,075	1,558,075
May 1, 2013		375,875	375,875
November 1, 2013	1,215,000	375,875	1,590,875
May 1, 2014		341,855	341,855
November 1, 2014	1,285,000	341,855	1,626,855
May 1, 2015		305,875	305,875
November 1, 2015	1,340,000	305,875	1,645,875
May 1, 2016		272,375	272,375
November 1, 2016	1,135,000	272,375	1,407,375
May 1, 2017		244,000	244,000
November 1, 2017	1,195,000	244,000	1,439,000
May 1, 2018		214,125	214,125
November 1, 2018	1,260,000	214,125	1,474,125
May 1, 2019		182,625	182,625
November 1, 2019	1,320,000	182,625	1,502,625
May 1, 2020		149,625	149,625
November 1, 2020	1,385,000	149,625	1,534,625
May 1, 2021		115,000	115,000
November 1, 2021	1,455,000	115,000	1,570,000
May 1, 2022		78,625	78,625
November 1, 2022	1,535,000	78,625	1,613,625
May 1, 2023		40,250	40,250
November 1, 2023	<u>1,610,000</u>	<u>40,250</u>	<u>1,650,250</u>
	\$27,225,000	\$28,137,586	\$55,362,586

Series B Lease Payment Schedule

Series B Lease Payments are required to be paid by the City under the Series B Lease Agreement on each April 15 and October 15, commencing October 15, 1993. Pursuant to the Series B Trust Agreement, the Series B Lease Payments will be deposited in the Series B Lease Payment Fund and applied on each May 1 and November 1 to pay the principal and interest represented by the Series B Certificates in accordance with the following schedule:

SCHEDULE OF SERIES B CERTIFICATE PAYMENTS

<u>Dates</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Total Payment</u>
November 1, 1993	\$195,000	\$201,513	\$396,513
May 1, 1994		199,075	199,075
November 1, 1994	205,000	199,075	404,075
May 1, 1995		196,000	196,000
November 1, 1995	205,000	196,000	401,000
May 1, 1996		192,412	192,412
November 1, 1996	215,000	192,413	407,413
May 1, 1997		188,112	188,112
November 1, 1997	130,000	188,113	318,113
May 1, 1998		185,350	185,350
November 1, 1998	140,000	185,350	325,350
May 1, 1999		182,200	182,200
November 1, 1999	145,000	182,200	327,200
May 1, 2000		178,865	178,865
November 1, 2000	155,000	178,865	333,865
May 1, 2001		175,145	175,145
November 1, 2001	160,000	175,145	335,145
May 1, 2002		171,225	171,225
November 1, 2002	170,000	171,225	341,225
May 1, 2003		166,975	166,975
November 1, 2003	175,000	166,975	341,975
May 1, 2004		162,512	162,512
November 1, 2004	185,000	162,513	347,513
May 1, 2005		157,702	157,702
November 1, 2005	195,000	157,703	352,703
May 1, 2006		152,535	152,535
November 1, 2006	205,000	152,535	357,535
May 1, 2007		147,000	147,000
November 1, 2007	215,000	147,000	362,000
May 1, 2008		141,195	141,195
November 1, 2008	225,000	141,195	366,195
May 1, 2009		135,007	135,007
November 1, 2009	235,000	135,008	370,008
May 1, 2010		128,545	128,545
November 1, 2010	250,000	128,545	378,545
May 1, 2011		121,545	121,545
November 1, 2011	265,000	121,545	386,545
May 1, 2012		114,125	114,125
November 1, 2012	275,000	114,125	389,125
May 1, 2013		106,425	106,425
November 1, 2013	290,000	106,425	396,425
May 1, 2014		98,305	98,305
November 1, 2014	310,000	98,305	408,305
May 1, 2015		89,625	89,625
November 1, 2015	325,000	89,625	414,625
May 1, 2016		81,500	81,500
November 1, 2016	340,000	81,500	421,500
May 1, 2017		73,000	73,000
November 1, 2017	355,000	73,000	428,000
May 1, 2018		64,125	64,125
November 1, 2018	380,000	64,125	444,125
May 1, 2019		54,625	54,625
November 1, 2019	400,000	54,625	454,625
May 1, 2020		44,625	44,625
November 1, 2020	410,000	44,625	454,625
May 1, 2021		34,375	34,375
November 1, 2021	435,000	34,375	469,375
May 1, 2022		23,500	23,500
November 1, 2022	460,000	23,500	483,500
May 1, 2023		12,000	12,000
November 1, 2023	<u>480,000</u>	<u>12,000</u>	<u>492,000</u>
	\$8,130,000	\$7,756,778	\$15,888,778

BOND INSURANCE

Series A Certificates

General. The full text of a specimen municipal bond insurance policy relating to the Series A Certificates is set forth in Appendix D hereto. The information relating to AMBAC Indemnity contained below and in Appendix D has been furnished by AMBAC Indemnity and neither the City, the Authority nor the Underwriters have undertaken any independent investigation of the operations of AMBAC Indemnity. No representation is made herein by the City, the Authority or the Underwriters as to the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. The City, the Authority and the Underwriters make no representation as to the ability of AMBAC Indemnity to make payments under its municipal bond insurance policy.

AMBAC Indemnity Corporation. AMBAC Indemnity Corporation ("AMBAC Indemnity") is a Wisconsin-domiciled stock insurance corporation, regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and licensed to do business in 50 states, the District of Columbia and the Commonwealth of Puerto Rico, with admitted assets of approximately \$1,600,000,000 (audited) and statutory capital of approximately \$926,500,000 (unaudited) as of December 31, 1992. Statutory capital consists of AMBAC Indemnity's statutory contingency reserve and policyholders' surplus. AMBAC Indemnity is a wholly-owned subsidiary of AMBAC Inc., a 100% publicly-held company. Moody's Investors Service, Inc. and Standard & Poor's Corporation have both assigned a triple-A claims-paying ability rating to AMBAC Indemnity.

Copies of AMBAC Indemnity's financial statements prepared in accordance with statutory accounting standards are available from AMBAC Indemnity. The address of AMBAC Indemnity's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

AMBAC Indemnity has entered into pro rata reinsurance agreements under which a percentage of the insurance underwritten pursuant to certain municipal bond insurance programs of AMBAC Indemnity has been and will be assumed by a number of foreign and domestic unaffiliated reinsurers.

AMBAC Indemnity has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by AMBAC Indemnity will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by AMBAC Indemnity under policy provisions substantially identical to those contained in its municipal bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Series A Certificates.

AMBAC Indemnity makes no representation regarding the Bonds or the advisability of investing in the Series A Certificates and makes no representations regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by AMBAC Indemnity and presented under the heading "BOND INSURANCE—Series A Certificates" and Appendix D hereto.

Payment Pursuant to Municipal Bond Insurance Policy. AMBAC Indemnity has made a commitment to issue a municipal bond insurance policy (the "Series A Policy") relating to the Series A Certificates effective as of the date of issuance of the Series A Certificates. Under the terms of the Series A Policy, AMBAC Indemnity will pay to the United States Trust Company of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal and interest relating to the Series A Certificates which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Series A Policy). AMBAC Indemnity will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which AMBAC Indemnity shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Series A Certificates and, once issued, cannot be cancelled by AMBAC Indemnity.

The Series A Policy will insure payment only on stated maturity dates and mandatory sinking fund redemption dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series A Certificates become subject to mandatory redemption and insufficient funds are available for redemption for all outstanding Series A Certificates, AMBAC Indemnity will remain obligated to pay principal and interest relating to the Series A Certificates on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal with respect to the Series A Certificates, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal or interest with respect to an Series A Certificate which has become Due for Payment and which is made to a Series A Certificate Owner by or on behalf of the City has been deemed a preferential transfer and theretofore recovered from its Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Owner will be entitled to payment from AMBAC Indemnity to the extent of such recovery if sufficient funds are not otherwise available.

The Series A Policy does **not** insure any risk other than Nonpayment, as defined in the Series A Policy. Specifically, the Series A Policy does not cover:

1. Payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. Payment of any redemption, prepayment or acceleration premium; or

3. Nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Series A Policy, payment of principal requires surrender of Series A Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series A Certificates to be registered in the name of AMBAC Indemnity to the extent of the payment under the Series A Policy. Payment of interest pursuant to the Series A Policy requires proof of Series A Certificate Owners entitlement to interest payments and an appropriate assignment of the Series A Certificate Owner's right to payment to AMBAC Indemnity.

Upon payment of the insurance benefits, AMBAC Indemnity will become the owner of the Series A Certificates or right of payment of principal or interest on such Series A Certificate and will be fully subrogated to the surrendering Series A Certificate Owner's rights to payment.

In the event that AMBAC Indemnity were to become insolvent, any claims arising under the Series A Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Series B Certificates

The following information has been provided by Financial Guaranty for use in this Official Statement. Reference is made to Appendix E for a specimen of the Series B Policy. No representation is made by the City, the Authority or the Underwriters as to the accuracy or completeness of this information as of the date hereof, or the absence of any material adverse changes subsequent thereto, and the City, the Authority and the Underwriters assume no responsibility therefor.

Concurrently with the execution and delivery of the Series B Certificates, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy (the "Series B Policy") for the Series B Certificates. The Series B Policy unconditionally guarantees the payment of that portion of the principal and interest relating to the Series B Certificates which has become due for payment, but shall be unpaid by reason of nonpayment by the City. Financial Guaranty will make such payments to Citibank, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of the Series B Certificates or the Trustee of the nonpayment of such amount by the City. The Fiscal Agent will disburse such amount due on any Series B Certificate to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term

"nonpayment" in respect of a Series B Certificate includes any payment of principal or interest made to an owner of a Series B Certificate which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Series B Policy is noncancellable and the premium will be fully paid at the time of delivery of the Series B Certificates. The Series B Policy covers failure to pay principal relating to the Series B Certificates on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Series B Certificates may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, Financial Guaranty requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without Financial Guaranty's consent, in each case so long as Financial Guaranty has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Certificates are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the issuer of the Certificates is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Series B Certificates and references should be made to such section for a discussion of such ratings and the basis for their assignment to the Series B Certificates. See the caption "RATINGS" in this Official Statement.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of December 31, 1992, the total capital and surplus of Financial Guaranty was approximately \$621,000,000. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing

to Financial Guaranty Insurance Company at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: (212) 312-3000) or to the New York State Insurance Department at 160 West Broadway, 18th Floor, New York, New York 10013, Attention: Property Companies Bureau (telephone number: (212) 602-0389).

ESTIMATED SOURCES AND USES OF FUNDS

Series A Certificates

The estimated sources and uses of funds (excluding accrued interest which will be deposited into the Series A Lease Payment Fund) for the Series A Certificates are as follows:

Sources:

Principal Amount of Series A Certificates	\$27,225,000.00
Transfer from Community Center Certificates Funds	2,011,193.00
Upfront Payment Under Investment Agreement	110,000.00
Less: Original Issue Discount	<u>(1,244,034.10)</u>
Total Sources	<u>\$28,102,158.90</u>

Uses:

Deposit to the Community Center Escrow Fund	\$25,292,403.97
Deposit to the Series A Reserve Fund	1,977,050.00
Delivery Costs (including insurance premium)	587,096.43
Underwriters' Discount	<u>245,608.50</u>
Total Uses	<u>\$28,102,158.90</u>

Series B Certificates

The estimated sources and uses of funds (excluding accrued interest which will be deposited into the Series B Lease Payment Fund) for the Series B Certificates are as follows:

Sources:

Principal Amount of Series B Certificates	\$8,130,000.00
Transfer from Golf Course Certificates Funds	1,585,486.22
Less: Original Issue Discount	<u>(360,206.50)</u>
Total Sources	<u>\$9,355,279.72</u>

Uses:

Deposit to the Golf Course Escrow Fund	\$7,154,999.94
Deposit to the Series B Acquisition and Construction Fund	1,380,348.94
Deposit to the Series B Reserve Fund	603,150.00
Delivery Costs (including insurance premium)	143,730.33
Underwriters' Discount	<u>73,050.51</u>
Total Uses	<u>\$9,355,279.72</u>

THE PROJECTS

Series A Project

The Series A Project, which was completed in March 1988, is the Modesto Centre Plaza, a part of a mixed public-private project in downtown Modesto, California. Proceeds from the sale of the Series A Certificates will be used to refund certificates which were sold to refinance the public portion of the Series A Project, the City's community center and which were not used to finance any of the private facilities.

The private facilities consist of a 14-story, 265-room Red Lion hotel. The hotel was placed into operation April 1, 1990.

The community center has six components. The first component is an exhibit hall of 16,000 square feet, with a capacity for 100 exhibit booths or seating of 2,100 for assemblies.

The second component is a 4,000 square-foot theater, with seating capacity of 150 to 200 people. The third component is a series of small meeting rooms totaling 4,000 square feet and accommodating from 100 to 300 people in any one room. The fourth and fifth components are an exhibit lobby and a park plaza which link the entire project together and may also be used for events.

The sixth component is a four-story parking garage, with a capacity for approximately 780 automobiles. A portion of the cost of construction of the parking garage was financed with a contribution from the City and the proceeds of an Economic Development Administration grant.

During the period from fiscal year ending June 30, 1989 through fiscal year ending June 30, 1992, the community center has accommodated an annual average of 636 events and had an annual average of 824 event days of use and an average annual attendance of 237,102. The following table sets forth community center activity since its completion.

**MODESTO COMMUNITY CENTER
HISTORICAL UTILIZATION AND ACTIVITY LEVELS
FISCAL YEARS 1987/88-1991/92**

	<u>1987/88(1)</u>	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>	<u>1991/92</u>
Number of Events	160	459	722	642	722
Event Days	197	593	892	830	982
Annual Attendance	124,326	212,607	213,757	222,520	299,527

(1) Community Center placed into operation March 1988.
Source: City of Modesto Finance Department.

The City of Modesto Finance Department projects that during the next five years, the community center will accommodate an annual average of 725 events and an annual average of 985 event days of use.

The Series B Project

A portion of the proceeds of the Series B Certificates will be used to refund the Golf Course Certificates sold to finance construction of a new golf course at the Dry Creek Area Park Site and to pay the costs of the design and installation of a parking lot for the City-owned municipal golf course. The estimated costs of such improvements are \$5,535,213 and \$89,000, respectively. The Creekside golf course improvements were substantially completed in May 1991, with final completion and acceptance by the City expected to occur by November 1993.

The Creekside golf course was designed by the Keith French Group and Halsey Daray Golf (a joint venture), nationally renowned golf course architectural firms. The course is approximately 160 acres with general dimensions of 1,500 feet north/south and 8,000 feet east/west. Course yardage is 6,200 for normal play and 6,750 for championship play. The improvements at the Creekside golf course consists of two maintenance facilities totalling approximately 8,000 square feet and a clubhouse of approximately 5,000 square feet.

The improvements also included the design and installation of a parking lot for a separate municipal-owned golf course.

Substitution of Projects

Pursuant to each Lease Agreement, the City may substitute another site and facility for the Project being leased thereunder or a portion thereof or release any portion of the Site, subject to certain conditions specified in each Lease Agreement and provided that, in the case of the substitution of another site and facility, the substitute site and facility is of at least equal value to the Site and Facility being leased thereunder, or in the case of the release of any portion of the Site being leased thereunder, the value of each Site as of the date of the release of any portion thereof is at least equal to the value of each Site on the date of delivery of the applicable series of Certificates.

THE IMPROVEMENTS

A portion of the proceeds of the Series B Certificates, together with amounts still on deposit in the acquisition and construction fund created for the Golf Course Certificates, will be deposited into the Acquisition and Construction Fund created pursuant to the Series B Trust Agreement to be applied to the financing of the construction, equipping and installation of various improvements for the City's golf courses, with most of such improvements to occur on the Creekside golf course. To the extent such improvements related to the City's golf courses other than the Creekside golf course, such improvements are not included in the Series B Project and thus do not serve as security for either series of Certificates.

RISK FACTORS

The following factors, along with the other information in this Official Statement, should be considered by potential investors evaluating the purchase of Certificates. However, they do not purport to be an exhaustive listing of the risks and other considerations which may be relevant to an investment in the Certificates.

Lease Agreements Not a General Obligation

The obligation of the City to make Lease Payments does not constitute an obligation of the City for which the City must levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation, nor does it constitute a debt or indebtedness of the City, the State of California or any of its political subdivisions, within the meaning of any constitutional or statutory debt limitation or restriction.

City's Lease Payments

Although the Lease Payments and other payments due under each Lease Agreement (including payment of taxes and other governmental charges and assessments levied against the Project) are not secured by any pledge of taxes or other revenues of the City, the City is obligated under each Lease Agreement to pay Lease Payments from any funds lawfully available to the City (subject to abatement) and the City has covenanted in each Lease Agreement that for

as long as the Project being leased thereunder is available for its use, it will make the necessary annual appropriations within its budget for all Lease Payments due under such Lease Agreement.

The City is liable on other obligations payable from general revenues. In addition, the City may enter into other obligations which may constitute additional charges against its general revenues. In the event the City's revenue sources are less than its total obligations, the City may not have sufficient funds to make the Lease Payments. The same result could occur if, because of State Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. For a discussion of the City's current appropriation limits, see "REVENUE SOURCES OF THE CITY—Constitutional and Statutory Limitations on Taxes and Appropriations."

Abatement

The obligation of the City under both Lease Agreements to pay Lease Payments is in consideration for the use and possession of the Project being leased thereunder. The City's obligation to make Lease Payments under either Lease Agreement is subject to abatement if, by reason of damage or destruction, there is substantial interference with the beneficial use and occupancy of the Project being leased thereunder or any portion thereof, or if the City loses use and possession of such Project as a result of a taking of such Project (either in whole or in part, temporarily, or in part, permanently) under the powers of eminent domain. In the event of damage to, or destruction of, either Project or the taking of either Project under the powers of eminent domain, and if either Project cannot be repaired during the period of time that proceeds of the Certificates of the series related to such Project on deposit in the Reserve Fund securing such Certificates will be available in lieu of Lease Payments, or in the event such proceeds and the Net Proceeds of any condemnation or insurance award are insufficient to pay all principal and interest represented by the Certificates of the series related to such Project during the period of repair or reconstruction, there could be insufficient funds to cover payments to Owners in full. See "APPENDIX B—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENTS."

State Budget and Impact on City

Since the start of the 1990-91 fiscal year, California has faced the worst economic, fiscal and budget conditions since the 1930s. This recession has seriously affected State tax revenues, which basically mirror economic conditions, and has caused increased expenditures for health and welfare programs. The State is also facing a structural imbalance in its budget with the largest programs supported by its General Fund—K-14 education, health, welfare and corrections—growing at rates significantly higher than the growth rates for the principal revenue sources of its General Fund. As a result, the State entered a period of chronic budget imbalance, with expenditures exceeding revenues for four of the last five fiscal years. The State's General Fund for the fiscal year ended June 30, 1992 ended with a negative fund balance of approximately \$3.7 billion. Additionally, because of a delay in the adoption of a State Budget and because available cash resources were insufficient to pay State obligations due through

June 30, 1992, the State issued registered warrants in the amount of \$475 million to cover the shortfall. As a result of the deterioration in the State's budget and cash situation and the delay in adoption of the 1992-93 State Budget, between November 1991 and the date of this Official Statement, the rating on the State's general obligation bonds was reduced by Standard & Poor's Corporation from "AAA" to "A+," by Moody's Investors Service from "Aaa" to "Aa" and by Fitch Investors Service, Inc. from "AAA" to "AA."

In October 1992, the Commission on State Finance concluded that the State's economy was in a stagnant condition that was expected to continue for up to two more years, and predicted that the stagnant economy would leave revenues for the fiscal year ending June 30, 1993 \$1.8 billion below the Budget forecast. The Commission also estimated that about \$500 million of the spending cuts projected in the budget would not be achieved, for a projected total deficit at June 30, 1993 of about \$2.4 billion if no corrective actions were taken during the fiscal year. In addition, on November 3, 1992, voters passed an initiative repealing the sales tax on certain food products, which is expected to reduce revenues in the current fiscal year by another \$200 million. If General Fund revenues and/or expenditures vary even further from budget estimates than the primary forecast in the Commission report, the State may face a cash shortfall by Spring 1993 similar to the shortfall experienced in 1992. The overview of the Governor's Budget for the fiscal year ending June 30, 1994 projected General Fund revenues for that fiscal year at \$39.9 billion, a 2.6% decline from the forecast for the fiscal year ending June 30, 1993.

The City estimates that the State's budget for the fiscal year ending June 30, 1993 adversely impacts the City's General Fund for such fiscal year by approximately \$1,000,000. The Governor's budget for the fiscal year ending June 30, 1994, submitted on January 8, 1993, identifies an estimated \$2.6 billion decrease from current levels in funding for counties, cities and special districts. The 1993/94 State Budget has not yet been passed.

The City cannot predict what actions ultimately will be taken by the State Legislature and the Administration to deal with the State Budget for 1993/94. The estimates in the Governor's Budget will be affected by the future course of the current national economic recession and other factors. While the State budget crisis may reduce the grants and subventions revenues received by the City from the State, the City does not expect any major impairment of its financial condition resulting from these factors.

No Liability by the Authority to the Owners

Except as expressly provided in the Trust Agreements, the Authority shall not have any obligation or liability to the Owners of the Certificates with respect to the payment when due of the Lease Payments by the City, or with respect to the observance or performance by the City of other agreements, conditions, covenants and terms required to be observed or performed by it contained in the Lease Agreements or the Trust Agreements, or with respect to the performance by the Trustee of any obligation required to be performed by it contained in the Trust Agreements.

Limited Recourse on Default

If the City defaults on its obligations to make Lease Payments under either Lease Agreement with respect to the Project being leased thereunder, the Trustee, as assignee of the Authority, may retain such Lease Agreement and hold the City liable for all Lease Payments when due thereunder and will have the right to re-enter and re-let the Project being leased thereunder. Such re-entry and re-letting will not effect a surrender of such Lease Agreement. Alternatively, the Trustee may terminate such Lease Agreement and proceed against the City to recover damages pursuant to such Lease Agreement. Due to the unique nature of the Series A Project and the Series B Project, no assurance can be given that the Trustee will be able to re-let either Project so as to provide rental income sufficient to make principal and interest payments with respect to the Certificates of the applicable series in a timely manner, and the Trustee is not empowered to sell either Project for the benefit of the Owners of the Certificates of the applicable series. Any suit for money damages would be subject to limitations on legal remedies against cities in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. See APPENDIX B--"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Lease Agreements."

No Acceleration Upon Default

If the City defaults on its obligations to make Lease Payments under either Lease Agreement, the Trustee may have limited ability to re-let the Project so as to preserve the tax-exempt nature of the interest component of such Lease Payments and the Certificates of the series payable from such Lease Payments. In the event of a default, there is no available remedy of acceleration of the total Lease Payments due over the term of the applicable Lease Agreement. The City will only be liable for Lease Payments on a semiannual basis, and the Trustee would be required to seek a separate judgment for each Lease Payment as it becomes due and payable.

CITY GENERAL INFORMATION

General

The City is the county seat of Stanislaus County (the "County") and was incorporated in 1884. It is approximately 29 square miles in area and is located about 93 miles east of the City of San Francisco.

The City provides many services to its residents, including administration, police, fire, recreation, refuse control, transportation, airport facilities, water, parking and public works such as storm drain and sewer maintenance. The school districts in the City are separate governmental entities which receive no funding from the City.

Municipal Government

The City is a charter city that operates under a Council- Manager form of government, whereby the policies of the City Council (the "Council") are administered by a City Manager. All municipal departments operate under the supervision of the City Manager, except for the City Attorney's office and the City Clerk-Auditor's office. The Council consists of seven members, including the Mayor, who are elected at large for four-year overlapping terms. The City Council appoints the City Manager, the City Attorney and the City Clerk/Auditor. The City employs 1,072 full-time workers, the majority of which staff the police, public works and parks and recreation departments.

CITY FINANCES

The following selected information provides a brief overview of the finances of the City.

City Budget

Development of the annual budget typically begins six months prior to the initial fiscal year of the budget under consideration. The City Manager must submit to the City Council at its first meeting in May in each year a proposed budget for the fiscal year commencing the following July 1. The budget is a line item budget which includes proposed expenditures and the means of financing them. The City Council reviews the proposed budget during May and early June at specially scheduled sessions which are open to the public. In addition, the City Council conducts a public hearing on the proposed budget in early June to obtain comments from interested persons. Prior to the beginning of the fiscal year, the budget must be legally enacted by the City Council through the adoption of an ordinance. The City Manager is authorized to transfer funds within departmental budgets between major item classifications and between capital projects in the same fund. The City Council is authorized to transfer funds between departments and from reserve fund balances for specific purposes. Expenditures in any year may not exceed budgeted appropriations.

Throughout the fiscal year, all revenue and appropriations are subject to review and since the budget must remain in balance, any overall reduction in revenues would require a reduction in appropriations.

Set forth below is the City's adopted budget for fiscal years ending June 30, 1991 through June 30, 1993.

**CITY OF MODESTO
ADOPTED GENERAL FUND BUDGET**

	Adopted Budget <u>1990-91</u>	Adopted Budget <u>1991-92</u>	Adopted Budget <u>1992-93</u>
REVENUES			
Taxes	\$37,713,600	\$41,115,589	\$43,896,884
Licenses and Permits	162,000	180,130	199,000
Intergovernmental	6,606,436	6,813,394	7,884,098
Charges for Services	2,693,900	2,284,892	2,478,650
Special Assessments Levied	—	30,269	30,269
Interest and Rent	1,155,400	1,214,264	1,169,270
Fines and Forfeits	400,100	470,113	393,281
Miscellaneous	<u>168,250</u>	<u>244,717</u>	<u>320,310</u>
Total Revenues	<u>47,899,686</u>	<u>52,353,368</u>	<u>56,371,763</u>
EXPENDITURES			
General Government	8,716,158	9,458,102	7,917,418
Highways and Streets	4,494,461	5,288,397	4,274,586
Public Works	3,854,627	3,851,510	3,837,506
Parks and Recreation	7,666,045	8,425,658	10,586,110
Public Safety	<u>29,213,122</u>	<u>35,732,365</u>	<u>36,615,510</u>
Total Expenditures	<u>53,544,413</u>	<u>62,756,032</u>	<u>63,231,130</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(6,044,727)</u>	<u>(10,402,664)</u>	<u>(6,859,367)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	6,559,876	7,638,030	6,871,323
Operating transfers out	<u>(2,231,943)</u>	<u>(1,787,614)</u>	<u>(2,659,299)</u>
Miscellaneous	<u>-0-</u>	<u>101,450</u>	<u>-0-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>4,327,933</u>	<u>5,951,866</u>	<u>4,212,024</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES:	(1,716,794)	(4,450,798)	(2,647,343)
Residual equity transfers out	—	(6,455)	-0-
FUND BALANCES, July 1	<u>\$14,785,961</u>	<u>\$11,679,342</u>	<u>\$12,226,280</u>
FUND BALANCES, June 30⁽¹⁾	<u>\$13,069,167</u>	<u>\$ 7,222,089</u>	<u>\$9,578,937</u>

⁽¹⁾Projected at the time of adoption of the fiscal year budget. As a result, such figure does not correspond to fund balances as of July 1 of the succeeding year.

Basis of Accounting

The City's operating funds are grouped into five categories, including the General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds and Special Assessment Funds. All governmental funds and accounts of the City are maintained on a modified accrual basis of accounting in which revenues are recognized when they become both measurable and available and expenditures are generally recognized when the liability is incurred except for principal and interest on long-term debt which are recognized when due. Encumbrances are recorded at the time commitments are entered into.

For further information on the basis of accounting of the funds and accounts of the City, see Appendix A.

Financial Statements - Independent Audit

Since the City's fiscal year ending June 30, 1988, the City's annual financial statements have been audited by Deloitte & Touche, Sacramento, California, certified public accountants.

A copy of the City's Comprehensive Audited Financial Statements for the fiscal year ended June 30, 1992 is attached as APPENDIX A—"CITY OF MODESTO AUDITED FINANCIAL STATEMENTS JUNE 30, 1992" hereto. Audited financial statements for prior years are available upon request from the Finance Department of the City.

DISCUSSION OF FINANCIAL OPERATIONS

The following table presents a summary of the revenues and expenditures of the City's General Fund for fiscal years ended June 30, 1988 to 1992, as well as year-end fund balances. The General Fund is used to account for all financial transactions not restricted for specific uses by resolution, ordinance or general laws and accounted for in another fund. As of June 30, 1992, the City's General Fund recorded an ending fund balance of \$12.2 million compared to an ending fund balance of \$11.7 million at June 30, 1991. The information in the following table has been extracted from the City's audited financial statements.

Current Financial Outlook

The City fully expects future revenues will be sufficient to sustain present service levels, execute a portion of its Capital Improvement Program (see "CAPITAL IMPROVEMENT PROGRAM," herein) and maintain adequate reserve protection. See, however, "RISK FACTORS—State Budget and Impact on City."

Capital facilities fees were implemented in July 1987 to pay for growth-related capital projects, including additional fire and police facilities. In 1988 and 1989, the City reviewed its capital facilities requirements under the A.B. 1600 guidelines and adopted a set of fees to finance those requirements. The fees for a single-family dwelling is presently \$5,275 payable

by the developer at the time the building permit is issued. The fees will be used for various facilities including police, fire, parks, streets, wastewater treatment and public transportation. The City's utility users and business license taxes were increased in November 1990 which will result in significant additional revenues in future years.

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

CITY OF MODESTO
Revenues, Expenditures and Changes in Fund Balances
GENERAL FUND(1)
(in thousands)

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
REVENUES					
Taxes	\$28,059	\$30,963	\$35,246	\$38,270	\$40,623
Licenses and Permits	160	168	140	150	231
Intergovernmental	5,619	6,084	6,342	6,794	6,627
Charges for Services	3,143	3,094	3,141	2,078	2,214
Special Assessments Levied	-0-	-0-	-0-	19	30
Interest and Rent	1,196	1,444	1,817	1,673	1,228
Fines and Forfeits	354	526	441	440	495
Miscellaneous	<u>551</u>	<u>319</u>	<u>1,463</u>	<u>294</u>	<u>2,800</u>
Total Revenues	\$39,081	\$42,599	\$48,590	\$49,717	\$54,247
EXPENDITURES					
General Government	\$ 6,991	\$ 7,601	\$8,462	\$9,139	\$8,886
Highways and Streets	4,435	4,752	5,348	4,359	4,889
Public Works	2,821	3,111	3,372	3,490	3,550
Parks and Recreation	6,703	6,210	6,950	7,689	8,083
Public Safety	<u>20,967</u>	<u>23,328</u>	<u>26,467</u>	<u>31,426</u>	<u>34,262</u>
Total Expenditures	\$41,916	\$45,002	\$50,599	\$56,103	\$59,671
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,835)	(2,403)	(2,010)	(6,386)	(5,424)
OTHER FINANCING SOURCES (USES):					
Operating transfers in	4,618	5,257	6,152	6,296	7,592
Operating transfers out	<u>(948)</u>	<u>(1,406)</u>	<u>(1,973)</u>	<u>(2,485)</u>	<u>(1,717)</u>
Miscellaneous	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>101</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,670</u>	<u>3,851</u>	<u>4,178</u>	<u>3,811</u>	<u>5,977</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES:	835	1,448	2,169	(2,574)	553
Residual equity transfers out	(12)	(91)	(582)	(532)	(6)
FUND BALANCE, beginning of year	<u>11,020</u>	<u>11,842</u>	<u>13,199</u>	<u>14,786</u>	<u>11,679</u>
FUND BALANCE, end of year	<u>\$11,842</u>	<u>\$13,199</u>	<u>\$14,786</u>	<u>\$11,679</u>	<u>\$12,226</u>

(1) Figures may not add due to rounding.

Source: City of Modesto Comprehensive Annual Financial Reports Fiscal Years 1988-1992.

REVENUE SOURCES OF THE CITY

General

The City pursuant to its Charter has power to levy various taxes on all property and transactions at rates determined by the City, although such power is limited by the Constitution and laws of the State of California. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein. In the fiscal year ended June 30, 1992, property and other taxes accounted for 74.9% of the receipts of the General Fund, other locally generated non-tax revenues accounted for approximately 12.9%, and receipts from the state and federal governments accounts for approximately 12.2%.

Ad Valorem Property Taxes

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding March 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and property the taxes on which are a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll." The following table sets forth a ten-year summary of the tax levies and collections for the benefit of the City.

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

**CITY OF MODESTO
PROPERTY TAX LEVIES AND COLLECTIONS**

Ten Years ended June 30, 1992

<u>Year Ended June 30</u>	<u>Total Tax Levy (1)</u>	<u>Current Tax Collected</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Total Collections as Percent of Current Levy(2)</u>	<u>Delinquent Taxes</u>	<u>Outstanding Delinquent Taxes as Percent of Current Levy</u>
1983	\$3,513,103	\$3,342,242	95.14%	\$215,439	\$3,557,681	101.27%	\$215,461	6.13%
1984	3,739,803	3,541,592	94.70	324,370	3,865,962	103.37	259,449	6.94
1985	4,062,987	3,809,110	93.75	357,289	4,166,399	102.55	333,845	8.22
1986	4,562,379	4,330,169	94.91	311,692	4,641,861	101.74	261,754	5.74
1987	4,931,423	4,800,478	97.34	454,734	5,255,212	106.57	258,129	5.23
1988	5,373,744	5,190,722	96.59	294,350	5,485,072	102.07	208,010	3.87
1989	5,894,285	5,628,453	95.49	302,592	5,931,045	100.62	259,436	4.40
1990	6,527,236	6,083,423	93.20	346,762	6,430,185	98.51	261,514	4.01
1991	7,160,672	6,671,180	93.16	381,000	7,052,180	98.48	200,000	2.71
1992	8,285,031	8,063,832	97.33	279,516	8,343,348	100.70	308,955	3.72

(1) Totals include exempt organizations.

(2) Total collections include taxes resulting from "escape assessments". These are comprised of assessments to property not known to exist when the original roll was compiled and other adjustments to the roll.

Source: City of Modesto Comprehensive Annual Financial Report, Year Ended June 30, 1992.

Assessed Valuation

The valuation of property in the City is established by the Stanislaus County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIII A of the California Constitution. Prior to 1981-82, assessed valuations were reported at 25% of the full value of the property. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

The California State Legislature adopted two types of State-reimbursed exemptions beginning in the tax year 1969-70. The first currently exempts 100% of the full value of business inventories from taxation. The second exemption currently provides a credit of \$7,000 of the full value of an owner-occupied dwelling for which application has been made to the County Assessor. Revenue estimated to be lost to local taxing agencies due to the above exemptions has in the past been reimbursed from State sources. Reimbursements are based upon total taxes due upon such exemption values and therefore are not reduced by any estimated amount of actual delinquencies.

In addition, certain classes of property such as churches, colleges, not-for-profit hospitals and charitable institutions are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions.

Because of the recent decrease in property values in certain areas of the State, certain counties have announced that they will review the assessed values of properties within those counties. Such a review may result in a decrease in assessed values which would result in a decrease in collections of the one percent property tax by such counties. Stanislaus County has announced that it will review the assessed values of certain properties within Stanislaus County. The City is unable to predict to what extent such a review may result in a decrease in assessed valuations and the collection of the one percent property tax within Stanislaus County.

The following table sets forth a ten-year summary of the assessed valuation of taxable property within the City.

**CITY OF MODESTO
ASSESSED VALUE OF TAXABLE PROPERTY**

Ten years ended June 30, 1992

<u>Year Ended</u> <u>June 30</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total</u>
1983	\$2,729,767,000	\$107,578,500	\$2,837,345,500
1984	2,895,442,000	104,042,000	2,999,484,000
1985	3,033,214,000	107,506,000	3,140,720,000
1986	3,247,169,200	119,511,700	3,366,680,900
1987	3,533,505,659	131,466,834	3,664,972,493
1988	3,892,424,156	151,080,851	4,043,505,007
1989	4,360,362,818	183,269,638	4,543,632,456
1990	4,750,747,890	202,757,203	4,953,505,093
1991	5,573,207,132	258,501,366	5,831,708,498
1992	6,054,344,047	297,783,395	6,352,127,442

Source: Stanislaus County Assessor.

Largest Taxpayers

The ten largest taxpayers in the City for fiscal year 1991-92 and the percentage of total property tax levies are shown in the following table:

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

**CITY OF MODESTO
PRINCIPAL TAXPAYERS(1)
Year Ended June 30, 1992**

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Value</u>	<u>Percent of Total Taxes Paid</u>
National Medical Enterprises	Medical	\$85,612,756	1.75 %
General Foods	Food Processing	77,073,656	1.47
Teachers Insurance & Annuity Association	Shopping Center	33,981,864	.85
McClatchy Newspapers	Publishing	40,930,257	.82
Liljenquist Modesto Co.	Real Estate	35,420,029	.73
Foster Farms Dairy	Food Processing	33,054,144	.65
Stanislaus Partners	Real Estate	28,769,348	.57
Lyon Development Association	General Contractors	20,311,406	.41
Tully Manor Investment	Real Estate	15,350,820	.32
Stonebridge Associates	Real Estate	13,705,883	<u>.28</u>
			7.85
All others			<u>92.15</u>
TOTAL			100.00%

(1) Excludes certain utility and telephone companies whose property extends throughout the County.

Source: Stanislaus County Tax Collector.

Non-Real Estate Taxes

In addition to ad valorem taxes on real property, the City receives the following non-real estate taxes:

Sales and Use Tax. The sales and use tax accounted for \$16,231,859, approximately 30% of the City's receipts in the General Fund in the fiscal year ended June 30, 1992, a decrease of approximately 3% from the prior fiscal year. A sales and use tax is levied and collected by the State, which returns to the City .95% of the amount of taxable sales in the City.

Utility Users Tax. The City levies a utility users tax which accounted for \$8,923,356 or approximately 16.5% of the City's receipts in the General Fund in the fiscal year ended June 30, 1992, an increase of approximately 29.5% from the prior fiscal year. The utility users tax is collected by electric, gas, water and telephone utility owners from customers in the City at the rate of 6% of each customer's utility bill not to exceed \$1,500 per utility per year.

The City has administered the \$1,500 limitation by processing requests for refunds and by allowing larger taxpayers to "prepay" their utility user tax obligation. Recently, it was discovered that many businesses that would otherwise be eligible for a refund have not applied as set forth in the ordinance. Pursuant to the ordinance there is a two-year statute of limitation. Nonetheless, City staff has proposed to the City Council that refunds be permitted for all utility users taxes paid in excess of the \$1,500 per utility per year since January 1, 1990. The City estimates its maximum liability for refund payments to be \$1,800,000 and plans to pay all refunds from reserves in its General Fund. The City is considering adopting an ordinance which would eliminate the \$1,500 cap. If adopted, after payment of the refunds, the City does not anticipate any adverse impact on its General Fund in future years.

Business License Tax. The City levies a business license tax which accounted for \$4,677,142, or approximately 8.6% of the City's receipts in the General Fund in the fiscal year ended June 30, 1992, an increase of approximately 3.2% from the prior fiscal year. The tax is paid by certain businesses located in the City at varying percentages of gross receipts.

Other Taxes. Other taxes levied by the City include the transient occupancy tax 9% of hotel and motel bills, and a franchise tax.

The following table presents the tax revenues of the City for the last five fiscal years:

**CITY OF MODESTO
GENERAL FUND
TAXES REVENUES BY SOURCE**

Fiscal Year Ending June 30

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Sales & Use Tax	\$12,691,088	\$13,812,792	\$15,871,732	\$16,799,330	\$16,231,859
Property Taxes	5,502,074	6,049,943	6,971,078	7,344,064	8,163,938
Utility Users Tax	4,606,531	5,227,709	5,504,055	6,891,723	8,923,356
Business License Taxes	3,430,161	3,751,297	4,453,705	4,531,901	4,677,142
Transient Occupancy Tax	873,786	1,022,690	1,127,131	1,041,003	1,002,101
Franchise Taxes	924,559	1,064,840	1,294,541	1,554,459	1,624,663
Other Taxes	<u>31,116</u>	<u>33,594</u>	<u>24,042</u>	<u>107,406</u>	<u>(65)</u>
Total	<u>\$28,059,315</u>	<u>\$30,962,865</u>	<u>\$35,246,284</u>	<u>\$38,269,886</u>	<u>\$40,622,994</u>

Source: City of Modesto Finance Department.

Other Revenues

Locally generated non-tax revenues are largely license and permit fees, various rents and charges for services, fines and investment earnings. These revenues totaled approximately \$6,997,429 in the fiscal year ended June 30, 1992, an increase of 44% over the prior year, and represented approximately 13% of total 1992 revenues for the General Fund.

Grants. Revenues for the General Fund received from the federal and state governments totaled \$6,626,977 in the fiscal year ending June 30, 1992. Such amount represented 12.2% of General Fund revenues in the fiscal year ended June 30, 1992, an increase of 0.5% over the fiscal year ended June 30, 1991.

On September 2, 1992, the Governor signed the budget for the State of California for the fiscal year ending June 30, 1993, which closed a \$7.9 billion budget gap through a combination of increased revenues and expenditure cuts. The City estimates that the State's budget for the fiscal year ending June 30, 1993 adversely impacts the City's General Fund for such fiscal year by approximately \$1 million. The Governor's budget for the fiscal year ending June 30, 1994, submitted on January 8, 1993, identifies an estimated \$2.6 billion decrease from current levels in funding for counties, cities and special districts. The 1993/94 State Budget has not yet been passed.

The City cannot predict what actions ultimately will be taken by the State Legislature and the Administration to deal with the State Budget for the fiscal year ending June 30, 1994. The estimates in the Governor's Budget will be affected by the future course of the current national economic recession and other factors. While the State budget crisis may reduce the grants and subventions revenues received by the City from the State, the City does not expect any major impairment of its financial condition resulting from these factors. See "RISK FACTORS—State Budget and Impact on City."

Constitutional and Statutory Limitations on Taxes and Appropriations

Article XIII A of the California Constitution. On June 6, 1978, California voters approved Proposition 13 which added Article XIII A to the California Constitution. Section 1(a) of Article XIII A of the California Constitution limits the maximum ad valorem tax on real property to one percent of full cash value (as defined in Section 2 of Article XIII A), to be collected by the counties and apportioned according to law. Section 1(b) of Article XIII A provides that the one percent limitation does not apply to ad valorem taxes to pay interest or redemption charges on (1) indebtedness approved by the voters prior to July 1, 1978, or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition. Section 2 of Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under full cash value or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the California Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above. Such legislation further provides

that each county will levy the maximum tax permitted by Article XIII A of \$4 per \$100 of assessed valuation (based on the traditional practice of using 25 percent of full cash value as the assessed value for tax purposes). Beginning with the 1981/82 fiscal year, assessors in California no longer record property values on the tax rolls at the assessed value of 25 percent of market value and now record them at full market value. Consequently, the tax of \$4 per \$100 of assessed value is now expressed as \$1 per \$100 of taxable value.

In the general elections of 1986, 1988 and 1990, the voters of the State approved various measures which further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the full cash value of other real property between parents and children, do not constitute a "purchase" or "change of ownership" triggering reassessment under Article XIII A. This amendment will reduce the property tax revenues of the City. Other amendments permitted the Legislature to allow persons over 55 who sell their residence on or after November 5, 1986 and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence, and permitted the Legislature to authorize each county under certain circumstances to adopt an ordinance making such transfers or assessed value applicable to situations in which the replacement dwelling purchased or constructed after November 8, 1988, is located within the county and the original property is located in another county within California. Stanislaus County has not adopted the ordinance regarding residences replacing dwellings in other counties.

In the June 1990 election, the voters approved additional amendments to Article XIII A permitting the State Legislature to extend the replacement dwelling provisions applicable to persons over 55 to severely disabled homeowners for replacement dwelling purchased or newly constructed on or after June 5, 1990, and to exclude from the definition of "new construction" triggering reassessment improvements to certain dwellings for the purpose of making the dwelling more accessible to severely disabled persons. In the November 1990 election, the voters approved the amendment of Article XIII A to permit the State Legislature to exclude from the definition of "new construction" seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIII B of the California Constitution. Article XIII B limits the annual appropriations of the State and any city, county, city and county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services for which the fiscal responsibility is shifted to or from the governmental entity. The "base year" for establishing such appropriation limit is the 1978/79 fiscal year and the limit is adjusted annually to reflect changes in population, consumer prices and certain increases or decreases in the cost of services provided by these public agencies.

Appropriations of an entity of local government subject to Article XIII B include generally authorizations to expend during a fiscal year the proceeds of taxes levied by or for the

entity and the proceeds of State subventions, exclusive of certain State subventions, refunds of taxes, and benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" includes, but is not limited to, all tax revenues, most State subventions and the proceeds to the local government entity from (i) regulatory licenses, user charges, and user fees to the extent that such proceeds exceed the costs reasonably borne by such entity and (ii) the investment of tax revenues. Article XIII B includes a requirement that if a local government entity's revenues in any year exceed the amount permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two years.

Article XIII B does not limit the appropriation of moneys to pay debt service on indebtedness existing or authorized as of January 1, 1979, or for bonded indebtedness, approved thereafter by a vote of the electors of the issuing entity at an election held for that purpose.

In the June 1990 election, the voters approved Proposition 111 amending the method of calculation of state and local appropriations limits. Proposition 111 made several changes to Article XIII B, three of which were reflected in the City's 1990/91 computation of its appropriations limit. First, the term "change in the cost of living" was redefined as the change in the California per capita personal income ("CPCPI") from the preceding year. Previously the lower of the CPCPI or the United States Consumer Price Index was used. Second, the appropriations limit for the fiscal year was recomputed by adjusting the 1986-87 limit by the CPCPI for the three subsequent years. Third and lastly, Proposition 111 excluded appropriations for "qualified capital outlay for fiscal 1990/91 as defined by the legislature" from proceeds of taxes.

Statutory Limitations. A statutory initiative ("Proposition 62") was adopted by the voters voting in the State of California at the November 4, 1986 General Election which (i) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental entity's legislative body and by a majority vote of the electorate of the governmental entity, (ii) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction, (iii) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (iv) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A, (v) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (vi) requires that any tax imposed by a local governmental entity on or after March 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988. In the opinion of the City Attorney, because Proposition 62 was a statutory, and not a constitutional initiative, the substantive provisions of Proposition 62 are not applicable to charter cities. The City does not anticipate any adverse financial impact as a result of the passage of this initiative. Furthermore, two State Court of Appeal decisions, both of which are final decisions, have declared the majority voter provisions referred to in (i) above in one case and in (i) and (vi) above in the second case to be unconstitutional.

At the November 8, 1988 general election, California voters approved an initiative known as Proposition 98. This initiative amends Article XIII B to require that (i) the California Legislature establish a prudent state reserve fund in an amount as it shall deem reasonable and necessary and (ii) revenues in excess of amounts permitted to be spent and which would otherwise be returned pursuant to Article XIII B by revision of tax rates or fee schedules, be transferred and allocated (up to a maximum of 40%) to the State School Fund and be expended solely for purposes of instructional improvement and accountability. Proposition 98 also amends Article XVI to require that the State of California provide a minimum level of funding for public schools and community colleges. Commencing with the 1988-89 fiscal year, moneys to be applied by the State for the support of school districts and community college districts shall not be less than the greater of: (i) the amount which, as a percentage of the State general fund revenue which may be appropriated pursuant to Article XIII B, equals the percentage of such State general fund revenues appropriated for school districts and community college districts, respectively, in fiscal year 1986-87 or (ii) the amount required to ensure that the total allocations to school districts and community college districts from the State general fund proceeds of taxes appropriated pursuant to Article XIII B and allocated local proceeds of taxes shall not be less than the total amount from these sources in the prior year, adjusted for increases in enrollment and adjusted for changes in the costs of living pursuant to the provisions of Article XIII B. The initiative permits the enactment of legislation, by a two-thirds vote, to suspend the minimum funding requirement for one year. As a result of Proposition 98, funds that the State might otherwise make available to the City may be allocated instead to satisfy such minimum funding level.

Future Initiatives. Article XIII A, Article XIII B, Proposition 62, Proposition 98 and Proposition 111 were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time, other initiative measures could be adopted, further affecting City revenues or the City's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

EXPENDITURES

For the fiscal year ended June 30, 1992, general governmental expenditures from the General Fund have decreased from \$9.1 million to approximately \$8.9 million.

In the fiscal year ended June 30, 1992, 57.4% of the City's expenditures from the General Fund were for public safety, an increase of 9.0% over the prior year, and 14.9% of the City's expenditures were for general government costs, including Finance, City Attorney and the City Manager's office. The remaining 27.7% of the City's General Fund expenditures included costs of public works, highways and streets and parks and recreation.

Labor Relations

The City provides a "meet and confer" process with City employees, individually or collectively, to negotiate wages, hours and working conditions. Matters involving merits,

necessity or organization of any service or activity provided for by law are excluded from this process. Executive, management and confidential employees are not represented by a formal bargaining unit. The City has never experienced a work stoppage by its employees.

There are 520 full and part-time employees that are assigned to three bargaining units, with formal labor organizations as follows:

**CITY OF MODESTO
LABOR ORGANIZATIONS**

<u>Labor Organizations</u>	<u>Number of Employees</u>	<u>Contract Expiration Date</u>
Police (1)	155	June 30, 1992(2)
Fire	138	June 30, 1992(2)
Miscellaneous (3)	227	June 30, 1993

-
- (1) Includes sworn police officers only.
 - (2) New contracts currently being negotiated.
 - (3) Includes all other city employees exclusive of management.
- Source: City of Modesto.

Retirement Programs

All permanent employees of the City are covered under the Public Employees' Retirement System (PERS) of the State of California, a defined benefit plan. Pension costs are funded by monthly contributions from the City and covered employees. Contributions by the City during the fiscal year ended June 30, 1992 were \$8,354,089, and are expected to be \$6,300,000 for the fiscal year ending June 30, 1993. The City's unfunded pension liability as of June 30, 1991 (the latest actuarial data available) was \$5,709,352, which represents approximately 4.3% of the City's total pension benefit obligation. Contribution rates are determined by PERS and are calculated to include unfunded prior service costs amortized through the year 2000.

As of June 30, 1992, all employee contributions (9 percent for fire and police, and 7 percent for miscellaneous employees) are paid by the City. The City is also required to contribute all remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration.

Self-Insurance

The City maintains programs of self-insurance for workers' compensation and liability insurance but has purchased outside insurance coverage for workers' compensation claims in excess of \$400,000. At June 30, 1992, accrued self-insurance claims for workers' compensation and liability were \$3,550,658 and \$750,000, respectively. These accruals represent estimates of amounts to be paid for reported and incurred but not reported claims.

CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program of the City for its next four fiscal years includes budgeted or planned programs and projects to be funded by the City or from federal or state sources over a four-year period. Among the projects planned are community housing improvements, parks and recreation land acquisition and development, street construction, landscaping and improvements, airport development and expansion of the City's wastewater, storm drainage and water systems. Total expenditures for the fiscal year ending June 30, 1993 are estimated to be \$12,364,000, with less than \$200,000 of this amount expected to come from the City's General Fund. Expenditure projections for the next four years are being developed with substantial increases being anticipated in subsequent years due to continued growth.

The City's Capital Improvement Program is a four-year plan revised annually. Consequently, projects planned for future years may be cancelled, and new projects not presently anticipated may be undertaken. To the extent that total funds required exceed cash available, projects will either be funded by bond proceeds or the projects will be deferred or terminated.

DEBT OF THE CITY

As of June 30, 1992, the City had no general obligation debt outstanding.

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. and dated April 1, 1993. The Debt Report is included for general information purposes only. The City makes no representations as to its completeness or accuracy.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

Other aspects of the City's long-term debt are described in the following tables.

**CITY OF MODESTO
STATEMENT OF DIRECT AND OVERLAPPING DEBT
As of April 1, 1993**

1992-93 Assessed Valuation: \$6,488,094,415 (after deducting \$56,170,804 redevelopment tax allocation increment)

DIRECT AND OVERLAPPING BONDED DEBT:	<u>\$ Applicable</u>	<u>Debt 4/1/93</u>	
Stanislaus County Certificates of Participation	41.244 %	\$38,634,967	
Yosemite Community College District Certificates of Participation	30.863	1,759,191	
Ceres Unified School District	7.619	5,714	
Modesto High School District and Certificates of Participation	72.415	34,487,644	
Empire Union School District Certificates of Participation and Community Facilities District #87-1	48.900	8,513,490	
Modesto City School District and Certificates of Participation	78.512	26,497,800	
Salida Union School District	40.510	563,089	
Stanislaus Union School District	79.538	5,500,053	
Sylvan Union School District and Certificates of Participation	84.439	19,171,879	
City of Modesto Certificates of Participation	100.	35,645,000	(1)
City of Modesto 1915 Act Bonds	100.	3,539,052	
Modesto Municipal Sewer District #1	87.582	1,734,124	
Modesto Irrigation District	80.628	8,131,334	
Turlock Irrigation District and Certificates of Participation	4.053	<u>647,264</u>	
TOTAL GROSS DIRECT AND OVERLAPPING BONDED DEBT		\$184,830,601	(2)
Less: Modesto Irrigation District (100% self-supporting)		8,131,334	
Turlock Irrigation District (100% self-supporting)		<u>647,264</u>	
TOTAL NET DIRECT AND OVERLAPPING BONDED DEBT		\$176,052,003	

- (1) Excludes refunding certificates of participation to be sold.
(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and nonbonded capital lease obligations.

Ratios to Assessed Valuation:

Direct Debt	0.55 %
Total Gross Debt	2.85 %
Total Net Debt	2.71 %

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/92: \$178,400

Source: California Municipal Statistics, Inc.

**CITY OF MODESTO
SUMMARY OF DEBT SERVICE REQUIREMENTS
FROM GENERAL FUND TO MATURITY**

Year Ending June 30	(A) Prior Certificates of Participation (1)	(B) Series A and Series B Certificates of Participation (2)	(C) Airport and Capital Improvement Certificates of Participation	(D) Total Debt Service (Column B plus Column C) (3)
1994	\$ 2,578,968	\$2,204,895	\$572,495	\$2,777,390
1995	2,577,024	2,036,158	571,945	2,608,103
1996	2,571,746	2,082,232	570,045	2,652,277
1997	2,568,410	2,129,783	571,755	2,701,538
1998	2,474,707	2,080,676	566,830	2,647,506
1999	2,480,195	2,164,207	569,857	2,734,064
2000	2,486,771	2,213,260	566,090	2,779,350
2001	2,479,530	2,468,155	363,375	2,831,530
2002	2,478,405	2,464,468	367,175	2,831,643
2003	2,477,790	2,468,000	364,925	2,832,925
2004	2,471,475	2,458,677	366,975	2,825,652
2005	2,469,485	2,461,285	362,975	2,824,260
2006	2,467,647	2,460,348	357,750	2,818,098
2007	2,460,745	2,450,900	356,800	2,807,700
2008	2,463,308	2,453,120	354,762	2,807,882
2009	2,458,220	2,451,520	356,638	2,808,158
2010	2,455,670	2,446,070	357,062	2,803,132
2011	2,452,390	2,446,400	681,038	3,127,438
2012	2,447,922	2,437,340	-0-	2,437,340
2013	2,441,960	2,429,500	-0-	2,429,500
2014	2,439,170	2,427,460	-0-	2,427,460
2015	2,438,887	2,430,660	-0-	2,430,660
2016	2,421,112	2,414,375	-0-	2,414,375
2017	499,795	2,145,875	-0-	2,145,875
2018	497,603	2,145,250	-0-	2,145,250
2019	503,220	2,155,500	-0-	2,155,500
2020	501,465	2,151,500	-0-	2,151,500
2021	497,520	2,138,625	-0-	2,138,625
2022	-0-	2,141,500	-0-	2,141,500
2023	-0-	2,149,375	-0-	2,149,375
2024	<u>-0-</u>	<u>2,142,250</u>	<u>-0-</u>	<u>2,142,250</u>
Total	<u>\$59,561,140</u>	<u>\$71,249,364</u>	<u>\$8,278,492</u>	<u>\$79,527,856</u>

(1) Debt service on the Prior Certificates being refunded by the Series A Certificates and the Series B Certificates.

(2) Debt service on the Series A Certificates and the Series B Certificates.

(3) Total estimated debt service for the Certificates, the Capital Improvement Certificates and the Airport Certificates consists of the amounts in Column B plus the amounts in Column C.

Source: City of Modesto.

LEASE OBLIGATIONS

The City leases a telecommunications system, fire trucks and computer equipment under capital lease agreements. The related liabilities are included in obligations under capital leases in the general long-term debt account group. The following is a schedule of the future minimum lease payments on capital leases as of June 30, 1992:

Year Ending June 30	
1993	\$598,895
1994	598,895
1995	462,445
1996	327,420
1997	<u>135,234</u>
TOTAL	2,122,889
Less Interest	<u>(295,148)</u>
Present value of net minimum lease payments	\$1,827,741

Rental expenses incurred under operating leases are not material.

No Default

The City has never defaulted in the payment of principal or interest on any of its loans, bonds, notes or other debt obligations or on any payments or interest with respect to its lease obligations.

ECONOMIC AND DEMOGRAPHIC INFORMATION CONCERNING THE CITY

Population and Growth

The following table presents population data for the City, Stanislaus County and the State of California since 1982. Modesto is the seventeenth largest city in California with a population increase of approximately 51 percent for the period from 1982 to 1992.

**POPULATION DATA
CITY OF MODESTO
COUNTY OF STANISLAUS
STATE OF CALIFORNIA**

<u>Year⁽¹⁾</u>	<u>City</u>	<u>County</u>	<u>State</u>
1982	115,200	279,000	24,529,200
1983	118,200	286,000	25,050,200
1984	122,900	293,200	25,554,900
1985	126,700	300,200	26,072,300
1986	131,400	309,500	26,687,400
1987	138,500	320,600	27,292,300
1988	144,700	333,200	28,019,000
1989	154,606	347,500	28,662,000
1990	165,239	369,000	29,862,000
1991	170,200	383,200	30,321,000
1992	174,200	393,400	30,989,000

⁽¹⁾ Except for 1989, population statistics are for January 1st. In 1989, statistics are for June 30th.

Source: State Department of Finance, U.S. Bureau of the Census, City of Modesto Planning and Community Development Department.

Economic Structure

Approximately 250 commercial and industrial plants are located in and surrounding the City, comprising a growing industrial base. Manufacturing accounts for approximately 19 percent of all wage and salary workers.

There are over 3,900 acres of industrially zoned lands within the Modesto urban area, of which 1,100 are within the City limits. Most of Modesto's large industrial employers are located in the Beard Industrial District, situated south of Yosemite Boulevard in eastern Modesto. This area, highly developed and provided with all utilities and services, is located outside the City but is served by the Modesto and Empire Traction Company, a short-line railroad connecting with the Southern Pacific, Union Pacific (Tidewater Southern) and Santa Fe railroads in the metropolitan area. The south Modesto industrial area, located within the City, is accessible by the Union Pacific (Tidewater Southern) railroad.

Employment

Listed below is a summary of the civilian labor force and unemployment data for the years 1987 through 1991 for the County, the State and the United States.

CIVILIAN LABOR FORCE AND UNEMPLOYMENT ANNUAL AVERAGES⁽¹⁾ 1987-91⁽²⁾

<u>Year and Area</u>	<u>Civilian Labor Force</u>	<u>Employed Labor Force</u>	<u>Unemployed Labor Force</u>	<u>Unemployment Rate</u>
1987				
Stanislaus County	150,800	132,600	18,200	12.1 %
California	13,976,000	13,262,000	704,000	5.0
United States	120,903,000	114,103,000	6,801,000	5.6
1988				
Stanislaus County	157,200	138,500	18,700	11.9
California	14,036,000	13,292,000	743,000	5.3
United States	12,669,000	114,968,000	6,701,000	5.5
1989				
Stanislaus County	162,400	144,100	18,300	11.3
California	14,518,000	13,780,000	737,000	5.1
United States	125,557,000	117,342,000	6,528,000	5.5
1990				
Stanislaus County	163,600	145,000	18,600	11.3
California	14,670,000	13,846,000	823,000	5.6
United States	126,424,000	119,550,000	6,874,000	5.5
1991				
Stanislaus County	168,900	144,800	24,100	14.3
California	14,833,000	13,714,000	1,119,000	7.5
United States	125,303,000	116,877,000	8,426,000	6.7

⁽¹⁾ Employment data specific to the City of Modesto are not available. The City is part of the Modesto Metropolitan Statistical Area, which includes all of Stanislaus County.

⁽²⁾ 1992 data not yet available.

Source: State Employment Development Department.

The following table shows the major employers in the City. The County government is the largest employer, followed by Modesto City Schools and Doctor's Medical Center Foundation.

**CITY OF MODESTO
MAJOR EMPLOYERS
1991**

<u>Employer</u>	<u>Employees</u>	<u>Products/Services</u>
Stanislaus County	3,599	Government
Modesto City Schools	2,500	Education
Doctor's Medical Center Foundation	1,931	Medicine
E & J Gallo Winery	1,800	Wine
Memorial Hospitals Association	1,650	Medicine
Tri-Valley Growers	1,600 ⁽¹⁾	Canned Food Products
Yosemite Community College District	1,241	Education
Stanislaus Food Products Co.	1,200 ⁽¹⁾	Canned Food Products
Gallo Glass	1,200 ⁽¹⁾	Glass Bottles
City of Modesto	1,039	Government
Campbell Soup Company	650	Frozen Food Specialties

⁽¹⁾ Number of employees is subject to substantial seasonal fluctuations.

Source: Modesto Chamber of Commerce.

Median Household Income

Effective Buying Income (EBI) is defined as personal income less personal income tax and non-tax payments, such as fines, fees or penalties. Median Household EBI for the City, the County, the State and the United States is shown as follows:

**CITY OF MODESTO
COUNTY OF STANISLAUS
STATE OF CALIFORNIA
UNITED STATES
MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME**

<u>Year</u>	<u>City</u>	<u>County</u>	<u>State</u>	<u>United States</u>
1987	\$27,295	\$24,691	\$30,537	\$25,888
1988	26,694	24,175	30,088	24,488
1989	26,695	24,175	30,713	25,976
1990	29,216	26,446	33,342	27,912
1991	33,160	31,101	36,943	32,073

Source: "Survey of Buying Power," Sales and Marketing Management Magazine.

Commercial Activity

The following table indicates the history of taxable transactions for the City for the years 1986 through 1991.

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

**CITY OF MODESTO
TAXABLE TRANSACTIONS
(in thousands of dollars)**

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
<u>Retail Stores:</u>						
Apparel Stores	\$49,901	\$54,339	\$54,970	\$64,954	\$ 72,325	\$ 71,420
General Merchandise Stores	184,131	208,576	225,079	263,900	319,139	330,083
Drug Stores	28,550	32,216	35,116	39,138	41,612	41,880
Food Stores	86,772	82,286	84,832	94,421	96,405	106,658
Package Liquor	19,340	23,872	20,587	19,543	20,682	20,335
Eating and Drinking Places	98,907	102,805	115,339	126,410	135,527	146,007
Home Furnish and Appliances	71,521	74,904	85,200	99,902	106,258	102,733
Building Material and Farm Implements	71,521	68,898	80,658	104,623	118,277	102,003
Auto Dealers/Auto Suppliers	176,737	159,501	181,537	183,140	173,951	140,175
Service Stations	50,518	56,329	59,713	74,403	83,280	80,074
Other Retail Stores	<u>113,880</u>	<u>134,626</u>	<u>143,932</u>	<u>154,954</u>	<u>164,519</u>	<u>168,081</u>
Retail Stores Totals	\$ 951,778	\$ 998,352	\$1,086,963	\$1,225,388	\$1,331,975	\$1,309,449
All Other Outlets	<u>\$ 153,163</u>	<u>\$ 167,001</u>	<u>\$ 186,815</u>	<u>\$ 206,734</u>	<u>\$ 237,371</u>	<u>\$ 252,171</u>
Total All Outlets	\$1,104,941	\$1,165,353	\$1,273,778	\$1,432,122	\$1,569,346	\$1,561,620
Number of permits	3,338	3,466	3,617	3,731	4,064	4,077

Source: California State Board of Equalization.

Agriculture

The County is one of the most productive agricultural areas in the United States. The County ranks in the top ten of the nation's counties in sales of agricultural products with production primarily in fruits, nuts, livestock and animal products. There are over 800,000 acres of farmland in the County.

For many years livestock and animal products have accounted for more than half of the total annual gross value of farm production in the County. Production values of livestock and poultry products exceeded \$326 million in 1991 to rank as the major commodity group in the County. In 1991, milk headed the list of products in this group, with a gross value of more than \$274 million. Following is a six-year summary of farm production in the County, and a listing of the leading agricultural commodities in 1991.

**GROSS VALUE OF AGRICULTURAL PRODUCTION IN STANISLAUS COUNTY
(in thousands of dollars)**

<u>Commodity Group</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
Field Crops	\$ 72,173	\$ 81,692	\$ 98,054	\$ 96,945	\$ 111,221	\$ 116,283
Seed Crops	1,853	1,801	1,571	2,051	3,770	21,090
Vegetable Crops	63,190	51,965	79,249	95,594	95,359	81,223
Fruits and Nuts	163,053	256,544	259,218	225,874	249,383	257,396
Nursery Products	13,326	17,062	19,696	19,189	18,639	24,658
Livestock and Poultry	195,856	190,033	182,848	201,296	231,333	257,246
Livestock and Poultry Products	277,419	278,363	269,065	318,055	323,897	326,315
Apiary Products	<u>3,894</u>	<u>3,845</u>	<u>4,042</u>	<u>4,143</u>	<u>4,754</u>	<u>4,592</u>
Total	\$790,764	\$881,305	\$913,743	\$963,147	\$1,038,356	\$1,069,803

Source: Stanislaus County Department of Agriculture for 1986, 1987, 1988, 1989 and 1991 and *Summary of County Agricultural Commissioner's Reports*, California Agricultural Statistics Service, for 1990.

LEADING FARM COMMODITIES IN STANISLAUS COUNTY

<u>Rank</u>	<u>Commodity</u>	<u>Gross Production Value in 1991</u>
1	Milk	\$274,455,000
2	Chickens	110,006,000
3	Almonds	97,416,000
4	Turkeys	82,441,000
5	Cattle and Calves	61,468,000
6	Chicken Eggs	47,314,000
7	Peaches	45,734,000
8	Walnuts	42,570,000
9	Grapes	40,306,000
10	Tomatoes	35,132,000

Source: *Summary of County Agricultural Commissioner's Reports*, California Agricultural Statistics Service.

Transportation

The City is traversed by three state highways, Interstate 5, with which one of these state roads connects, passes approximately 20 miles to the west of the City. The City is served by truck and bus lines. Rail service is provided by the Southern Pacific, Union Pacific and

Santa Fe railroads. The Modesto City-County airport has daily scheduled commuter service to San Jose, San Francisco and Los Angeles. The deepwater port of Stockton, California, located approximately 30 miles from the City, provides shipping to coastal and overseas markets.

Educational Facilities

There are 24 public elementary schools, four junior high schools, four high schools and one continuation high school within the City, plus a number of private institutions of learning. Higher education is provided by Modesto Junior College and California State University, Stanislaus, which offers both undergraduate and graduate degrees.

Construction

Housing unit and building permit data for the City for the years 1987 through 1991 is summarized below. The decline in the value of residential and nonresidential construction between 1989 and 1991 reflected the impact of the State economic recession.

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

**CITY OF MODESTO
BUILDING PERMIT VALUATION
(as of December 31, in thousands)**

<u>Industry</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
Valuation:					
New Residential					
Single	\$ 75,997	\$151,978	\$158,842	\$ 97,247	\$18,526
Multiple	14,679	16,680	29,583	7,533	2,793
Alterations/Additions	<u>3,557</u>	<u>2,926</u>	<u>6,022</u>	<u>7,626</u>	<u>8,724</u>
Total New Residential	\$ 94,234	\$171,584	\$194,447	\$112,406	\$30,044
New Nonresidential					
Commercial	\$ 17,549	\$ 17,935	\$ 40,787	\$ 22,499	\$23,252
Industrial	167	916	3,252	4,621	4,839
Other					
Nonresidential	11,009	10,058	15,814	7,120	6,498
Alterations/Additions	<u>15,467</u>	<u>14,736</u>	<u>16,199</u>	<u>26,185</u>	<u>14,873</u>
Total Nonresidential					
Valuation	\$ 44,193	\$ 43,646	\$ 76,051	\$ 60,425	\$49,462
TOTAL	\$138,426	\$215,230	\$270,498	\$172,831	\$79,506
Number of New Housing					
Units:					
Single	1,164	2,273	2,236	1,273	322
Multiple	<u>523</u>	<u>496</u>	<u>990</u>	<u>235</u>	<u>80</u>
Total Units	1,687	2,769	3,226	1,508	402

Source: Economic Sciences Corporation.

Water Supply

The City operates its own municipal water department and serves approximately 70% of the City's water needs, primarily to residential and commercial users and to some industrial users. The remaining 30% of the City's residential, commercial and industrial needs are supplied by the Del Este Water Company, a private water company. Water for agricultural use within the City is supplied by the Modesto Irrigation District.

The City's sole source of water supply is its local groundwater sources. A new water treatment facility is currently being constructed by the Modesto Irrigation District. The City will purchase 70% of the treated water from such facility to augment its water supply.

The City has an ongoing water conservation program which includes limitations on watering hours and certain water uses. In the event that water conditions deteriorate, the City will likely expand its water conservation program to include additional water use restrictions, such as imposing limitations on the landscaping of new developments.

Del Este Water Company also receives water solely from its groundwater sources. Although there has been some decline in the groundwater table, the company has not imposed any cutbacks in its water deliveries. Del Este has encouraged its customers to voluntarily comply with the water conservation program adopted by the City of Modesto.

The Modesto Irrigation District supplies water for agricultural use within the City. The Modesto Irrigation District receives virtually all of its water supply from the Tuolumne River, pursuant to vested water rights. The Modesto Irrigation District historically has been capable of supplementing its surface water supply by pumping groundwater. The Modesto Irrigation District owns a portion of the Don Pedro Reservoir and the Modesto Reservoir, totalling 193,000 acre-feet of water. The Modesto Irrigation District has also adopted a water conservation program.

THE AUTHORITY

The Authority is a joint exercise of powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement by and between the City and the Redevelopment Agency of the City of Modesto (the "Agency"), and is authorized to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to, public entities, including the City and the Agency and to provide financing for public capital improvements for lease to public entities, including the City and the Agency. The members of the City Council of the City also sit as the board of directors of the Authority.

UNDERWRITING

The Certificates will be purchased by Smith Barney, Harris Upham & Co. Incorporated and Grigsby Brandford & Co., Inc., San Francisco, California (the "Underwriters"). The Underwriters have agreed to purchase the Series A Certificates at a price equal to \$25,735,357.40 (representing the par amount of the Series A Certificates less the original issue discount of \$1,244,034.10 and less the Underwriters' discount of \$245,608.50), plus accrued interest. The Underwriters have agreed to purchase the Series B Certificates at a price equal to \$7,696,742.99 (representing the par amount of the Series B Certificates less the original issue discount of \$360,206.50 and less the Underwriters' discount of \$73,050.51), plus accrued interest. The initial public offering prices set forth on the cover page may be changed by the Underwriters. The Underwriters may offer and sell the Certificates to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof. The

Certificate Purchase Agreement between the City and the Underwriters provides that the Underwriters will purchase all of the Certificates of each series if any Certificates of such series are purchased.

RATINGS

Series A Certificates

Moody's Investors Service and Standard & Poor's Corporation have assigned their municipal bond ratings of "Aaa" and "AAA," respectively, to the Series A Certificates with the understanding that upon delivery of the Series A Certificates, a policy insuring payment when due of the principal and interest represented by the Series A Certificates will be issued by AMBAC Indemnity. Such ratings express only the views of the rating agencies and are not a recommendation to buy, sell or hold the Series A Certificates. There is no assurance that such ratings will continue for any given period of time or that they will not be revised, either downward or upward, or withdrawn entirely by the rating agencies, or either of them, if in their, or its, judgment, circumstances so warrant. The City and the Trustee undertake no responsibility either to notify the Owners of the Series A Certificates of any revision or withdrawal of the ratings or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of either of such ratings may have an adverse effect on the market price of the Series A Certificates.

Series B Certificates

Fitch Investors Service, Inc., Moody's Investors Service and Standard & Poor's Corporation have assigned ratings of "AAA," "Aaa" and "AAA," respectively, to the Series B Certificates, with the understanding that, upon delivery of the Series B Certificates, the Series B Policy will be issued by Financial Guaranty. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Investors Service, Inc., One State Street Plaza, New York, New York 10004; Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; Standard & Poor's Corporation, 25 Broadway, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series B Certificates.

TAX MATTERS

General

In the opinion of Jones Hall Hill & White, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however, to the qualifications set forth below, under existing law, the portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the delivery of the Lease Agreements in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of delivery of the Lease Agreements. Special Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Lease Agreements and the Certificates.

Prospective purchasers of the Certificates should be aware that, under existing law, for the purpose of computing the 20% federal alternative minimum tax imposed on corporations an amount equal to 75% of the amount by which adjusted current earnings exceed alternative minimum taxable income is added to alternative minimum taxable income. Interest otherwise excluded from gross income, such as interest payable with respect to the Certificates, is included in adjusted current earnings.

Prospective purchasers of the Certificates should also be aware that (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Certificates or, in the case of a financial institution, that portion of the Owner's interest expense allocated to interest payable with respect to the Certificates, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(3)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest payable with respect to the Certificates, (iii) for taxable years beginning before January 1, 1992, interest payable with respect to the Certificates earned by some corporations could be subject to the environmental tax imposed by Section 59A of the Code, (iv) interest payable with respect to the Certificates earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code,

(v) passive investment income, including interest payable with respect to the Certificates, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income and (vi) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest payable with respect to the Certificates.

In the further opinion of Special Counsel, interest payable with respect to the Certificates is exempt from California personal income taxes.

Original Issue Discount

Under the Code, the difference between the principal amount of the Certificates and the initial offering price of such Certificates to the public (excluding bondhouses and brokers) at which price a substantial amount of such Certificates was sold represents interest which, in the opinion of Special Counsel, is excluded from gross income for federal income tax purposes to the same extent as interest with respect to the Certificates as described above; provided, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. Such interest accrues on an actuarial basis (that is, on a constant interest rate basis over the term of such Certificates) and a taxpayer's adjusted basis for purposes of determining gain or loss on disposition will be increased by the amount of such accrued interest.

LITIGATION

Upon the delivery of the Certificates, the City will provide its certificate that there is no litigation of any nature now pending against the City or, to the knowledge of its officers, threatened, seeking to restrain or enjoin the execution or delivery of the Lease Agreements, the Site and Facility Leases, the Escrow Agreements or the Trust Agreements or the execution or sale of the Certificates or in any way contesting the validity of the Lease Agreements, the Site and Facility Leases, the Escrow Agreements, the Trust Agreements or the Certificates or any proceedings of the City taken with respect to such execution, delivery or sale, or the application of any moneys or security provided for the payment of the Lease Payments or the use of the Certificate proceeds.

With respect to the Series B Project, a suit captioned *Hackett Environmental Systems, Inc. v. City of Modesto*, has been filed by one of the developers with respect to work done on the Series B Project claiming damages in the amount of \$1.5 million. In general, the suit concerns allocation of the costs arising from certain delays in completing the construction of the Series B Project. The City is currently negotiating with the developer for a settlement

substantially less than the \$1.5 million. Depending on the amount to be paid by the City, all or a portion of such amount will be paid from amounts on deposit in the Acquisition and Construction Fund for the Series B Certificates, with the remainder, if any, to be paid from other City sources. In any event, in the opinion of the City Attorney, the outcome of the suit will not have a material adverse impact on the City's financial status or impair its ability to pay the Lease Payments.

There are several other lawsuits and claims pending against the City. The aggregate amount of uninsured liabilities of the City which may result from such suits and claims, as determined by the City Attorney, will not, in the opinion of the City Attorney, materially affect the City's finances or impair its ability to pay the Lease Payments.

APPROVAL OF LEGALITY

At the time of the delivery of the Certificates, Jones Hall Hill & White, A Professional Law Corporation, San Francisco, California, Special Counsel, will deliver its opinions, substantially in the form attached hereto as Appendix C. Certain legal matters will be passed upon for the Underwriters by Kutak Rock, and for the City by the City Attorney.

VERIFICATION

Ernst & Young, independent certified public accountants, will verify certain mathematical computations as to the sufficiency of the investments deposited into the Escrow Funds to pay, when due on certain dates designated for prior prepayment, the principal of, interest on and premiums in connection with the Prior Certificates, and as to the yield on the Certificates on the investments purchased with proceeds of the Certificates and deposited into the Escrow Funds.

OTHER MATTERS

This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or any of the Owners of Certificates. Any statement made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs in the City since the date hereof. All references to the Trust Agreements, the Site and Facility Leases, the Lease Agreements, the Escrow Agreements and the Assignment Agreements are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and reference is made to such documents for a full and complete statement of such provisions.

The execution and delivery of this Official Statement have been duly authorized by the City.

CITY OF MODESTO, CALIFORNIA

By /s/ Andrea Daroca
Interim Finance Director

APPENDIX A

**CITY OF MODESTO AUDITED FINANCIAL STATEMENTS
JUNE 30, 1992**

[THIS PAGE INTENTIONALLY LEFT BLANK]



INDEPENDENT AUDITORS' REPORT

City Council
City of Modesto
Modesto, California

We have audited the accompanying general purpose combined financial statements of the City of Modesto, California, as of June 30, 1992 and for the year then ended, as listed in the table of contents. These general purpose combined financial statements are the responsibility of the City of Modesto, California, management. Our responsibility is to express an opinion on these general purpose combined financial statements based on our audit.

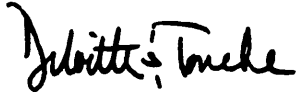
We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose combined financial statements referred to above present fairly, in all material respects, the financial position of the City of Modesto, California, as of June 30, 1992, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose combined financial statements taken as a whole. The accompanying combining and individual fund and account group financial statements and schedules listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the general purpose combined financial statements of the City of Modesto, California. This additional information is the responsibility of the management of the City. Such information has been subjected to the auditing procedures applied in the audit of the general purpose combined financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose combined financial statements taken as a whole.

As discussed in Note B to the combined financial statements, the City changed its reporting entity during the fiscal year ended June 30, 1992 pursuant to guidance contained in Statement Number 14 of the Governmental Accounting Standards Board.

The statistical section listed in the foregoing table of contents was not audited by us and, accordingly, we do not express an opinion thereon.

A handwritten signature in cursive script that reads "Deloitte & Touche".

September 30, 1992

COMBINED FINANCIAL STATEMENTS

These statements provide an overview of the financial position and the operating results of all fund types and account groups. They also serve as an introduction to the more detailed statements and schedules that follow. Separate columns are used for each fund type and account group.

CITY OF MODESTO
COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 1992
(With comparative totals for June 30, 1991)

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>
ASSETS AND OTHER DEBITS				
Cash and cash equivalents (Note C)	\$ 7,793,322	\$ 2,342,035	\$ 18,016,776	\$ 2,847,875
Cash and cash equivalents with fiscal agent (Note C)		1,266,672	149,642	2,956,420
Receivables:				
Accounts	990,121	14,888		67,483
Taxes	515,855		17,121	20,801
Special assessments				3,035,601
Notes (Note I)	294,089	6,238,150		
Due from governments	80,476	1,803,910	513,200	
Due from other funds (Note H)	780,151			
Inventories				
Prepaid expenses/expenditures	103,764	46,352		
Restricted assets – cash and investments (Note C)				
Advances to other funds (Note H)	351,000			
Loans to other funds (Note H)	5,712,261	74,050	2,100,000	
Unamortized costs of issuance				
General fixed assets (Note D)				
Proprietary funds – land, buildings, and equipment, net of depreciation (Note D)				
Amount available for debt service (Note E)				
Amount to be provided for payment of long-term debt				
Total assets and other debits	\$ 16,621,039	\$ 11,786,057	\$ 20,796,739	\$ 8,928,180

See independent auditors' report and notes to combined financial statements.

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service	Agency	General Fixed Assets	General Long-Term Debt	1992	1991 As restated
\$ 9,115,301	\$ 7,391,443				\$ 47,506,752	\$ 40,952,137
3,023,560					7,396,294	7,186,517
3,316,774	773,858				5,163,124	3,485,965
731					554,508	566,741
					3,035,601	2,290,258
2,024,845					6,532,239	6,776,634
					4,422,431	7,334,492
					780,151	1,774,000
105,372	351,182				456,554	458,985
29,703					179,819	295,329
245,584		\$ 28,160,175			28,405,759	24,772,633
					351,000	300,000
418,574					8,304,885	8,304,885
195,231					195,231	207,860
			\$ 50,044,120		50,044,120	45,970,585
158,053,354	7,256,651				165,310,005	163,372,392
				\$ 5,657,006	5,657,006	4,817,831
				42,095,628	42,095,628	42,154,280
<u>\$ 176,529,029</u>	<u>\$ 15,773,134</u>	<u>\$ 28,160,175</u>	<u>\$ 50,044,120</u>	<u>\$ 47,752,634</u>	<u>\$ 376,391,107</u>	<u>\$ 361,021,524</u>

(Continued)

CITY OF MODESTO
COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS (Continued)
June 30, 1992
(With comparative totals for June 30, 1991)

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable and accrued expenses	\$ 4,392,082	\$ 437,031	\$ 408,470	\$ 118
Loans payable (Note J)		14,722		
Matured bonds and interest payable				80
Interest payable				483,255
Due to other funds (Note H)		562,151	130,000	
Current portion – long-term debt				
Deferred revenues	2,677			2,787,721
Accrued vacation and sick leave				
Payable from restricted assets:				
Refundable deposits				
Deferred compensation (Note R)				
Advances from other funds (Note H)				
Loans from other funds (Note H)			7,786,311	
Special assessment debt with government commitment (Note E)				
Revenue bonds payable (Note E)				
Obligations under capital leases (Note F)				
Obligations for compensated absences (Note E)				
Certificates of participation (Note E)				
Total liabilities	<u>4,394,759</u>	<u>1,013,904</u>	<u>8,324,781</u>	<u>3,271,174</u>
Equity and other credits:				
Contributed capital (Note P)				
Investment in general fixed assets				
Retained earnings: (Note O)				
Reserved				
Unreserved				
Fund balances: (Note O)				
Reserved	7,398,780	7,202,298	4,048,508	
Unreserved/designated	4,827,500	3,671,653	15,950,708	5,657,006
Unreserved/undesignated		(101,798)	(7,527,258)	
Total equity and other credits	<u>12,226,280</u>	<u>10,772,153</u>	<u>12,471,958</u>	<u>5,657,006</u>
Total liabilities, equity and other credits	<u>\$ 16,621,039</u>	<u>\$ 11,786,057</u>	<u>\$ 20,796,739</u>	<u>\$ 8,928,180</u>

See independent auditors' report and notes to combined financial statements.

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service	Agency	General Fixed Assets	General Long-Term Debt	1992	1991 As restated
\$ 1,703,406	\$ 4,554,055				\$ 11,495,162	\$ 9,098,210
142,138					14,722	208,356
206,966					142,218	28,807
88,000					690,221	659,197
433,898					780,151	1,774,000
3,310,912					433,898	780,000
1,234,120	151,700				6,101,310	4,695,544
					1,385,820	1,372,510
245,584		\$ 1,678,404			1,923,988	2,037,861
		26,481,771			26,481,771	22,734,772
	351,000				351,000	300,000
518,574					8,304,885	8,304,885
				\$ 3,741,430	3,741,430	2,928,296
9,555,103					9,555,103	11,893,587
52,102				1,827,741	1,879,843	1,633,077
				5,683,463	5,683,463	5,540,738
				36,500,000	36,500,000	36,870,000
<u>17,490,803</u>	<u>5,056,755</u>	<u>28,160,175</u>		<u>47,752,634</u>	<u>115,464,985</u>	<u>110,859,840</u>
121,136,846	3,530,924				124,667,770	127,749,529
			\$ 50,044,120		50,044,120	45,970,585
9,960,220	3,530,838				13,491,058	20,084,170
27,941,160	3,654,617				31,595,777	28,201,801
					18,649,586	7,102,814
					30,106,867	30,232,009
					(7,629,056)	(9,179,224)
<u>159,038,226</u>	<u>10,716,379</u>			<u>50,044,120</u>	<u>260,926,122</u>	<u>250,161,684</u>
<u>\$ 176,529,029</u>	<u>\$ 15,773,134</u>	<u>\$ 28,160,175</u>	<u>\$ 50,044,120</u>	<u>\$ 47,752,634</u>	<u>\$ 376,391,107</u>	<u>\$ 361,021,524</u>

CITY OF MODESTO
ALL GOVERNMENTAL FUND TYPES
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year ended June 30, 1992
(With comparative totals for year ended June 30, 1991)

	General	Special Revenue
REVENUES:		
Taxes	\$ 40,622,994	\$ 1,681,673
Licenses and permits	230,777	
Intergovernmental	6,626,977	4,640,413
Charges for services	2,214,112	619,246
Special assessments levied	29,708	
Interest and rent	1,228,014	449,719
Fines and forfeits	495,314	197,041
Miscellaneous	2,799,504	51,016
Total revenues	54,247,400	7,639,108
EXPENDITURES:		
Current:		
General government	8,886,327	
Highways and streets	4,889,450	4,874,748
Public works	3,549,516	1,184,111
Parks and recreation	8,083,421	
Public safety	34,262,451	
Capital outlay		
Debt service:		
Principal retirement		
Interest		
Costs of issuance		64,898
Other		29,012
Total expenditures	59,671,165	6,152,769
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(5,423,765)	1,486,339
OTHER FINANCING SOURCES (USES):		
Operating transfers in (Note L)	7,592,398	61,000
Operating transfers out (Note L)	(1,716,690)	(3,123,174)
Proceeds of capital lease transactions	101,450	
Proceeds of special assessment bonds		982,853
Proceeds of refunding certificates of participation		
Payments to refunded certificates of participation escrow agent		
TOTAL OTHER FINANCING SOURCES (USES)	5,977,158	(2,079,321)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	553,393	(592,982)
Residual equity transfers out (Note L)	(6,455)	
FUND BALANCES, July 1	11,679,342	11,365,135
FUND BALANCES, June 30	\$ 12,226,280	\$ 10,772,153

See independent auditors' report and notes to combined financial statements.

Capital Projects	Debt Service	Totals (Memorandum Only)	
		1992	1991 As restated
\$ 346,218	\$ 744,863	\$ 43,395,748	\$ 41,107,712
774,052	11,104	230,777	150,154
2,506,632		12,052,546	11,395,703
11,689	307,523	5,339,990	6,663,678
916,488	1,528,170	348,920	426,669
		4,122,391	3,509,589
		692,355	1,003,144
<u>173,161</u>		<u>3,023,681</u>	<u>337,299</u>
<u>4,728,240</u>	<u>2,591,660</u>	<u>69,206,408</u>	<u>64,593,948</u>
		8,886,327	9,139,128
		9,764,198	6,918,337
		4,733,627	4,835,945
		8,083,421	7,689,001
		34,262,451	31,425,607
4,745,113		4,745,113	4,152,142
391,276	539,718	930,994	937,404
117,079	2,016,652	2,133,731	1,890,878
	16,829	81,727	407,030
	<u>103,898</u>	<u>132,910</u>	<u>35,180</u>
<u>5,253,468</u>	<u>2,677,097</u>	<u>73,754,499</u>	<u>67,430,652</u>
<u>(525,228)</u>	<u>(85,437)</u>	<u>(4,548,091)</u>	<u>(2,836,704)</u>
692,544	936,544	9,282,486	8,900,524
(196,941)		(5,036,805)	(6,346,642)
484,489		585,939	495,000
		982,853	
			23,514,839
			<u>(22,984,272)</u>
<u>980,092</u>	<u>936,544</u>	<u>5,814,473</u>	<u>3,579,449</u>
454,864	851,107	1,266,382	742,745
(15,446)	(11,932)	(33,833)	(616,977)
<u>12,032,540</u>	<u>4,817,831</u>	<u>39,894,848</u>	<u>39,769,080</u>
\$ <u>12,471,958</u>	\$ <u>5,657,006</u>	\$ <u>41,127,397</u>	\$ <u>39,894,848</u>

CITY OF MODESTO
GENERAL, SPECIAL REVENUE, AND CAPITAL PROJECTS FUND TYPES
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET (GAAP BASIS) AND ACTUAL
Year ended June 30, 1992

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	\$ 41,115,589	\$ 40,622,994	\$ (492,595)
Licenses and permits	180,130	230,777	50,647
Intergovernmental	6,813,394	6,626,977	(186,417)
Charges for services	2,284,892	2,214,112	(70,780)
Special assessments levied	30,269	29,708	(561)
Interest and rent	1,214,264	1,228,014	13,750
Fines and forfeits	470,113	495,314	25,201
Miscellaneous	244,717	2,799,504	2,554,787
Total revenues	<u>52,353,368</u>	<u>54,247,400</u>	<u>1,894,032</u>
EXPENDITURES:			
Current:			
General government	9,458,102	8,886,327	571,775
Highways and streets	5,288,397	4,889,450	398,947
Public works	3,851,510	3,549,516	301,994
Parks and recreation	8,425,658	8,083,421	342,237
Public safety	35,732,365	34,262,451	1,469,914
Capital outlay:			
Debt service:			
Principal retirement			
Interest			
Cost of issuance			
Bond discount			
Total expenditures	<u>62,756,032</u>	<u>59,671,165</u>	<u>3,084,867</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(10,402,664)</u>	<u>(5,423,765)</u>	<u>4,978,899</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	7,638,030	7,592,398	(45,632)
Operating transfers out	(1,787,614)	(1,716,690)	70,924
Proceeds of capital lease transactions	101,450	101,450	
Proceeds of special assessment bonds			
TOTAL OTHER FINANCING SOURCES (USES)	<u>5,951,866</u>	<u>5,977,158</u>	<u>25,292</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(4,450,798)</u>	<u>553,393</u>	<u>5,004,191</u>
Residual equity transfers out	(6,455)	(6,455)	
FUND BALANCES, July 1	<u>11,679,342</u>	<u>11,679,342</u>	
FUND BALANCES, June 30	<u>\$ 7,222,089</u>	<u>\$ 12,226,280</u>	<u>\$ 5,004,191</u>

See independent auditors' report and notes to financial statements.

Special Revenue Fund Types		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 1,847,805	\$ 1,681,673	(166,132)
6,021,819	4,640,413	(1,381,406)
898,732	619,246	(279,486)
349,900	449,719	99,819
300,000	197,041	(102,959)
11,000	51,016	40,016
<u>9,429,256</u>	<u>7,639,108</u>	<u>(1,790,148)</u>
8,566,357	4,874,748	3,691,609
1,806,462	1,184,111	622,351
80,000	64,898	15,102
29,012	29,012	
<u>10,481,831</u>	<u>6,152,769</u>	<u>4,329,062</u>
<u>(1,052,575)</u>	<u>1,486,339</u>	<u>2,538,914</u>
61,000	61,000	
(3,168,175)	(3,123,174)	45,001
814,068	982,853	168,785
<u>(2,293,107)</u>	<u>(2,079,321)</u>	<u>213,786</u>
(3,345,682)	(592,982)	2,752,700
<u>11,365,135</u>	<u>11,365,135</u>	
<u>\$ 8,019,453</u>	<u>\$ 10,772,153</u>	<u>\$ 2,752,700</u>

Capital Projects Fund Types		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 267,671	\$ 346,218	\$ 78,547
1,437,874	774,052	(663,822)
4,361,410	2,506,632	(1,854,778)
	11,689	11,689
637,120	916,488	279,368
17,200	173,161	155,961
<u>6,721,275</u>	<u>4,728,240</u>	<u>(1,993,035)</u>
18,664,325	4,745,113	13,919,212
471,475	391,276	80,199
136,067	117,079	18,988
<u>19,271,867</u>	<u>5,253,468</u>	<u>14,018,399</u>
<u>(12,550,592)</u>	<u>(525,228)</u>	<u>12,025,364</u>
717,994	692,544	(25,450)
(233,894)	(196,941)	36,953
484,489	484,489	
<u>968,589</u>	<u>980,092</u>	<u>11,503</u>
(11,582,003)	454,864	12,036,867
(15,446)	(15,446)	
<u>12,032,540</u>	<u>12,032,540</u>	
<u>\$ 435,091</u>	<u>\$ 12,471,958</u>	<u>\$ 12,036,867</u>

CITY OF MODESTO
ALL PROPRIETARY FUND TYPES
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
Year ended June 30, 1992
(With comparative totals for year ended June 30, 1991)

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Totals (Memorandum Only)</u>	
			1992	1991
OPERATING REVENUES:				
Charges for services	\$ 29,319,699	\$ 4,927,378	\$ 34,247,077	\$ 25,027,912
Sales		5,782,655	5,782,655	4,880,151
Cost of sales		(1,053,340)	(1,053,340)	(840,302)
Total operating revenues	<u>29,319,699</u>	<u>9,656,693</u>	<u>38,976,392</u>	<u>29,067,761</u>
OPERATING EXPENSES:				
Salaries and wages	6,599,876	934,899	7,534,775	6,903,920
Contractual services	3,536,650	649,738	4,186,388	3,554,397
Utilities	2,687,483	76,909	2,764,392	2,513,431
Maintenance and supplies	3,792,851	1,249,873	5,042,724	4,608,373
Insurance	325,835	814,795	1,140,630	1,277,799
Claims expense		2,633,915	2,633,915	3,228,582
Employee benefits	2,057,356	318,541	2,375,897	1,859,823
Administration services	1,430,302	231,244	1,661,546	1,279,292
Other	310,954	17,171	328,125	347,135
Depreciation	4,717,045	1,037,809	5,754,854	5,284,377
Total operating expenses	<u>25,458,352</u>	<u>7,964,894</u>	<u>33,423,246</u>	<u>30,857,129</u>
OPERATING INCOME (LOSS)	<u>3,861,347</u>	<u>1,691,799</u>	<u>5,553,146</u>	<u>(1,789,368)</u>
NONOPERATING REVENUES (EXPENSES):				
Operating grants	1,573,549		1,573,549	1,543,835
Loss on disposition of fixed assets	(72,283)	(27,009)	(99,292)	(34,952)
Taxes	1,787,120		1,787,120	1,473,431
Intergovernmental	24		24	2,024
Interest income	7,936	292,100	300,036	541,483
Rental income	137,898		137,898	128,136
Interest expense	(831,257)	(2,113)	(833,370)	(925,949)
Amortization of bond discount	(26,516)		(26,516)	(26,516)
Amortization of costs of issuance	(12,630)		(12,630)	(12,630)
Total nonoperating revenues (expenses)	<u>2,563,841</u>	<u>262,978</u>	<u>2,826,819</u>	<u>2,688,862</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>6,425,188</u>	<u>1,954,777</u>	<u>8,379,965</u>	<u>899,494</u>
Operating transfers in	525,180		525,180	700,015
Operating transfers out	(4,070,861)	(700,000)	(4,770,861)	(3,253,897)
Total operating transfers in (out)	<u>(3,545,681)</u>	<u>(700,000)</u>	<u>(4,245,681)</u>	<u>(2,553,882)</u>
NET INCOME (LOSS)	2,879,507	1,254,777	4,134,284	(1,654,388)
Depreciation charged to contributed capital	4,144,761	261,068	4,405,829	4,227,173
Increase (decrease) in retained earnings	7,024,268	1,515,845	8,540,113	2,572,785
RETAINED EARNINGS, July 1	<u>30,877,112</u>	<u>5,669,610</u>	<u>36,546,722</u>	<u>33,973,937</u>
RETAINED EARNINGS, June 30	<u>\$ 37,901,380</u>	<u>\$ 7,185,455</u>	<u>\$ 45,086,835</u>	<u>\$ 36,546,722</u>

See independent auditor's report and notes to combined financial statements.

CITY OF MODESTO
ALL PROPRIETARY FUND TYPES
COMBINED STATEMENT OF CASH FLOWS

Year ended June 30, 1992

(With comparative totals for year ended June 30, 1991)

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Totals</u> <u>(Memorandum Only)</u>	
			<u>1992</u>	<u>1991</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	\$ 3,861,347	\$ 1,691,799	\$ 5,553,146	\$ (1,989,798)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Deferred compensation	195,329	26,457	221,786	111,016
Depreciation	4,717,045	1,037,809	5,754,854	4,923,782
Change in assets and liabilities:				
(Increase) in accounts receivable	(1,160,469)	(767,953)	(1,928,422)	(385,653)
(Increase) decrease in inventories		2,431	2,431	(117,322)
Decrease in prepaid expenses	126,444		126,444	12,840
Increase (decrease) in accounts payable	(289,573)	(101,697)	(391,270)	988,989
(Decrease) in deferred revenue	(140)		(140)	(888)
Increase (decrease) in accrued vacation and sick leave	(8,235)	21,545	13,310	371,531
Increase (decrease) in refundable deposits	(10,692)		(10,692)	20,865
Total adjustments	<u>3,569,709</u>	<u>218,592</u>	<u>3,788,301</u>	<u>5,925,160</u>
Net cash provided by operating activities	<u>7,431,056</u>	<u>1,910,391</u>	<u>9,341,447</u>	<u>3,935,362</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Net borrowings (repayments) of amounts due to other funds	(579,000)		(579,000)	(440,000)
Taxes and homeowners' property tax relief funds received	2,365,143		2,365,143	1,393,286
Taxes paid	(607)			
Rental income received	137,898		137,898	465,590
Operating subsidies received	1,824,563		1,824,563	1,639,480
Connection fees received	840,452		840,452	3,770,504
Operating transfers in				622,276
Operating transfers out	(3,545,681)	(700,000)	(4,245,681)	(3,450,711)
Residual equity transfers out	(618,064)		(618,064)	(257,776)
Net cash provided by (used for) noncapital financing activities	<u>424,704</u>	<u>(700,000)</u>	<u>(274,689)</u>	<u>3,742,649</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of fixed assets	(4,757,178)	(1,439,807)	(6,196,985)	(9,270,983)
Proceeds from sale of fixed assets		61,786	61,786	49,481
New interfund loans and advances		51,000	51,000	137,402
Repayments of interfund loans and advances				(472,972)
Principal repayments	(2,695,000)	(65,000)	(2,760,000)	(942,051)
Interest paid	(1,277,924)	(2,113)	(1,280,037)	(1,036,581)
Capital grants received	3,769,216		3,769,216	3,084,003
Residual equity transfers in	33,833	618,064	651,897	8,247,445
Net cash used for capital and related financing activities	<u>(4,927,053)</u>	<u>(776,070)</u>	<u>(5,703,123)</u>	<u>(204,256)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	84,066	292,100	376,166	683,910
Payments to deferred compensation fund	(191,525)	(26,457)	(217,982)	(111,016)
Net cash provided by (used for) investing activities	<u>(107,459)</u>	<u>265,643</u>	<u>158,184</u>	<u>572,894</u>
Net increase in cash and cash equivalents	2,821,248	699,964	3,521,212	8,046,649
CASH AND CASH EQUIVALENTS, JULY 1	<u>9,563,197</u>	<u>6,691,479</u>	<u>16,254,676</u>	<u>11,018,565</u>
CASH AND CASH EQUIVALENTS, JUNE 30	\$ <u>12,384,445</u>	\$ <u>7,391,443</u>	\$ <u>19,775,888</u>	\$ <u>19,065,214</u>

(continued)

See independent auditors' report and notes to combined financial statements

CITY OF MODESTO
ALL PROPRIETARY FUND TYPES
COMBINED STATEMENT OF CASH FLOWS (continued)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES
Year ended June 30, 1992

	<u>Enterprise</u>	<u>Internal Service</u>
Fixed asset additions accrued at year end	869,325	
Fixed assets deleted	27,547	865,177
Fixed assets transferred to other funds and General Fixed Assets	290,336	2,793
Contributions of fixed assets from other funds and General Fixed Assets	171,755	241,942
Fixed assets acquired by capital lease transactions	101,000	
Interest expense on revenue bonds accrued at year end	129,601	
Capital grants accrued at year end	414,124	
Operating grants accrued at year end	1,343,627	
Interest expense on Public Financing Authority Certificates of Participation accrued and capitalized	77,365	

**NOTES TO
COMBINED
FINANCIAL STATEMENTS**

THESE NOTES ARE AN INTEGRAL PART OF THE COMBINED STATEMENTS

CITY OF MODESTO

NOTES TO COMBINED FINANCIAL STATEMENTS

Year ended June 30, 1992

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

The City of Modesto was incorporated in 1884 and operates under a Council-Manager form of government as authorized by its charter adopted in 1951. The City Council consists of seven elected members. The following services are provided by the City to its citizens: Public safety (police and fire), highways and streets, sanitation, health and social services, culture, recreation, education, public improvements, planning and zoning, and general administrative services.

These financial statements present the financial status of the City of Modesto and its component units. The component units discussed in the following paragraphs are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

1. The Redevelopment Agency of the City of Modesto was established by the City as a separate legal entity in accordance with state law. The purpose of the Agency is to acquire, rehabilitate, and revitalize property within legally designated redevelopment areas.

2. The Modesto Public Financing Authority was established as a separate legal entity whose sole purpose is to provide financing for various City capital projects. To date, the Authority has issued certificates of participation for airport terminal expansion and construction of a championship caliber eighteen hole golf course.

3. The Modesto Municipal Sewer District is a separate legal entity formed under the Municipal Sewer and Water Facilities Law of 1911. The purpose of the District is to provide financing for needed sewerage facilities in the Modesto urban area.

Although all three component units are legally separate from the City, they are reported as part of the primary government because their boards consist of all seven members of the City Council. In addition, they provide services and financing for the sole benefit of the City of Modesto.

The joint ventures described in Note S are not considered part of the reporting entity because the City does not have primary responsibility for their operations.

Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of funds and account groups. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

In the financial statements in this report, the various funds are grouped into seven generic funds within three broad fund types, and a fourth category of accounting entities, the account groups. They are as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than grants for major capital projects) that are legally restricted to expenditures for specific purposes.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations that are financed in a manner similar to private business enterprises in that the costs of providing goods and services to the general public on a continuing basis are financed or recovered partly through user charges. The City accounts for the operations of its airport, sewer and water systems, parking, bus service, golf courses, and community center operations on this basis.

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one City department to other departments on a cost reimbursement basis including purchasing (supplies), services from the equipment pool and store's inventory, and self-insurance costs for workers' compensation and general liability.

Fiduciary Funds

Agency Funds - Agency Funds are used to account for assets held by the City in an agent capacity. Agency Funds are custodial in nature (assets equal liabilities).

Account Groups

General Fixed Assets Account Group - The General Fixed Assets Account Group is used to maintain accounting control and accountability for the City's investment in land, buildings and equipment which is not accounted for in a Proprietary Fund.

General Long-Term Debt Account Group - Long-term liabilities expected to be financed from governmental funds are accounted for in this account group, not in the Governmental Funds. Long-term liabilities directly related to Proprietary and Fiduciary Funds are accounted for in those funds.

Basis of Accounting

All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available to finance the expenditures of the current period (susceptible to accrual). Major revenue sources susceptible to accrual include substantially all property, sales and gas taxes, interest, special assessments levied, state and federal grants and charges for current services. Revenues from licenses, permits, fines and forfeits are recorded as received. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year.

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Unbilled utility service receivables are recorded at year-end, using actual amounts billed in July for June services.

Measurement Focus

All governmental funds are accounted for using a current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds are accounted for on a flow of economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Budgetary Policies

Budget Accounting -

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first City Council meeting in May, the City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget during May and early June at specially scheduled sessions which are open to the public. The Council also conducts a public hearing on the proposed budget in early June to obtain comments from interested persons. All meetings are held in the Council Chambers at City Hall.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer funds within departmental budgets between major object classifications and between capital projects in the same fund. The City Council is authorized to transfer funds between departments and from the reserved fund balances for specific purposes.
5. Budgets for the General, Special Revenue and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgetary comparisons presented in this report are on this budgetary basis.
6. Budgeted amounts are reflected after all applicable amendments and revisions.
7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the activity level. The legal appropriation basis is at the level called "department." A "department" for legal appropriation purposes may be a single organization (e.g., City Attorney), or a division of a large department having multiple organizations (e.g., Recreation Division), or an entire department having multiple organizations (e.g., Finance Department), or an entire fund (e.g., Special Fund for Capital Outlay). All departments/divisions and funds completed the year within their legally authorized expenditures.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded as an extension of formal budgetary integration, is employed in the General, Special Revenue and Capital Projects Funds. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities. The City does, however, honor the contracts represented by year-end encumbrances and the subsequent year's appropriations provide authority to complete these transactions. Budget appropriations lapse at the end of the fiscal year.

Inventories

Inventories of material and supplies held by the Enterprise and Internal Service Funds are stated at average cost. Materials and supplies used by governmental funds are recorded as an expenditure at the time they are purchased or obtained from the Internal Service Funds.

Land, Buildings and Equipment

Land, buildings and equipment owned by Enterprise and Internal Service Funds are stated at historical cost where available and at estimated historical cost when original cost is not available. Depreciation is recorded using the straight line method over the estimated useful lives of the assets which are 30 years for buildings, 20 years for improvements, 10 years for furnishings and equipment and 75 years for pipelines. Operating expenses include depreciation on all depreciable fixed assets. Depreciation recognized on assets acquired or constructed through resources externally restricted for capital acquisition is closed to contributed capital.

Land, buildings and equipment of the General Fixed Assets Account Group are stated at historical cost, except that estimated historical cost is used when original cost is not available. Donated assets are stated at estimated market value at date of donation.

Capital leases are recorded as an asset and an obligation at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term.

Depreciation is not recorded for general fixed assets. Public domain fixed assets such as roads, bridges, curbs, gutters, streets, sidewalks and similar assets that are immovable and of value only to the City are not recorded in the General Fixed Assets Account Group and are expenditures when constructed.

Property Tax Revenue Recognition

Property tax revenue is recognized in the current year based on the tax levied October 1, which is determined on assessed value of property as of the lien date, March 1, of the preceding fiscal year. Property tax installments, due on December 10 and April 10, are collected by the County of Stanislaus and remitted to the City. Of current property taxes, 94.5 percent was received before June 30, 1992, and 1.2 percent has been collected subsequently as delinquent taxes.

Interfund Transactions

The City transfers resources among funds in the course of normal operations. Quasi-external transactions, such as equipment pool rental, are accounted for as revenues, expenditures or expenses. Transactions to reimburse a fund for expenditures/expenses initially made from it that are applicable to another fund are recorded as expenditures/expenses in the correct fund and as reductions of expenditures/expenses in the original fund. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Transfers of land, buildings and equipment into the Proprietary Funds (where the assets were originally purchased by the Governmental Funds) or between Proprietary Funds are recorded as contributed capital in the Proprietary Funds and as residual equity transfers out in the related Governmental Funds. Other nonrecurring or nonroutine permanent transfers of equity are also reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Cash and Cash Equivalents

All City monies are invested in a cash and investment pool, whereby funds can spend cash at any time without prior notice or penalty. Therefore, for purposes of the statement of cash flows, all proprietary fund cash on hand and investments in the pool (including restricted assets) are considered cash and cash equivalents.

Grant Accounting

Grants, entitlements or shared revenues are recorded as revenue in the General, Special Revenue and Capital Projects Funds when they are received or susceptible to accrual. Grants awarded for Proprietary Fund operating purposes are recorded as nonoperating revenues when they are earned and are measurable. Grants awarded to Proprietary Funds which are restricted to the acquisition or construction of capital assets are recorded as contributed capital when earned. The total amount due from governments for grants, entitlements, and shared revenues at 6/30/92 is \$4,422,431.

Compensated Absences

Liabilities for accumulated vacation and 25 percent of the accumulated sick leave amount, payable upon termination, are accrued for governmental and proprietary fund types. Higher percentages of sick leave balances are accrued for employees eligible to retire because they may elect to have 80 to 90 percent applied to the payment of health insurance premiums after retirement. For governmental fund types, the liability is expected to be liquidated with future resources and not with expendable available financial resources. Therefore, the liability is recognized in the General Long-Term Debt Account Group. The accrued vacation and sick leave for proprietary fund types is considered to be a current liability, with the annual net change recognized as an adjustment of salaries and wages on the statement of revenues and expenses. Nonvesting sick leave benefits payable due to illness of the employee are expenditures when paid.

Post-Employment Health Care Benefits

In addition to the pension benefits described in Note T, the City provides health care benefits to employees who retire from the City, under contractual agreements with all employee groups. All full-time employees may elect to have 80 to 90 percent of accumulated sick leave upon retirement held by the City for the purpose of paying future health care premiums to a choice of 4 insurance plans. The amount is charged against the retiree's organization budget at the time of retirement. The City has no obligation to pay premiums for retirees with no accumulated sick leave. The estimated liability for future premiums under this plan is \$1,209,034, and is included in the General Long Term Debt Account Group and Proprietary Funds compensated absences balances.

The City also incurs post-retirement health care costs due to claims by retirees who elect the City's self-insured health plan. These expenses are recognized as retirees file claims. During the year ended June 30, 1992, expenses of \$62,145 were recognized in the Self-Insurance Fund for post-retirement health care. These benefit costs decrease at age 65 when retirees become eligible for Medicare, and the City becomes the supplemental provider. As of June 30, 1992, 33 retirees were participating in the self-insured plan.

Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregations of this data.

Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

B. RESTATEMENT OF BEGINNING FUND BALANCE

In previous years, the City included the Stanislaus Drug Enforcement Agency as part of its reporting entity. Effective this year, pursuant to guidance contained in Statement Number 14 of the Governmental Accounting Standards Board, the Agency will be treated as a joint venture with appropriate disclosures in note S. The retroactive effect of this change in the reporting entity on the June 30, 1991 financial statements is shown below.

	Excess of Revenues Over (Under) Expenditures	Excess of Revenues and Other Sources Over (Under) Expen- ditures and Other Uses	Fund Balance
Special Revenue Funds:			
As previously reported, June 30, 1991	\$3,505,291	\$394,574	\$11,461,309
Change in reporting entity - eliminate SDEA fund	65,460	65,460	(96,174)
As restated, June 30, 1991	<u>\$3,570,751</u>	<u>\$460,034</u>	<u>\$11,365,135</u>

C. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "cash and cash equivalents". The City also maintains "Cash and cash equivalents with fiscal agent" which represent monies held by fiscal agents for payment of various City debt and capital project costs. The fiscal agents invest these monies in investments authorized by the City. For purposes of the statement of cash flows, all investments with fiscal agent are considered cash and cash equivalents because they are highly liquid and have maturities of three months or less. The assets of the Deferred Compensation Fund are held separately from those of other City funds.

Cash and investments at June 30, 1992 consist of:

Cash on hand	\$ 3,412
Deposits:	
Banks:	
Demand accounts	745,118
Certificates of deposit	9,276,494
Savings and loan associations:	
Certificates of deposit	2,492,000
Other financial institutions:	
Negotiable certificates of deposit	1,010,630
	<hr/> 13,527,654 <hr/>
Investments:	
Commercial paper	1,000,000
Bankers acceptances	8,443,996
Repurchases	10,698,000
Government securities	531,496
	<hr/> 20,673,492 <hr/>
California Local Agency Investment Fund	15,229,594
Cash and investments with fiscal agent	7,396,294
Deferred compensation	26,481,771
	<hr/>
Total cash and investments	<hr/> \$83,308,805 <hr/>

Cash and investments are reported on the combined balance sheet as follows:

Cash and cash equivalents	\$47,506,752
Cash and cash equivalents with fiscal agent	7,396,294
Restricted assets - cash and cash equivalents	28,405,759
	<hr/>
Total cash and investments	<hr/> \$83,308,805 <hr/>

Deposits

All deposits are entirely insured and/or collateralized. At year-end, the reconciled book balance of the City's deposits was \$19,335,876 and the bank balance was \$20,635,648. Of the bank balance, \$6,409,051 was covered by federal depository insurance or collateral held by the City's agent in the City's name, \$9,708,519 was covered by collateral held in the pledging bank's trust department in the City's name, and \$4,518,078 was collateralized by securities not held in the City's name.

Investments

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit, bankers' acceptances, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, local agency investment fund demand deposits, and the State Treasurer's investment pool. Investments are stated at cost, except for investments in the deferred compensation agency fund which are reported at market value.

The City's investments are categorized in the following table to give an indication of the level of risk associated with each investment at year-end. Category one includes investments that are insured or registered, or securities held by the City or its agent in the City's name. Category two includes uninsured and unregistered investments, with securities held by the pledging financial institution's trust department or agent in the City's name. Category three includes uninsured and unregistered securities held by the pledging financial institution's trust department or agent but not in the City's name. The table also includes cash and investments not subject to categorization.

	Category			Carrying Amount	Market Value
	One	Two	Three		
Investments:					
Commercial paper			\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Bankers' acceptances		\$6,409,127	2,034,869	8,443,996	8,534,869
Repurchases			10,698,000	10,698,000	10,698,000
Government securities	\$531,496			531,496	554,000
Total investments	531,496	6,409,127	12,732,869	20,673,492	20,809,373
Investments with fiscal agent:					
Certificates of deposit			13,814	13,814	13,814
Commercial paper			294,400	294,400	291,867
Government securities			1,276,446	1,276,446	1,952,500
Total investments with fiscal agent			1,584,660	1,584,660	2,258,181
Grand total investments	\$531,496	\$6,409,127	\$14,317,529	21,258,152	23,067,554
Deposits:					
General city deposits				13,524,242	13,524,242
Deposits with fiscal agent				5,811,634	5,811,634
Total deposits				19,335,876	19,335,876
Cash on hand				3,412	3,412
California Local Agency Investment Fund				15,229,594	15,229,594
Deferred compensation				26,481,771	26,481,771
Total cash and investments				\$83,308,805	\$84,118,207

D. LAND, BUILDINGS AND EQUIPMENT

A summary of changes in general fixed assets is presented below:

	Balance July 1, 1991	Additions	Deletions	Transfers	Balance June 30, 1992
Land	\$ 9,868,531	\$1,472,334			\$11,340,865
Buildings	10,786,725	194,354			10,981,079
Improvements other than buildings	14,213,430	597,394	\$ 1,402	\$498,370	15,307,792
Furnishings and equipment	9,895,525	1,237,807	293,862		10,839,470
Equipment pool	72,355	24,290	49,967		46,678
Construction in progress	1,134,019	943,297	50,710	(498,370)	1,528,236
	<u>\$4,970,585</u>	<u>\$4,469,476</u>	<u>\$395,941</u>		<u>\$50,044,120</u>

The City has entered into contracts for the construction or renovation of various facilities as follows:

	Project Authorization	Expended to Date	Remaining Commitment Under Contract
Fire Department: Improvements	\$ 38,000	\$ 33,053	
Police Department: New Structure	775,801	728,247	
Parks: Land Improvements	588,000 2,668,529	3,588 763,348	\$155,711
	<u>\$4,070,330</u>	<u>\$1,528,236</u>	<u>\$155,711</u>

Land, buildings and equipment of Proprietary Fund types at June 30, 1992, include:

	Enterprise	Internal Service
Land	\$ 21,990,123	\$ 270,692
Buildings	43,049,865	695,066
Improvements other than buildings	53,420,253	2,488,113
Equipment pool		10,576,353
Furnishings and equipment	1,808,385	330,338
Buses	4,799,213	
Pipelines	55,166,538	
Construction in progress	9,409,312	254,067
	<u>189,643,689</u>	<u>14,614,629</u>
Less accumulated depreciation	(31,590,335)	(7,357,978)
	<u>\$158,053,354</u>	<u>\$ 7,256,651</u>

E. LONG TERM DEBT

Special Assessment Debt with Government Commitment

1915 Act Special Assessment Bonds; interest rates range from 5.75% to 10.75%, maturities range through 2005.

\$3,741,430

The general credit of the City is obligated only to the extent that liens foreclosed against properties involved in the special assessment districts are insufficient to retire outstanding bonds.

Sewer Revenue Bonds

City of Modesto Wastewater Treatment Facility Refunding Revenue Bonds, Series 1987; interest from 5.8% to 8.0% payable semi-annually on May 1 and November 1, in amounts from \$385,000 to \$595,000, final payment of \$6,515,000 due November 1, 2007; interest and principal payable solely from the net revenues from the operation of the sewer enterprise; bonds maturing on or after November 1, 1997, are subject to call.

10,350,000

Less current portion

(385,000)

Less unamortized bond discount

(409,897)

\$ 9,555,103

Certificates of Participation

Redevelopment Agency of the City of Modesto Refunding Certificates of Participation; serial certificates with annual maturities on November 1, 1991, in amounts from \$500,000 to \$860,000; interest rates from 4.75% - 6.20%; term certificates at 6.50% in the amount of \$5,190,000 maturing November 1, 2007, and in the amount of \$12,345,000 at 6.00% maturing November 1, 2015.

\$24,780,000

Capital Improvement Projects Certificates of Participation; serial certificates with annual maturities on July 1, in amounts from \$90,000 to \$125,000; interest rates from 5.6% to 6.5%; term certificates at 7% in the amount of \$1,140,000 maturing July 1, 2004, and in the amount of \$2,110,000 at 7.25% maturing July 1, 2011.

3,895,000

Modesto Public Financing Authority Certificates of Participation (Golf Course Project); serial certificates with annual maturities beginning November 1, 1992, in amounts from \$95,000 to \$175,000; interest rates from 5.90% to 7.1%; term certificates at 7.2% in the amount of \$1,035,000 maturing November 1, 2010, and in the amount of \$3,560,000 at 7.3% maturing November 1, 2020.

6,570,000

Modesto Public Financing Authority Certificates of Participation (Airport Improvements Project); annual maturities on December 1, in amounts from \$125,000 to \$195,000; interest rates from 6.65% to 7.4%; final payment December 1, 1999.

1,255,000

\$36,500,000

The following is a summary of changes in the general long-term debt account group for the fiscal year ended June 30, 1992:

	July 1, 1991	Additions	Reductions	June 30, 1992
Special assessment debt	\$ 2,928,296	\$ 982,853	\$ 169,719	\$ 3,741,430
Obligations under capital leases	1,633,077	585,939	391,275	1,827,741
Obligations for compensated absences (Note A)	5,540,738	602,999	460,274	5,683,463
Certificates of participation	36,870,000		370,000	36,500,000
	<u>\$46,972,111</u>	<u>\$ 2,171,791</u>	<u>\$ 1,391,268</u>	<u>\$47,752,634</u>

Debt service requirements of long-term debt are summarized as follows (see Note F for capital leases):

Principal Maturities					
Year Ending June 30	Special Assessment Debt	Sewer Revenue Bonds	Certifi- cates of Partici- pation	Interest	Total Debt Service
1993	\$ 202,379	\$ 385,000	\$ 855,000	\$ 3,352,221	\$ 4,794,600
1994	249,526	405,000	905,000	3,252,479	4,812,005
1995	269,525	430,000	955,000	3,153,412	4,807,937
1996	280,000	455,000	1,005,000	3,045,530	4,785,530
1997	300,000	490,000	1,060,000	2,729,039	4,579,039
Later years	2,440,000	8,185,000	31,720,000	28,777,009	71,122,009
	<u>3,741,430</u>	<u>10,350,000</u>	<u>36,500,000</u>	<u>44,309,690</u>	<u>94,901,120</u>
Less un- amortized bond discount		(409,897)			(409,897)
Less current portion		(385,000)			(385,000)
	<u>\$3,741,430</u>	<u>\$ 9,555,103</u>	<u>\$36,500,000</u>	<u>\$44,309,690</u>	<u>\$ 94,106,223</u>

F. LEASES

The City leases fire trucks, computer equipment and copiers under capital lease agreements. The related liabilities are included in obligations under capital leases in the general long-term debt account group. The following is a schedule of the future minimum lease payments on capital leases as of June 30, 1992:

Year Ending June 30	
1993	598,895
1994	598,895
1995	462,445
1996	327,420
1997	135,234
	<hr/>
Total	2,122,889
Less interest	(295,148)
	<hr/>
Present value of net minimum lease payments	\$1,827,741
	<hr/>

Rental expenses incurred under operating leases are not material.

Leases - Enterprise Fund

The City leases a storm drain vector truck under a lease/purchase agreement. The following is a schedule of the future minimum lease payments on this capital lease as of June 30, 1992:

Year ending June 30	
1993	\$ 54,636
1994	54,636
	<hr/>
Total minimum lease payments	109,272
Less interest	(8,272)
	<hr/>
Present value of net minimum lease payments	101,000
Less current portion	(48,898)
	<hr/>
Long-term portion of capital lease	\$ 52,102
	<hr/>

G. PRIOR-YEAR DEFEASANCE OF DEBT

Revenue Bonds

In 1985, the City defeased Wastewater Treatment Facility Bonds by issuing refunding bonds. In 1987, the 1985 Refunding Revenue Bonds were also defeased. The proceeds of both refunding issues were placed in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the City's financial statements. At June 30, 1992, \$19,965,000 of bonds outstanding are considered defeased.

Certificates of Participation

In 1991, the Redevelopment Agency of the City of Modesto issued refunding Certificates of Participation. The proceeds were used to purchase U.S. Government securities, which were deposited in an irrevocable trust to provide for all future debt service requirements of the 1987 Certificates of Participation. As of June 30, 1992, certificates of participation in the amount of \$20,975,000 are considered defeased, and are not included in the general long term debt account group.

H. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consist of the following:

	<u>Receivables</u>	<u>Payables</u>
General Fund	\$6,843,412	
Special Revenue Funds:		
Housing and Community Development	74,050	\$ 562,151
Capital Projects Funds:		
Special Fund for Capital Outlays	1,100,000	
Capital Facility Fees		268,761
State Parks and Recreation		130,000
Redevelopment Agency		7,517,550
Revenue Sharing	1,000,000	
Enterprise Funds:		
Water	418,574	
Sewer		418,574
Airport		100,000
Golf		88,000
Internal Service Funds:		
Purchasing Revolving		351,000
	<u>\$9,436,036</u>	<u>\$9,436,036</u>

I. NOTES RECEIVABLE

The notes receivable in the Housing and Community Development Special Revenue Fund of \$6,238,150, net of \$122,532 reserve for doubtful accounts, consist of loans made for low income housing rehabilitation, property improvement and small business origination. The loans are collateralized by deeds of trust on the improved properties, are generally interest free with the exception of a small number of direct loans bearing annual interest at 3 and 5 percent and, with a few exceptions, require no repayment of principal until the loans reach their 20-year maturity dates.

The General Fund notes receivable of \$294,089 consist of small business loans originally loaned by the Housing and Community Development Special Revenue Fund. These notes were determined to be ineligible for federal grant funds; therefore, the General Fund purchased them from the Housing and Community Development Fund.

J. LOANS PAYABLE

The loans payable in the Housing and Community Development Special Revenue Fund of \$14,722 consist of amounts being held for rehabilitation of properties using funds provided by federal grants. The liability is expected to be liquidated within one year.

K. SELF-INSURANCE

The City is self-insured for workers' compensation, liability, employee disability, health care, and dental care. Operating funds are charged premiums and the Self-Insurance Internal Service Fund recognizes the corresponding revenue. Claims expenses are recorded in the Self-Insurance Fund.

For all self-insured risks except dental care, the City carries insurance policies which limit the City's losses. Employees may elect health insurance plans other than the self-insured program. Approximately two-thirds of the City's employees are covered under the self-insured health and dental plan.

At June 30, 1992 accrued self-insurance claims liabilities for workers' compensation, liability, health care, and dental care are \$3,550,658, \$750,000, \$82,383, and \$29,239, respectively. These accruals represent estimates of amounts to be paid for reported and incurred but not reported claims. Management and the City's legal counsel anticipate there will be no material affect on the financial statements beyond these amounts.

L. INTERFUND TRANSFERS

The following is a schedule of interfund transfers which have been accounted for as either contributions to capital, operating transfers or residual equity transfers.

Fund	Transfers In	Transfers Out
Operating transfers:		
General Fund	\$7,592,398	\$1,716,690
Special Revenue Funds:		
Local Transportation		1,550,000
Traffic Safety		255,000
Special Gas Tax Street Improvements	61,000	1,186,174
Housing and Community Development		132,000
Capital Projects Funds:		
Special Fund for Capital Outlay	632,501	84,653
Capital Facility Fees		76,020
Parks	9,775	
Parks and Recreation Facilities	50,268	
State Parks and Recreation		32,268
Redevelopment Agency		4,000

(continued)

Fund	Transfers In	Transfers Out
Operating transfers (Continued):		
Debt Service Funds:		
Redevelopment Agency	\$ 311,765	
Capital Improvement Projects	367,080	
Improvement Districts	142,699	
Public Financing Authority	115,000	
Enterprise Funds:		
Parking		55,023
Water		906,411
Sewer		2,714,839
Airport		115,000
Bus		32,500
Golf		247,088
Community Center	525,180	
Internal Service Funds:		
Service Working Capital		700,000
Total operating transfers	9,807,666	9,807,666
Residual equity transfers:		
General Fund		6,455
Capital Projects Funds:		
Special Fund for Capital Outlay		15,446
Debt Service Funds:		
1953 Sewer Bond		11,932
Residual equity transfers closed to contributed capital (Note P):		
Enterprise Funds:		
Water		138,461
Sewer	11,932	453,253
Airport	15,446	
Bus		11,350
Golf		15,000
Community Center	6,455	
Internal Service Funds:		
Service Working Capital	618,064	
Total residual equity transfers	651,897	651,897
Total interfund transfers	\$10,459,563	\$10,459,563

M. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

	Parking	Water	Sewer	Airport	Bus	Golf	Community Center	Total
Operating revenues	\$ 275,128	\$ 8,187,706	\$16,683,092	\$ 456,928	\$ 1,096,096	\$1,966,549	\$ 654,200	\$ 29,319,699
Depreciation	78,104	489,732	2,851,314	209,772	326,664	16,866	744,593	4,717,045
Operating income (loss)	(43,298)	3,466,355	5,029,019	(292,381)	(3,608,028)	565,894	(1,256,214)	3,861,347
Operating grants					1,573,549			1,573,549
Tax revenues			2,161	60,181	1,725,385			1,787,727
Net income (loss)	(98,928)	2,557,585	1,488,343	(327,560)	(326,664)	318,806	(732,075)	2,879,507
Current capital contributions	2,068	458,272	550,589	370,418	270,803	2,624	13,978	1,668,752
Property, plant and equipment:								
Net changes	2,068	1,799,956	2,074,697	608,584	256,171	1,304,427	12,315	6,058,218
Net working capital	293,992	3,119,401	5,976,368	663,077	102,958	323,541	17,509	10,496,846
Total assets	3,460,716	28,264,661	94,608,957	7,215,634	9,369,954	7,558,680	26,050,427	176,529,029
Bonds and other long-term liabilities			9,607,205					9,607,205
Total equity	3,449,744	27,356,205	82,967,432	6,852,856	5,779,040	6,625,000	26,007,949	159,038,226

N. DEFICIT FUND BALANCE

The Redevelopment Agency deficit of \$7,507,779 originates because the operations of this fund have been financed through loans from the General Fund, Housing and Community Development Fund, and Special Fund for Capital Outlay. It is the intent of the Redevelopment Agency to repay these loans from future tax increment and operating revenue.

O. RESERVES AND DESIGNATIONS OF FUND BALANCE AND RETAINED EARNINGS

Reserves of fund balance and retained earnings represent those amounts which are not appropriable for expenditure in future periods or which are legally segregated for specific future uses. Fund designations indicate tentative plans for future utilization of financial resources. The City's reserves and designations at June 30, 1992, are summarized below, followed by descriptions of each reserve and designation.

Reserves	General Fund	Special Revenue Funds	Capital Projects Funds	Enterprise Funds	Internal Service Funds
Encumbrances	\$ 934,936	\$ 843,746	\$1,948,508		
Interfund loans	5,712,261	74,050	2,100,000		
Petty cash	2,730				
Loan programs	294,089	6,238,150			
Prepaid expenditures	103,764	46,352			
Interfund advances	351,000				
Other reserves				\$9,960,220	\$3,530,838
Total reserves	\$7,398,780	\$7,202,298	\$4,048,508	\$9,960,220	\$3,530,838

Designations	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds
Carryover projects		\$1,885,211	\$11,104,758	
Pending projects		1,786,442	4,845,950	
Operating contingencies	\$ 4,827,500			
Debt service				\$5,657,006
Total designations	\$4,827,500	\$3,671,653	\$15,950,708	\$5,657,006

1. Reserve for encumbrances - Amounts reserved for encumbrances represent the total of outstanding purchase orders and contracts which are scheduled for reappropriation in the next fiscal year.
2. Reserve for interfund loans - The City reserves an amount in each fund which has outstanding loans to other funds.
3. Reserve for petty cash - An amount equal to the City's petty cash account is reserved in the General Fund because it is available only for petty cash purposes.
4. Reserve for loan programs - Amounts equal to the outstanding housing program and small business notes receivable are reserved in the Housing and Community Development Fund and the General Fund.
5. Reserve for prepaid expenditures - An amount equal to prepaid expenditures has been reserved to indicate that such assets do not represent available expendable financial resources.
6. Reserve for interfund advances - The City reserves an amount in each fund which has outstanding advances to other funds.
7. Other reserves - The City reserves retained earnings in the Enterprise and Internal Service Funds to provide financing for current and future capital projects, and to help cover claims within the self-insurance retention limits.
8. Designation for carryover projects - Designations for carryover projects represent capital projects appropriated in the current fiscal year which have not been completed and are to be carried forward to the following year.
9. Designation for pending projects - Designations for pending projects are established to fund projects approved but not yet appropriated.
10. Designation for operating contingencies - The remainder of the unreserved fund balances at June 30, 1992, in the General and Special Revenue Funds have been designated for operating contingencies.
11. Designation for debt service - The total fund balances of the debt service funds are designated for future debt service requirements.

P. CONTRIBUTED CAPITAL

Enterprise and Internal Service Funds record the following as contributed capital: Cash transfers of equity from other funds, grants awarded for the acquisition of land, buildings and equipment, such assets contributed from other funds, sewer and water connection fees and contributions from developers. The following schedule shows changes in contributed capital during the fiscal year ending June 30, 1992:

Enterprise Funds

	Parking	Water	Sewer	Airport	Bus	Golf	Community Center	Total
Balance								
June 30, 1991	\$1,588,098	\$13,780,664	\$64,624,444	\$6,443,207	\$5,769,310	\$5,909,584	\$26,724,159	\$124,839,466
Additions:								
Capital grants				354,864	267,848			622,712
Equity transfers			11,932	15,446			6,455	33,833
Fixed asset donations	2,068	25,353	131,124	108	2,955	2,624	7,523	171,755
Connection fees		432,919	407,533					840,452
	2,068	458,272	550,589	370,418	270,803	2,624	13,978	1,668,752
Deductions:								
Depreciation	(78,104)	(414,803)	(2,368,264)	(209,263)	(326,664)	(3,070)	(744,593)	(4,144,761)
Equity transfers out		(138,461)	(453,253)		(11,350)	(15,000)		(618,064)
Fixed asset donations			(167,700)			(58,527)		(226,227)
Reduction in capital grants			(382,320)					(382,320)
	(78,104)	(553,264)	(3,371,537)	(209,263)	(338,014)	(76,597)	(744,593)	(5,371,372)
Balance								
June 30, 1992	\$1,512,062	\$13,685,672	\$61,803,496	\$6,604,362	\$5,702,099	\$5,835,611	\$25,993,544	\$121,136,846

The reduction in sewer fund capital grants is due to a change in the amount originally estimated as qualifying expenses for the wastewater treatment plant expansion.

Internal Service Funds

	Service Working Capital
Balance June 30, 1991	\$2,910,063
Additions:	
Equity transfers	618,064
Fixed asset donations	263,865
	881,929
Deductions:	
Depreciation	(261,068)
Balance June 30, 1992	\$3,530,924

Q. COMMITMENTS AND CONTINGENCIES

The City is involved in litigation relating to tort claims, workers' compensation claims and other claims such as contract actions and inverse condemnation actions for which the City is self-insured. Management and the City's legal counsel anticipate there will be no material affect on the financial statements beyond the amounts accrued in the Self-Insurance Internal Service Fund (Note K).

The City receives funding from a number of federal, state and local grant programs, principally the Environmental Protection Agency, State Water Resources Control Board, Community Development Block Grants, Revenue Sharing and Urban Mass Transportation Administration grants. These programs are subject to financial and compliance review by the grantors. Accordingly, the administering agency's compliance with applicable grant requirements will be determined at some future date. In April 1992, the City entered into a 5 year, \$2.2 million contract for bus services with Laidlaw Transit. Except for this amount, expenditures, if any, which may be disallowed by the granting agencies cannot be determined at this time. The City does not expect the undeterminable amounts of disallowed expenditures, if any, to materially affect the financial statements. Receipt of these federal, state and local grant revenues is not assured in the future.

R. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. All salaried employees of the City, except fire and police officers, defer two percent of their gross compensation. The City contributes an additional percentage of each covered employee's compensation, with the matching rate dependent on length of service. In addition, all salaried employees are permitted to defer a portion of their salary under the voluntary deferred compensation plan. Beginning July 1, 1991, all part time employees are required to defer 3.75 percent of their wages, with the City contributing a like amount. This program for part time employees is in lieu of mandatory social security contributions. Deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the plan), subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

The City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The market value of the City's liability under the deferred compensation plan as of June 30, 1992 amounted to \$26,481,771.

S. JOINT VENTURES

Tuolumne River Regional Park

The City participates with Stanislaus County and the City of Ceres in the operation and development of the Tuolumne River Regional Park (TRRP). The governing body consists of 2 members from each city council and the county board of supervisors. The TRRP board prepares the annual budget, which must be approved by both cities' councils and the board of supervisors. Each participant has an equity interest in the assets of the Park based on the percentage of cumulative contributions paid. As of June 30, 1992, the City's equity interest is \$730,229, and is reported in the General Fixed Assets Account Group. Financial statements for TRRP are prepared by the City of Modesto finance department.

Stanislaus Drug Enforcement Agency

Stanislaus County and the cities of Modesto, Oakdale, Ceres, Patterson, Turlock, Riverbank and Newman are the participants in the Stanislaus Drug Enforcement Agency (SDEA). The purpose of the SDEA is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan, and set priorities for effective enforcement of such laws throughout Stanislaus County. The governing board consists of the sheriff of Stanislaus County and the chief of police of each participating city. All participants contribute to the funding of the SDEA budgeted expenditures, based on population and assessed property value. The City's contribution to the SDEA for fiscal year 1992 was \$502,053. Upon termination of the agreement, assets will be distributed based on total contributions from each participant. The City's equity interest in the assets of the SDEA is \$215,564 as of June 30, 1992. This amount is reported in the General Fixed Assets Account Group. Financial statements of the SDEA are available at the Modesto Police Department.

Stanislaus Waste-to-Energy Financing Agency

The City participates with Stanislaus County in the Stanislaus Waste-to-Energy Financing Agency. The Agency was created to provide financing for a facility which generates power from solid waste. The costs of operating the Agency, if any, are shared equally by the participants. The governing body consists of 2 member each from the county board of supervisors and the Modesto city council. During the current fiscal year, the City received a total of \$99,020 from the Agency due to a debt refunding. The Stanislaus County Treasurer's office prepares the Agency's financial statement.

T. DEFINED BENEFIT PENSION PLAN

Description

The City contributes to the Public Employees' Retirement System of the State of California (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public agencies in California. The City's payroll for employees covered by PERS for the year ended June 30, 1992 was \$42,683,728. The total payroll for all City employees was \$46,309,256.

All full-time employees are eligible to participate in PERS. Benefits vest after 5 years of service. Safety (fire and police) employees who retire at or after age 50 are entitled to an annual retirement benefit payable monthly for life in an amount equal to 2 percent of their average salary during the highest-paid 3-year period of employment. All other covered employees may retire at age 60, with an annual benefit payable monthly for life equal to 2 percent of their average salary during the highest-paid 1-year or 3-year period, depending on hire date. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

As of June 30, 1992 all employee contributions (9 percent for fire and police, and 7 percent for miscellaneous employees) are paid by the City. The City is also required to contribute all remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration.

Funding Status and Progress

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of PERS on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to PERS.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1991. Significant actuarial assumptions used in the valuation include:

Actuarial interest rate	8.75% per annum	
	<u>Miscellaneous</u>	<u>Safety</u>
Salary scale:		
Rate of inflation	4.50%	4.50
Across the board real salary increases	.75	.75
Merit raises	1.75	2.00
	<hr/>	<hr/>
Total	7.00%	7.25%
	<hr/>	<hr/>

The total unfunded pension benefit obligation applicable to City employees was \$5,709,352 at June 30, 1991, as follows:

Pension Benefit Obligation:

Retirees and beneficiaries currently receiving benefits, and terminated employees not yet receiving benefits \$ 46,608,045

Current employees:

Accumulated employee contributions including allocated investment earnings 35,914,021
Employer-financed vested 47,357,938
Employer-financed nonvested 1,558,913

Total pension benefit obligation 131,438,917

Net assets available for benefits at cost (Market value = \$139,434,088) 125,729,565

Unfunded pension benefit obligation \$ 5,709,352

Actuarially Determined Contribution Requirements and Contribution Made

PERS uses the Entry Age Normal Actuarial Cost Method which is a projected benefit cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. PERS uses a modification of the Entry Age Cost Method in which the employer's total normal cost is expressed as a level percentage of payroll. PERS also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities. The amortization period of the unfunded actuarial liability ends on June 30, 2000.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation, as previously described.

The City's total contribution rates for 1991-92, based on an actuarial valuation performed as of June 30, 1990, were 24.547 percent of current safety payroll and 16.117 percent of current miscellaneous payroll. The total contribution of \$8,354,089 consisted of (a) \$7,601,134 normal cost (22.266 percent of current safety payroll and 14.719 percent of current miscellaneous payroll), and (b) \$752,955 amortization of the unfunded actuarial accrued liability (2.281 percent of current safety payroll and 1.405 percent of current miscellaneous payroll). The City's required contributions were \$5,016,346 (15.547 percent of current safety payroll and 9.117 percent of current miscellaneous payroll). The City's actual required payments were reduced by \$3,015,147 due to the permitted use of the AB702

credit. The City has chosen to report the credit as miscellaneous revenue in the financial statements, rather than a reduction of expenditures and expenses. Employee contributions were \$3,337,743 (9.00 percent of current safety payroll and 7.00 percent of current miscellaneous payroll) all of which were paid by the City on behalf of its employees.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Systemwide ten-year trend information may be found in the California Public Employees' Retirement System Annual Report.

For the three years ended 1990, 1991, and 1992, the City's contribution rates to the system were, respectively, 14.310, 14.196, and 15.547 percent of covered payroll for safety employees and 7.194, 7.157, and 9.117 percent of covered payroll for miscellaneous employees. Information on net assets available for benefits as valued for PERS balance sheet purposes, pension benefit obligation, net assets available for benefits as a percentage of pension benefit obligation, unfunded pension benefit obligation, and unfunded pension benefit obligation as a percentage of annual covered payroll is available for three years only and is presented in the following table. Showing unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation. Until ten years of data are available, as many years as are available will be presented.

**City of Modesto
Required Supplementary Information
Analysis of Funding Progress - PERS**

Fiscal Year	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1 / 2)	(4)	(5) Annual Covered Payroll	(6)
				Unfunded Pension Benefit Obligation (2 - 1)		Unfunded Pension Obligation as a Percentage of Covered Payroll (4 / 5)
1987	\$74,169,072	\$81,078,555	91.5%	\$6,909,483	\$24,507,798	28.2
1988	85,526,433	90,013,550	95.0	4,487,117	26,271,251	17.1
1989	99,171,897	103,966,853	95.4	4,794,956	30,055,363	16.0
1990	112,503,399	120,210,076	93.6	7,706,677	33,782,844	22.8
1991	125,729,565	131,438,917	95.7	5,709,352	38,949,503	14.7
1992	NA	NA	NA	NA	42,683,728	NA

U. SUBSEQUENT EVENT

On November 10, 1992, the City issued \$25,065,000 in certificates of participation for the water system improvement project. The certificates are payable from water fund gross revenues. The issue consists of \$7,025,000 in serial certificates and \$18,040,000 in term certificates. Interest rates on the serial certificates are 5.5 to 6.0 percent, with maturities annually on October 1 beginning in 1993 and ending in 2007. The term certificates are due on October 1, 2022, and bear interest at 6.25 percent.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the Site and Facility Leases, the Lease Agreements, the Assignment Agreements, the Escrow Agreements and the Trust Agreements, as well as definitions of certain terms used therein and in this Official Statement. Such summary is not intended to be definitive. Reference is directed to said documents for the complete text thereof.

DEFINITIONS

"*Acquisition and Construction Costs*" means, with respect to the Series B Certificates only, all costs of payment of, or reimbursement for, acquisition, construction, installation and equipping of the Improvements, including but not limited to, architect and engineering fees, construction contractor payments, costs of feasibility and other reports, inspection costs, performance bond premiums and permit fees.

"*Acquisition and Construction Fund*" means the fund by that name established and held by the Trustee pursuant to the Series B Trust Agreement.

"*AMBAC Indemnity*" means AMBAC Indemnity Corporation, a Wisconsin-domiciled stock insurance company.

"*Assignment Agreement*" means either the Series A Assignment Agreement or the Series B Assignment Agreement, as the context requires.

"*Assignment Agreements*" means, collectively, the Series A Assignment Agreement and the Series B Assignment Agreement.

"*Authority*" means the Modesto Public Financing Authority, a joint powers authority organized and existing under and by virtue of the laws of the State.

"*Business Day*" means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the state in which the Principal Corporate Trust Office of the Trustee is located are closed or are required to close or a day on which the New York Stock Exchange is closed.

"*Certificate of Completion*" means, with respect to the Series B Certificates only, the certificate of a City Representative certifying that the Improvements have been acquired, constructed, installed and equipped by the City and that all Acquisition and Construction Costs have been paid.

"Certificates" means, collectively, the Series A Certificates and the Series B Certificates, unless its context requires such term to mean either the Series A Certificates or the Series B Certificates, as such context requires.

"City" means City of Modesto, California, a chartered city and municipal corporation organized and existing under the laws of the State.

"City Representative" means the Mayor, the City Manager, the Finance Director or any other person authorized by resolution of the City Council of the City to act on behalf of the City under or with respect to the Site and Facility Leases, the Lease Agreements and/or the Trust Agreements.

"Closing Date" means the date upon which there is a physical delivery of the Certificates in exchange for the amount representing the purchase price of the Certificates by the Original Purchaser.

"Code" means the Internal Revenue Code of 1986, together with applicable temporary and final regulations promulgated under the Code.

"Community Center Certificates" means those certain certificates of participation executed and delivered by the Community Center Certificates Trustee, as trustee, under the Community Center Certificates Trust Agreement, in the principal amount of \$24,945,000, of which \$24,280,000 aggregate principal amount is outstanding on the Closing Date.

"Community Center Certificates Escrow Agreement" means that certain Escrow Deposit and Trust Agreement, dated the Closing Date, by and between the City and the Community Center Certificates Escrow Bank.

"Community Center Certificates Escrow Bank" means First Interstate Bank of California, as the Community Center Certificates Trustee.

"Community Center Certificates Escrow Fund" means the escrow fund established under the Community Center Certificates Escrow Agreement and held by the Community Center Certificates Escrow Bank for the payment of the lease payments due under the Community Center Certificates Lease Agreement and for the payment of principal and interest due with respect to the Community Center Certificates.

"Community Center Certificates Lease Agreement" means that certain lease agreement, dated as of May 15, 1991, by and between the Redevelopment Agency of the City of Modesto and the City, relating to the refinancing of certain community center improvements.

"Community Center Certificates Trust Agreement" means that certain trust agreement, dated as of May 15, 1991, by and among the City, the Agency and the Community Center Certificates Trustee, providing, among other things, for the execution and delivery of the Community Center Certificates.

"Community Center Certificates Trustee" means First Interstate Bank of California.

"Completion Date" means, with respect to the Series B Certificates only, the date of completion of acquisition, construction, installation and equipping of the Improvements as evidenced by the filing with the Trustee of a Certificate of Completion.

"Contractor" means, with respect to the Series B Certificates only, the contractor(s) or vendor(s) from whom the Authority or the City on behalf of the Authority has ordered or caused to be ordered or with whom the Authority or the City on behalf of the Authority has contracted or caused to be contracted for the acquisition, construction, installation and equipping of the Improvements.

"Defeasance Obligations" means, with respect to the Series A Certificates only, (a) cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized by obligations described in (b) below) or (b) direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of) the Treasury of the United States of America.

"Defeasance Obligations" means, with respect to the Series B Certificates only, unless otherwise approved in writing by FGIC:

- (a) cash;
- (b) direct non-callable obligations of the United States of America;
- (c) securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged;
- (d) Refcorp interest strips;
- (e) CATS, TIGRS, STRPS and similar securities; and
- (f) defeased municipal bonds rated "Aaa" by Moody's or "AAA" by S&P.

"Delivery Costs" means all items of expense directly or indirectly payable by or reimbursable to the City or the Authority relating to the execution and delivery of each Site and

Facility Lease, each Lease Agreement, each Trust Agreement, each Escrow Agreement and each Assignment Agreement or the execution, sale and delivery of the Certificates, including, but not limited to, filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee (including the fees of its counsel), financing discounts, legal fees and charges, insurance fees and charges, financial and other professional consultant fees, costs of rating agencies for credit ratings, fees for execution, transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

"Delivery Costs Fund" means each fund by that name established and held by the Trustee pursuant to each Trust Agreement.

"Escrow Agreement" means either the Community Center Certificates Escrow Agreement or the Golf Course Certificates Escrow Agreement, as the context requires.

"Escrow Agreements" means, collectively, the Community Center Certificates Escrow Agreement and the Golf Course Certificates Escrow Agreement.

"Event of Default" means an event of default under a Lease Agreement.

"Facility" means either the Series A Facility or the Series B Facility, as the context requires.

"Facilities" means, collectively, the Series A Facility and the Series B Facility.

"Federal Securities" means direct general obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury) the United States of America, or obligations the payment of principal of and interest on which are unconditionally guaranteed by the United States of America.

"Financial Guaranty" means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

"Fiscal Year" means the twelve-month period beginning on July 1 of any year and ending on June 30 of the next succeeding year, or any other twelve-month period selected by the City as its fiscal year.

"Golf Course Certificates" means the certificates of participation executed and delivered by the Golf Course Certificates Trustee, as trustee, under the Golf Course Certificates Trust Agreement, in the principal amount of \$6,570,000, of which \$6,430,000 aggregate principal amount is outstanding on the Closing Date.

"Golf Course Certificates Escrow Agreement" means that certain Escrow Deposit and Trust Agreement, dated the Closing Date, by and between the City and the Golf Course Certificates Escrow Bank.

"Golf Course Certificates Escrow Bank" means Bank of America National Trust and Savings Association, as the Golf Course Certificates Trustee.

"Golf Course Certificates Escrow Fund" means the Escrow Fund established and held by the Golf Course Certificates Escrow Bank pursuant to the Golf Course Certificates Escrow Agreement.

"Golf Course Certificates Trust Agreement" means that certain Trust Agreement, dated as of February 1, 1990, by and among the Golf Course Certificates Trustee, the City and the Authority, providing, among other things, for the execution and deliver of the Golf Course Certificates.

"Golf Course Certificates Trustee" means Bank of America National Trust and Savings Association.

"Golf Course Lease" means the Lease Agreement, dated as of February 1, 1990, by and between the Authority and the City, relating to the financing of certain golf course improvements.

"Improvements" means, with respect to the Series B Certificates only, the capital improvements to be acquired, constructed, installed and/or equipped by the City within the geographical boundaries of the City with the proceeds of the Series B Certificates deposited into the Acquisition and Construction Fund.

"Insurance and Condemnation Fund" means each fund by that name established and held by the Trustee pursuant to each Trust Agreement.

"Insured Series A Certificates" means the Series A Certificates maturing in the years 1993 through and including 2015.

"Insured Series B Certificates" means the Series B Certificates maturing in the years 1993 through and including 2015.

"Interest Payment Date" means the first (1st) day of each May and November, commencing November 1, 1993, so long as any Certificates are Outstanding.

"Lease Agreement" means either the Series A Lease Agreement or the Series B Lease Agreement, as the context requires.

"Lease Agreements" means, collectively, the Series A Lease Agreement and the Series B Lease Agreement.

"Lease Payment Date" means the fifteenth (15th) day of April and October in each year during the Term of each Lease Agreement, commencing October 15, 1993.

"Lease Payment Fund" means each fund by that name established and held by the Trustee pursuant to each Trust Agreement.

"Lease Payments" means, collectively, the Series A Lease Payments and the Series B Lease Payments, or if the context otherwise requires, either the Series A Lease Payments or the Series B Lease Payments, as such context requires.

"Moody's" means Moody's Investors Service, a Delaware corporation, and its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City by notice to the Trustee.

"Net Proceeds," when used with respect to insurance or condemnation proceeds, means any insurance proceeds or condemnation award paid with respect to a Project, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

"Original Purchaser" means the first purchaser of the Certificates upon their delivery by the Trustee on the Closing Date.

"Outstanding," when used as of any particular time with respect to each series of Certificates, means (subject to the provisions of each Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under a Trust Agreement except:

(a) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) Certificates for the payment or redemption of which funds or Defeasance Obligations in the necessary amount shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or redemption date of such Certificates), provided that, if such Certificates are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in such Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(c) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to such Trust Agreement.

"Owner" or "Certificate Owner" or "Owner of a Certificate," or any similar term, when used with respect to a Certificate means the person in whose name such Certificate shall be registered on the Registration Books.

"Permitted Encumbrances" means, 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 V of each Lease Agreement, permit to remain unpaid; (b) each Assignment Agreement; (c) each Site and Facility Lease; (d) each Lease Agreement; (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (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 and which the City certifies in writing will not materially impair the use of the applicable Project; and (g) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the Closing Date and which the City certifies in writing will not materially impair the use of the applicable Project.

"Permitted Investments" means, with respect to the Series A Certificates only:

- (a) Defeasance Obligations;
- (b) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including: (i) Export-Import Bank; (ii) Farmers Home Administration; (iii) General Services Administration; (iv) U.S. Maritime Administration; (v) Small Business Administration; (vi) Government National Mortgage Association (GNMA); (vii) U.S. Department of Housing & Urban Development (DHA's); and (viii) Federal Housing Administration;
- (c) bonds, notes or other evidences of indebtedness rated "AAA" by S&P and "Aaa" by Moody's issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years;
- (d) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);
- (e) commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;

(f) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(g) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(i) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's; or

(ii) (A) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (a) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (B) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(h) investment agreements approved in writing by AMBAC Indemnity, supported by appropriate opinion of counsel, with notice to S&P; and

(i) other forms of investments approved in writing by AMBAC Indemnity with notice to S&P.

"Permitted Investments" means, with respect to the Series B Certificates only:

(a) direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided, that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee ("Direct Obligations");

(b) direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation ("FHLMCs");

debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association ("FNMA's"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association ("GNMA's"); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; debt obligations and letter of credit-backed issues of the Student Loan Marketing Association; local authority bonds of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit bonds of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities;

(c) direct obligations of any state of the United States of America or any subdivision or agency thereof whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's and "A" or better by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's and "A" or better by S&P;

(d) commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, "P-1" by Moody's and "A-1" or better by S&P;

(e) federal funds, unsecured certificates of deposit, time deposits or bankers acceptances (in each case having maturities of not more than 365 days) of any domestic bank including a branch office of a foreign bank which branch office is located in the United States, provided legal opinions are received to the effect that full and timely payment of such deposit or similar obligation is enforceable against the principal office or any branch of such bank, which, at the time of purchase, has a short term "Bank Deposit" rating of "P-1" by Moody's and a "Short-Term CD" rating of "A-1" or better by S&P;

(f) deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than \$3,000,000, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation;

(g) investments in money-market funds rated "AAAm" or "AAAm-G" by S&P;

(h) repurchase agreements collateralized by Direct Obligations, GNMA's, FNMA's or FHLMA's with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer of bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or "A3" or better by Moody's, and "A-1" or "A-" or better by S&P, provided:

(i) a master repurchase agreement or specific written repurchase agreement governs the transaction; and

(ii) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent ("Agent") for the Trustee, and such third party is (A) a Federal Reserve Bank, (B) a bank which is a member of the FDIC and which has combined capital, surplus and undivided profits of not less than \$50,000,000 or (C) a bank approved in writing for such purpose by FGIC, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and

(iii) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 *et seq.* or 31 C.F.R. 350.0 *et seq.* in such securities is created for the benefit of the Trustee; and

(iv) the repurchase agreement has a term of 180 days or less, and the Trustee or the Agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and

(v) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%; and

(i) the Local Agency Investment Fund of the State of California, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

"Policies" means, collectively, the Series A Policy and the Series B Policy.

"Policy" means either the Series A Policy or the Series B Policy, as the context requires.

"Principal Corporate Trust Office" means the corporate trust office of the Trustee designated in each Trust Agreement, or at such other address designated by the Trustee in written notice filed with the City and the Authority and such other office designated by the Trustee for transfer, exchange, registration and payment of Certificates.

"Project" means either the Series A Project or the Series B Project, as the context requires.

"Projects" means, collectively, the Series A Project and the Series B Project.

"Rating Category" means, with respect to any Permitted Investment, one or more of the generic categories of rating by Moody's or S&P applicable to such Permitted Investment, without regard to any refinement or gradation of such rating category by a plus or minus sign.

"Registration Books" means the records maintained by the Trustee pursuant to each Trust Agreement for registration of the ownership and transfer of ownership of the Certificates executed and delivered thereunder.

"Regulations" means temporary and permanent regulations promulgated under the Code.

"Rental Period" means each twelve-month period during the Term of each Lease Agreement commencing on May 2 in any year and ending on May 1 in the next succeeding year; *provided, however*, that the initial Rental Period shall commence on the Closing Date and shall end on May 1, 1994.

"Reserve Fund" means each fund by that name established and held by the Trustee pursuant to each Trust Agreement.

"Reserve Requirement" means, with respect to the Series A Certificates, an amount equal to \$1,977,050.00, and with respect to the Series B Certificates, an amount equal to \$603,150.00; *provided, however*, that if the Certificates of a series are partially refunded, such amount shall be reduced to an amount equal to the maximum annual Lease Payments relating to the Certificates of such series not so refunded.

"S&P" means Standard & Poor's Corporation, a New York corporation, and its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City by notice to the Trustee.

"Series A Assignment Agreement" means the Assignment Agreement, dated as of May 1, 1993, by and between the Authority and the Trustee, together with any duly authorized and executed amendments thereto, pursuant to which the Authority assigns to the Trustee the right

to exercise certain remedies under the Series A Lease Agreement and the right to receive Series A Lease Payments thereunder.

"Series A Certificates" means the \$27,225,000 principal amount of certificates of participation to be executed and delivered pursuant to the Series A Trust Agreement.

"Series A Facility" means the facilities described in the Series A Lease Agreement.

"Series A Lease Agreement" means the Lease Agreement, dated as of May 1, 1993, by and between the Authority and the City, together with any duly authorized and executed amendments thereto, pursuant to which the City is leasing the Series A Project from the Authority.

"Series A Lease Payments" means all payments required to be paid by the City pursuant to the Series A Lease Agreement, including any prepayment thereof pursuant to the Series A Lease Agreement, which payments consist of an interest component and a principal component.

"Series A Policy" means the municipal bond insurance policy issued by AMBAC Indemnity insuring the payment, when due, of the principal and interest with respect to the Insured Series A Certificates.

"Series A Project" means, collectively, the Series A Site and the Series A Facility.

"Series A Site" means, collectively, those certain parcels of real property situated in the City described in the Series A Site and Facility Lease and the Series A Lease Agreement.

"Series A Site and Facility Lease" means the Series A Site and Facility Lease, dated as of May 1, 1993, by and between the City and the Authority, together with any duly authorized and executed amendments thereto, pursuant to which the City leases the Series A Site and Series A Facility to the Authority.

"Series A Trust Agreement" means the Trust Agreement, dated as of May 1, 1993, by and among the City, the Authority and the Trustee, together with any duly authorized amendments thereto, pursuant to which the Series A Certificates are executed and delivered.

"Series B Assignment Agreement" means the Assignment Agreement, dated as of May 1, 1993, by and between the Authority and the Trustee, together with any duly authorized and executed amendments thereto, pursuant to which the Authority assigns to the Trustee the right to exercise certain remedies under the Series B Lease Agreement and the right to receive Series B Lease Payments thereunder.

"Series B Certificates" means the \$8,130,000 principal amount of certificates of participation to be executed and delivered pursuant to the Series B Trust Agreement.

"Series B Facility" means the facilities described in the Series B Lease Agreement.

"Series B Lease Agreement" means the Lease Agreement, dated as of May 1, 1993, by and between the Authority and the City, together with any duly authorized and executed amendments thereto, pursuant to which the City is leasing the Series B Project from the Authority.

"Series B Lease Payments" means all payments required to be paid by the City pursuant to the Series B Lease Agreement, including any prepayment thereof pursuant to the Series B Lease Agreement, which payments consist of an interest component and a principal component.

"Series B Policy" means the municipal bond insurance policy issued by Financial Guaranty insuring the payment, when due, of the principal and interest with respect to the Insured Series B Certificates.

"Series B Project" means, collectively, the Series B Site and the Series B Facility.

"Series B Site" means, collectively, those certain parcels of real property situated in the City described in the Series B Site and Facility Lease and the Series B Lease Agreement.

"Series B Site and Facility Lease" means the Series B Site and Facility Lease, dated as of May 1, 1993, by and between the City and the Authority, together with any duly authorized and executed amendments thereto, pursuant to which the City leases the Series B Site and Series B Facility to the Authority.

"Series B Trust Agreement" means the Trust Agreement, dated as of May 1, 1993, by and among the City, the Authority and the Trustee, together with any duly authorized amendments thereto, pursuant to which the Series B Certificates are executed and delivered.

"Site" means either the Series A Site or the Series B Site, as the context requires.

"Site and Facility Lease" means either the Series A Site and Facility Lease or the Series B Site and Facility Lease, as the context requires.

"Site and Facility Leases" means, collectively, the Series A Site and Facility Lease and the Series B Site and Facility Lease.

"Sites" means, collectively, the Series A Site and the Series B Site.

"State" means the State of California.

"Term of the Lease Agreement" means the time during which such Lease Agreement is in effect.

"Trust Agreement" means either the Series A Trust Agreement or the Series B Trust Agreement.

"Trust Agreements" means, collectively, the Series A Trust Agreement and the Series B Trust Agreement.

"Trustee" means First Trust of California, National Association, or any successor thereto, acting as Trustee pursuant to each Trust Agreement.

SITE AND FACILITY LEASES

The following is a brief summary of each Site and Facility Lease. This summary is not intended to be definitive and is qualified in its entirety by reference to each Site and Facility Lease for the complete terms thereof.

Both Site and Facility Leases are entered into between the City and the Authority. Pursuant to the Series A Site and Facility Lease, the City agrees to lease the Series A Site and the Series A Facility to the Authority for one dollar for a term continuous with the term of the Series A Lease Agreement. The Authority agrees to use the Series A Site and the Series A Facility solely for the purpose of leasing the Series A Project to the City pursuant to the Series A Lease Agreement. Upon termination of the Series A Site and Facility Lease, title to the Series A Site and the Series A Facility will revert to the City.

Pursuant to the Series B Site and Facility Lease, the City agrees to lease the Series B Site and the Series B Facility to the Authority for one dollar for a term coterminous with the term of the Series B Lease Agreement. The Authority agrees to use the Series B Site and the Series B Facility solely for the purpose of leasing the Series B Project to the City pursuant to the Series B Lease Agreement. Upon termination of the Series B Site and Facility Lease, title to the Series B Site and the Series B Facility will revert to the City.

LEASE AGREEMENT

The following is a brief summary of certain provisions of each Lease Agreement. Unless otherwise specifically noted, the provisions summarized below apply to both Lease Agreements. This summary is not intended to be definitive and is qualified in its entirety by reference to each Lease Agreement for the complete terms thereof.

General

The Lease Agreement is entered into between the Authority and the City. The Authority agrees to lease the Project to the City and the City agrees to make Lease Payments to the Authority. The Authority directs that the City make such payments directly to the Trustee.

Deposit of Moneys

In order to provide for the refinancing of the Project and to assure the City that moneys needed to pay financing and related costs will be available, the Authority agrees to deposit with the Trustee, or cause to be deposited on its behalf, amounts for deposit in the Reserve Fund, the Lease Payment Fund and the Escrow Fund.

Acquisition and Construction of Improvements

With respect to the Series B Lease Agreement only, the Authority has agreed to construct certain Improvements pursuant to the plans and specifications submitted to and approved by the City. The Authority appoints the City as its agent for purposes of construction, installation and equipping of such Improvements under the Series B Lease Agreement. Payment for the acquisition, installation and equipping of such Improvements shall be made from moneys deposited in the Acquisition and Construction Fund created under the Series B Trust Agreement.

Lease Payments, Obligation to Pay

For the use and possession of the Project in each year, the City agrees to pay to the Trustee, as assignee of the Authority, the Lease Payments as set forth in the Lease Agreement. The City is entitled to a credit against each Lease Payment in an amount equal to the amount on deposit in the Lease Payment Fund on the Lease Payment Date. All or a portion of each Lease Payment is paid as, and represents payment of, interest and is equal to interest with respect to the Outstanding aggregate principal amount of Certificates.

Fair Rental Value

The Lease Payments for the Project for each Rental Period shall constitute the total rental for the Project for each such Rental Period and shall be paid by the City in each Rental Period for and in consideration of the right of the use and occupancy, and the continued quiet use and enjoyment, of the Project during each Rental Period.

Budget and Appropriation

The City has covenanted to take such action as may be necessary to include all Lease Payments in its annual budgets and annually to appropriate an amount necessary to make such Lease Payments.

Additional Payments

In addition to the Lease Payments, the City shall pay when due all costs and expenses incurred by the City and the Authority to comply with the provisions of the Trust Agreement, including without limitation all Delivery Costs (to the extent not paid from amounts on deposit in the Delivery Costs Fund), compensation due to the Trustee and all costs and expenses of auditors, engineers and accountants.

Maintenance, Utilities, Repairs and Assessments

As part of the consideration for the rental of the Project, all improvement, repair and maintenance of the Project shall be the responsibility of the City and the City shall pay, or otherwise arrange for the payment of, all utility services supplied to the Project which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Project resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting the Project.

The City may at the City's expense, 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 shall notify the City that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Authority in the Project will be materially endangered or subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment.

Public Liability and Property Damage Insurance

The City shall maintain or cause to be maintained comprehensive general liability insurance coverage with minimum coverages of \$1,000,000 per person and \$3,000,000 per

occurrence for personal injury or death, and in a minimum of \$100,000 for property damage resulting from each accident or event. Such insurance may be carried in conjunction with any other liability insurance coverage carried or required to be carried by the City. Such public 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 by the City, and may be maintained in the form of insurance maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the City. The Net Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

Fire and Extended Coverage Insurance; Earthquake Insurance

The City shall maintain or cause to be maintained insurance coverage against loss or damage to any structures constituting any part of the Project by fire and lightning, with extended coverage and vandalism and malicious mischief insurance, which shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and shall be in an amount equal to the greater of (a) one hundred percent (100%) of the replacement cost of any structures on the Project, or (b) the aggregate principal amount of the Outstanding Certificates. Such coverage may be subject to deductible clauses of not to exceed \$100,000 for any one loss. Such insurance may be maintained as part of or in conjunction with insurance provided through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the City.

The City agrees to procure and maintain, or cause to be procured and maintained, insurance against earthquake loss or damage to the portions of the Project that constitute structures in such amounts as an independent insurance consultant shall annually determine is necessary to protect the City for such risk. Such insurance may be subject to a deductible clause of not to exceed 10% for any one loss. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City. If the City cannot purchase such insurance on the open market from reputable insurers at reasonable cost, the City agrees to self-insure for such coverage.

Rental Interruption Insurance

The City shall maintain or cause to be maintained, but only in the event and to the extent available in the market, rental interruption insurance insuring the payment of Lease Payments if, because of a casualty loss to the Project, the City's obligation to make such Lease Payments is abated, in an amount equal to two times the maximum annual Lease Payments with respect to the Series A Certificates, and an amount equal to two times the Reserve Requirement with respect to the Series B Certificates.

Title Insurance

The City shall obtain title insurance in an amount equal to the aggregate principal amount of the Certificates insuring the City's leasehold estate in the Project, subject to Permitted Encumbrances.

Liens

The City shall keep the Project free from judgments, liens and other encumbrances, subject to Permitted Encumbrances.

Indemnification

The City shall indemnify and save the Authority harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (i) the use, maintenance and management of the Project by the City, (ii) any default on the part of the City under the Lease Agreement, (iii) any negligence of the City with respect to the Project or (iv) the authorization of payment of the Delivery Costs.

Abatement of Lease Payments in the Event of Damage or Destruction

Lease Payments shall be abated during any period in which, by reason of damage or destruction, there is substantial interference with the use and occupancy by the City of the Project or any portion thereof. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there shall be no abatement of Lease Payments to the extent that (a) the proceeds of rental interruption insurance or (b) amounts in the Reserve Fund and/or the Insurance and Condemnation Fund and/or the Lease Payment Fund are available to pay Lease Payments which would otherwise be abated, it being hereby declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

Eminent Domain

If all of the Project shall be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Lease Agreement shall cease as of the day possession shall be so taken. If less than all of the Project shall be taken permanently, or if all of the Project or any part thereof shall be taken temporarily under the power of eminent domain, the Lease Agreement shall continue in full force and effect and

shall not be terminated by virtue of such taking, and there shall be a partial abatement of Lease Payments as a result of the taking of a portion of the Project.

Assignment and Subleasing

The Lease Agreement may not be assigned by the City. The City may sublease the Project or any portion thereof, but only with the written consent of the Authority and subject to all of the following conditions: (i) the Lease Agreement and the obligation of the City to make Lease Payments thereunder shall remain obligations of the City; (ii) the City shall, within thirty (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; (iii) no such sublease by the City shall cause the Project to be used for a purpose other than as may be authorized under the provisions of the Constitution and laws of the State; (iv) the City shall furnish the Authority and the Trustee with a written opinion of nationally recognized bond counsel, which shall be an independent counsel, stating that such sublease does not cause the interest components of the Lease Payments to become included in gross income for federal income tax purposes or subject to State personal income taxes; and (v) with respect to the Series B Project only, such sublease shall be subject to the prior approval and written consent of Financial Guaranty.

Substitution of Site or Facility

The City may substitute all or a portion of the Site and the Facility and may release a portion of the Site, subject to the conditions precedent thereto set forth in the Lease Agreement.

Events of Default

Events of default under the Lease Agreement consist of (i) any failure of the City to pay any Lease Payment when specified; (ii) failure of the City to perform any covenant, condition or agreement required to be performed under the Lease Agreement or the Trust Agreement, other than as referred to in clause (i) above, for a period of 30 days after written notice thereof is given to the City by the Trustee, the Authority or the Owners of not less than 5% of the principal of the Certificates Outstanding; provided, however, if the failure stated in the notice can be corrected, but not within the applicable period, the Authority, the Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected; provided further, however, that any cure period beyond the initial 30 days shall be subject to the prior written consent of Financial Guaranty with respect to a default under the Series B Lease Agreement; and (iii) filing by the City of a voluntary petition in bankruptcy or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the

provisions of the Federal Bankruptcy Act, as amended, or under any similar acts which may hereafter be enacted.

Remedies on Default

Whenever any Event of Default shall have happened and be continuing, it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything in the Lease Agreement or in the Trust Agreement to the contrary, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable.

Upon the happening of an event of default, the Trustee (as assignee of the Authority) shall have the right to re-enter the Project and to terminate the Lease Agreement. If the Trustee, as assignee for the Authority, does not elect to terminate the Lease Agreement but re-enters the Project and re-lets the Project for the account of the City, the City continues to remain liable for the difference between the amounts received and the Lease Payments payable by the City under the Lease Agreement and the Trustee has the right to bring an action against the City to compel the City to include the Lease Payments due in that year in the City's budget. If the Trustee elects to terminate the Lease Agreement, the City nevertheless agrees to pay the Trustee all costs and damages in the same manner as Lease Payments. *There shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payment not then in default to be immediately due and payable.* The enforceability of the rights and remedies of the Owners of the Certificates may be subject to certain laws or principles of equity.

In addition to the above remedies, the Trustee may file such suits in law or equity as deemed most effectual to protect and enforce any right under the Lease Agreement, including, but not limited to suits to require the City to make payments under the Lease Agreement and to enjoin the City from actions which are unlawful or in violation of the rights of the Authority or the Trustee or to compel the City to perform its duties and obligations under the Lease Agreement.

Notwithstanding the foregoing, with respect to the Series B Lease Agreement, (i) no remedial action will be taken by the Trustee without the prior written consent of Financial Guaranty, and (ii) the Trustee shall accept the direction of Financial Guaranty in connection with the exercise of any such remedies.

Security Deposit

The City may on any date secure the payment of all or a portion of the Lease Payments remaining due by an irrevocable deposit with the Trustee or an escrow holder under an escrow deposit and trust agreement of: (a) in the case of a security deposit relating to all Lease Payments, either (i) cash in an amount which, together with amounts on deposit in the Lease Payment Fund, the Insurance and Condemnation Fund and the Reserve Fund, is sufficient to pay all unpaid Lease Payments, including the principal and interest components thereof, or (ii) Defeasance Obligations in such amount as will, in the opinion of an independent certified public accountant or other firm of recognized experts in such matters, together with interest to accrue thereon and, if required, all or a portion of moneys or Defeasance Obligations then on deposit and interest earnings thereon in the Lease Payment Fund, the Insurance and Condemnation Fund and the Reserve Fund, be fully sufficient to pay all unpaid Lease Payments on their respective Interest Payment Dates; or (b) in the case of a security deposit relating to a portion of the Lease Payments, a certificate executed by a City Representative designating the portion of the Lease Payments to which the deposit pertains, and either (i) cash in an amount which is sufficient to pay the portion of the Lease Payments designated in such City Representative's certificate, including the principal and interest components thereof, or (ii) Defeasance Obligations in such amount as will, together with interest to be received thereon, if any, in the opinion of an independent certified public accountant or other firm of recognized experts in such matter, be fully sufficient to pay the portion of the Lease Payments designated in the aforesaid City Representative's certificate.

In the event of a deposit as described in the preceding paragraph which will be sufficient to pay all Lease Payments and the payment of all fees, expenses and indemnifications owed to the Trustee, all obligations of the City under the Lease Agreement shall cease and terminate.

No Prepayment Option

The Lease Payments are not subject to optional prepayments by the City.

ASSIGNMENT AGREEMENTS

The following is a brief summary of each Assignment Agreement. This summary is not intended to be definitive and is qualified in its entirety by reference to each Assignment Agreement for the complete terms thereof.

The Series A Assignment Agreement is entered into between the Authority and the Trustee and in it the Authority assigns and transfers to the Trustee, for the benefit of the Series A Certificate Owners, certain of its rights under the Series A Lease Agreement, including its right to receive Series A Lease Payments under the Series A Lease Agreement, its right to receive proceeds of condemnation of and insurance with respect to the Series A Project, and its

right to enforce payment of Series A Lease Payments when due and otherwise to protect its interests and enforce its rights under the Series A Lease Agreement in the event of a default by the City. The Trustee accepts such assignment for the purpose of securing such payments and rights to the Series A Certificate Owners subject to the provisions of the Series A Trust Agreement.

The Series B Assignment Agreement is entered into between the Authority and the Trustee and in it the Authority assigns and transfers to the Trustee, for the benefit of the Series B Certificate Owners, certain of its rights under the Series B Lease Agreement, including its right to receive Series B Lease Payments under the Series B Lease Agreement, its right to receive proceeds of condemnation of and insurance with respect to the Series B Project, and its right to enforce payment of Series B Lease Payments when due and otherwise to protect its interests and enforce its rights under the Series B Lease Agreement in the event of a default by the City. The Trustee accepts such assignment for the purpose of securing such payments and rights to the Series B Certificate Owners subject to the provisions of the Series B Trust Agreement.

TRUST AGREEMENTS

The following is a brief summary of certain provisions of each Trust Agreement. Unless otherwise specifically noted, the provisions summarized below apply to both Trust Agreements. This summary is not intended to be definitive and is qualified in its entirety by reference to each Trust Agreement for the complete terms thereof.

General

The Trust Agreement provides for the appointment of the Trustee by the Authority and the City and the acceptance of such appointment by the Trustee. The Trust Agreement also provides for the establishment and administration of funds and for the preparation, delivery and description of the terms and conditions of the Certificates.

The Trust Agreement requires a trustee having a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000, subject to supervision or examination by federal or State authority.

The Trust Agreement further describes the Trustee and its duties and procedures for removal, resignation, protection, compensation and appointment of successor trustees.

The Trustee is directed by the Trust Agreement on written request of the Authority to prepare, execute and deliver, to the Original Purchaser, the Certificates in their aggregate principal amount.

Funds

The Trust Agreement establishes the Delivery Costs Fund, the Lease Payment Fund, the Reserve Fund and the Insurance and Condemnation Fund. In addition, the Series B Trust Agreement establishes the Acquisition and Construction Fund.

Acquisition and Construction Fund. With respect to the Series B Trust Agreement only, amounts in the Acquisition and Construction Fund shall be disbursed for Acquisition and Construction Costs.

Delivery Costs Fund. The Delivery Costs Fund is to be used to pay legal, printing and other costs of execution and delivery of the Certificates.

Lease Payment Fund. The Lease Payment Fund is established to receive Lease Payments made by the City and to apply such Lease Payments on behalf of the City to the payment of the principal and interest with respect to the Certificates when due and payable.

Reserve Fund. The Reserve Fund is established for the purpose of making transfers to the Lease Payment Fund in the event that the amounts on deposit in the Lease Payment Fund are less than the amounts then due the Owners.

Insurance and Condemnation Fund. The Insurance and Condemnation Fund is created to receive Net Proceeds of insurance and condemnation awards which shall be disbursed by the Trustee for either (i) repair or replacement of the property damaged, destroyed or taken in the event that the City elects to repair or replace the property damaged, destroyed or taken or (ii) deposited in the Lease Payment Fund to be credited towards the prepayment of the Lease Payments and applied to the redemption of the Certificates. Disbursements for repair or replacement of the Project shall be upon the basis of certificates requesting disbursement executed by a City Representative.

Investments

All moneys held by the Trustee in any of the funds described above are to be deposited or invested in Permitted Investments pursuant to instructions as to investment submitted by the City.

All interest or income received by the Trustee on investment of the Lease Payment Fund shall, as received, be retained in the Lease Payment Fund. Amounts retained or deposited in the Lease Payment Fund shall be applied as a credit against the Lease Payment due by the City pursuant to the Lease Agreement on the Lease Payment Date following the date of deposit. All interest or income received by the Trustee on investment of the Reserve Fund shall be retained in the Reserve Fund in the event that amounts on deposit in the Reserve Fund are less than the

Reserve Requirement. In the event that amounts then on deposit in the Reserve Fund equal or exceed the Reserve Requirement, such excess shall, as received, be transferred to the Lease Payment Fund. Transfers to the Lease Payment Fund from the Reserve Fund shall be made by the Trustee on or prior to each Lease Payment Date. All interest or income in the Delivery Costs Fund shall be retained in the Delivery Costs Fund until the Delivery Costs Fund is closed.

The Trustee may act as principal or agent in making or disposing of investments and is not liable for any loss resulting from investment. Any such loss is to be charged to the account with respect to which the investment was made.

Limitation of Liability

The Trust Agreement contains certain provisions limiting the liability of the parties thereto, including the following provisions:

(a) except for the payment of Lease Payments when due in accordance with the Lease Agreement and the performance of the other covenants of the City contained in the Lease Agreement and the Trust Agreement, the City shall have no pecuniary obligation or liability to the Authority, the Trustee or the Owners; and

(b) neither the City nor the Authority shall have any obligation or liability to any of the other parties to the Trust Agreement or the Owners with respect to the performance by the Trustee of any duty imposed upon it by the Trust Agreement;

Amendments

The Lease Agreement and Trust Agreement may be amended with the consent of the Owners of at least 51% in aggregate Outstanding principal amount of Certificates, AMBAC Indemnity with respect to the Series A Lease Agreement and Series A Trust Agreement and Financial Guaranty with respect to the Series B Lease Agreement and Series B Trust Agreement, or by the parties thereto or their assignees without such consent (except that all such amendments to the Series B Lease Agreement and Series B Trust Agreement shall require the consent of Financial Guaranty) (1) to add to the covenants and agreements of the Authority or the City, (2) to cure, correct or supplement any ambiguous or defective provision contained therein and which shall not, in the opinion of nationally recognized bond counsel, adversely affect the interests of the Owners of the Certificates, (3) in regard to questions arising thereunder, as the parties thereto may deem necessary or desirable and which shall not, in the opinion of nationally recognized bond counsel, adversely affect the interests of the Owners of the Certificates; (4) to substitute the Site or the Facility, or a portion thereof, or to release a portion of the Site, in accordance with the Lease Agreement, and (5) 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 component of Lease Payments and the interest payable with respect

to the Certificates. If amendment is made with the consent of Certificate Owners, such consent shall be obtained by the Trustee in the manner provided in the Trust Agreement. No amendment shall be made which will permit (i) a change in the principal payment date of Lease Payments or maturity of the principal of any Certificate or any installment of interest included in Lease Payments and payable with respect to Certificates or a reduction in the principal amount of or rate of interest with respect to Lease Payments and Certificates without the consent of the Owner thereof (ii) a reduction of the percentage of the principal amount of Certificates the vote of which is required to effect an amendment or (iii) modify the rights or obligations of the Trustee without its written assent thereto.

Defaults and Remedies

The Lease Agreement and the Trust Agreement provide that upon the occurrence of an event of default by the City under the Lease Agreement, the Trustee may and, upon the written request of the Owners of a majority in aggregate Outstanding principal amount of the Certificates shall, proceed to exercise the remedies provided in the Lease Agreement. The enforceability of the rights and remedies of the Owners of the Certificates may be subject to certain laws or principles of equity.

The Trust Agreement provides that no Owner of a Certificate shall have the right to institute any suit or proceeding at law or in equity with respect to any remedy under the Trust Agreement unless, among other things, the Owners of a majority (50%) in aggregate principal amount of the Certificates then Outstanding shall have made written request to the Trustee to institute such legal proceeding and the Trustee shall have failed to act on such request for a period of 60 days, and said Owners shall have tendered to the Trustee reasonable indemnity against the expenses and liabilities to be incurred in connection with such request.

With respect to the Series A Certificates only, upon the occurrence and continuance of an Event of Default, AMBAC Indemnity shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of the Series A Certificates or the Trustee for the benefit of the Owners of the Series A Certificates under the Series A Trust Agreement.

With respect to the Series B Certificates only, Series B Certificate Owner direction of remedies upon default shall be subject to the prior written consent of Financial Guaranty, and Financial Guaranty, acting alone, shall have the right to direct all remedies upon default, if it has not failed to comply with its payment obligations under the Series B Policy.

Defeasance

If and when all Outstanding Certificates shall be paid and discharged in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal, and interest and redemption premiums (if any) with respect to all Certificates Outstanding, as and when the same become due and payable; or

(b) by depositing with an escrow holder security for the payment of Lease Payments, said security to be applied to pay the Lease Payments as the same become due and payable and prepay the Lease Payments in full on any prepayment date,

then, notwithstanding that any Certificates shall not have been surrendered for payment, all obligations of the Authority, the Trustee and the City with respect to all Outstanding Certificates shall cease and terminate, except only the obligation of the City to pay or cause to be paid, funds deposited pursuant to paragraph (b) above, to the Owners of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraph (b), the Certificates shall continue to represent direct and undivided fractional interests of the Owners thereof in Lease Payments under the Lease Agreement.

Any funds held by the Trustee, at the time of one of the events described in paragraph (a) or (b) above, which are not required for the payment to be made to Owners, shall be paid over to the City.

ESCROW AGREEMENTS

The following is a brief summary of the Escrow Agreements. This summary is not intended to be definitive and is qualified in its entirety by reference to the Escrow Agreements for the complete terms thereof.

Pursuant to the Community Center Certificates Escrow Agreement, the Community Center Certificates Escrow Bank will receive, from (a) a portion of the proceeds of the Series A Certificates and moneys remaining on deposit for the Community Center Certificates, an amount which, when invested in certain Federal Securities, together with investment earnings thereon, will be sufficient to provide for the payment of the Community Center Certificates when due.

Pursuant to the Golf Course Certificates Escrow Agreement, the Golf Course Escrow Bank will receive, from (a) a portion of the proceeds of the Series B Certificates and moneys remaining on deposit for the Golf Course Certificates, an amount which, when invested in certain Federal Securities, together with investment earnings thereon, will be sufficient to provide for the payment of the Golf Course Certificates when due.

APPENDIX C

FORM OF LEGAL OPINIONS

May 27, 1993

City Council
City of Modesto
801 Eleventh Street
Modesto, California 95354

OPINION: \$27,225,000 Certificates of Participation (1993 Community Center Refinancing Project) Series A Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be made by the City of Modesto, California, as the Rental for Certain Property Pursuant to a Lease Agreement with the Modesto Public Financing Authority

Members of the City Council:

We have acted as special counsel in connection with the delivery by the City of Modesto, California (the "City"), of the \$27,225,000 Lease Agreement, dated as of May 1, 1993, by and between the Modesto Public Financing Authority (the "Authority") and the City (the "Lease Agreement"), pursuant to the California Government Code. The Authority has, pursuant to the Assignment Agreement, dated as of May 1, 1993 (the "Assignment Agreement"), by and between the Authority and First Trust of California, National Association, as trustee (the "Trustee"), assigned certain of its rights under the Lease Agreement, including the right to receive lease payments made by the City thereunder (the "Lease Payments"), to the Trustee. Pursuant to the Trust Agreement, dated as of May 1, 1993, by and among the Trustee, the Authority and the City (the "Trust Agreement"), the Trustee has executed and delivered certificates of participation (the "Certificates") evidencing direct, undivided fractional interests of the owners thereof in Lease Payments. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Lease Agreement and the Trust Agreement and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The City is duly created and validly existing as a municipal corporation and chartered city with the power to enter into the Lease Agreement and the Trust Agreement and to perform the agreements on its part contained therein.

2. The Lease Agreement has been duly authorized, executed and delivered by the City and is an obligation of the City, valid, binding and enforceable against the City in accordance with its terms.

3. The Trust Agreement and the Assignment Agreement are valid, binding and enforceable in accordance with their terms.

4. Subject to the terms and provisions of the Lease Agreement, the Lease Payments are payable from general funds of the City lawfully available therefor. By virtue of the Assignment Agreement, the owners of the Certificates are entitled to receive their fractional share of the Lease Payments in accordance with the terms and provisions of the Trust Agreement.

5. The portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the delivery of the Lease Agreement in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of delivery of the Lease Agreement. We express no opinion regarding other federal tax consequences arising with respect to the Lease Agreement and the Certificates.

6. The portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Certificates and the enforceability of the Lease Agreement, the Trust Agreement and the Assignment Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

Jones Hall Hill & White

A Professional Law Corporation

May 27, 1993

City Council
City of Modesto
801 Eleventh Street
Modesto, California 95354

OPINION: \$8,130,000 Certificates of Participation (1993 Golf Course Refinancing Project) Series B Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be made by the City of Modesto, California, as the Rental for Certain Property Pursuant to a Lease Agreement with the Modesto Public Financing Authority

Members of the City Council:

We have acted as special counsel in connection with the delivery by the City of Modesto, California (the "City"), of the \$8,130,000 Lease Agreement, dated as of May 1, 1993, by and between the Modesto Public Financing Authority (the "Authority") and the City (the "Lease Agreement"), pursuant to the California Government Code. The Authority has, pursuant to the Assignment Agreement, dated as of May 1, 1993 (the "Assignment Agreement"), by and between the Authority and First Trust of California, National Association, as trustee (the "Trustee"), assigned certain of its rights under the Lease Agreement, including the right to receive lease payments made by the City thereunder (the "Lease Payments"), to the Trustee. Pursuant to the Trust Agreement, dated as of May 1, 1993, by and among the Trustee, the Authority and the City (the "Trust Agreement"), the Trustee has executed and delivered certificates of participation (the "Certificates") evidencing direct, undivided fractional interests of the owners thereof in Lease Payments. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Lease Agreement and the Trust Agreement and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The City is duly created and validly existing as a municipal corporation and chartered city with the power to enter into the Lease Agreement and the Trust Agreement and to perform the agreements on its part contained therein.

2. The Lease Agreement has been duly authorized, executed and delivered by the City and is an obligation of the City, valid, binding and enforceable against the City in accordance with its terms.

3. The Trust Agreement and the Assignment Agreement are valid, binding and enforceable in accordance with their terms.

4. Subject to the terms and provisions of the Lease Agreement, the Lease Payments are payable from general funds of the City lawfully available therefor. By virtue of the Assignment Agreement, the owners of the Certificates are entitled to receive their fractional share of the Lease Payments in accordance with the terms and provisions of the Trust Agreement.

5. The portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the delivery of the Lease Agreement in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of delivery of the Lease Agreement. We express no opinion regarding other federal tax consequences arising with respect to the Lease Agreement and the Certificates.

6. The portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Certificates and the enforceability of the Lease Agreement, the Trust Agreement and the Assignment Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

Jones Hall Hill & White
A Professional Law Corporation

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY
FOR SERIES A CERTIFICATES**



Municipal Bond Insurance Policy

AMBAC Indemnity Corporation
c/o CT Corporation Systems
44 East Mifflin St., Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, NY 10004
Telephone (212) 668-0340

Issuer:

Policy Number:

Bonds:

Premium:

AMBAC Indemnity Corporation (AMBAC) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to the United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

AMBAC will make such payments to the Insurance Trustee within one (1) business day following notification to AMBAC of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, AMBAC shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholders' rights to payment.

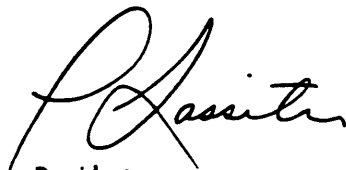
In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of AMBAC or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to AMBAC all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. AMBAC shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

In the event the trustee or paying agent for the Bonds has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer of the Bonds has been deemed a preferential transfer and therefore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from AMBAC to the extent of such recovery if sufficient funds are not otherwise available.


As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of AMBAC, nor against any risk other than Nonpayment.

In witness whereof, AMBAC has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon AMBAC by virtue of the counter-signature of its duly authorized representative.


President

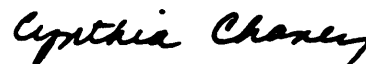



Secretary

Effective Date:

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Representative


Authorized Officer

Endorsement

Policy issued to:

Attached to and forming part of

Effective Date of Endorsement:

In the event that AMBAC Indemnity Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California. Payments due under the Policy with respect to the Bonds, as defined in the Policy, may not be accelerated by the issuer of the obligor on, or any trustee or paying agent for, the Bonds.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, the Company has caused its Corporate Seal to be hereto affixed and these presents to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding on the Company by virtue of countersignature by its duly authorized agent.

SPECIMEN

AMBAC Indemnity Corporation

[Signature]
President



[Signature]
Secretary

Authorized Representative

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY
FOR SERIES B CERTIFICATES**

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Municipal Bond New Issue Insurance Policy

Issuer:

Policy Number:

Control Number:

Bonds:

Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to Citibank, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer, but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Municipal Bond New Issue Insurance Policy

Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officers in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Citibank, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number:

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officers in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.


President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:


Authorized Officer
Citibank, N.A., as Fiscal Agent

