

CLOSING MEMORANDUM

\$62,275,000
Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007

CLOSING SCHEDULE

Tuesday, April 17, 2007 at 1:00 p.m.	Sidley Austin LLP 555 California Street, 20 th Floor San Francisco, California 94104 Telephone: (415) 772-1200 Facsimile: (415) 772-7400	Preclosing
Wednesday, April 18, 2007 at 8:00 a.m.	Sidley Austin LLP 555 California Street, 20 th Floor San Francisco, California 94104 Telephone: (415) 772-1200 Facsimile: (415) 772-7400	Closing

\$62,275,000
Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007

MEMORANDUM OF LEGAL PAPERS
to be included in transcripts
relating to the above-mentioned Bonds (the "Series 2007 Bonds")

* * * * *

Complete transcripts are to be prepared for distribution to the following parties:

- *City of Modesto ("City")
- Modesto Public Financing Authority ("Authority")
- Redevelopment Agency of the City of Modesto ("Redevelopment Agency")
- City-County Capital Improvements and Financing Agency ("Financing Agency")
- *Banc of America Securities LLC ("Underwriter" or "UW")
- *The Bank of New York Trust Company, N.A. ("Trustee" and "1998 Escrow Agent")
- U.S. Bank National Association ("1997 Escrow Agent")
- Dorsey & Whitney LLP ("1997 Escrow Agent Counsel")
- City Attorney ("Authority Counsel," "City Attorney," "Redevelopment Agency Counsel" and "Financing Agency Counsel")
- Jensen Law Office ("Trustee Counsel")
- *Sidley Austin LLP ("Bond Counsel" or "BC")
- Stradling Yocca Carlson & Rauth ("Disclosure Counsel" or "DC")
- Orrick Herrington & Sutcliffe LLP ("Underwriter's Counsel" or "UC")
- CIFG Assurance North America, Inc. ("Insurer")
- Bank of America N.A. ("Swap Provider" or "Swap Counterparty")
- Deutsche Bank Trust Company Americas ("Auction Agent")
- Public Financial Management ("Financial Advisor")
- The Arbitrage Group ("Verification Agent")

* We will be preparing transcripts on CD-ROM for all parties. In addition to CD-ROM copies, parties indicated above with an asterisk (*) will be receiving one paper copy of the transcript.

\$62,275,000
Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007

Pre-closing

The pre-closing will be held on Tuesday, April 17, 2007 at 1:00 p.m. (Pacific Daylight Time) at the offices of Sidley Austin LLP, 555 California Street, 20th Floor, San Francisco, California 94104 (the "Pre-closing") to confirm that all documents and papers are on hand, in proper form and properly executed.

The parties indicated below will deliver five (5) originals of each of the respective documents so indicated below. The documents will be executed in advance of the Closing (defined below) by the respective parties thereto and delivered no later than the Pre-closing. All of such deliveries will be deemed to have been placed in escrow until final delivery at the Closing has been made.

Responsibility for preparing or assembling the documents is indicated in parentheses. For the purpose of facilitating identification, each document should have in the upper right hand corner the document number stated below.

Closing

In connection with the execution and delivery of the Series 2007 Bonds, a closing will be held at the offices of Sidley Austin LLP on Wednesday, April 18, 2007, at 8:00 a.m.

\$62,275,000
Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007

DOCUMENTS AND INSTRUMENTS

The following documents and instruments are to be delivered to the appropriate party or parties at the Closing or prior to delivery of and payment for the Series 2007 Bonds by the Underwriter.

<u>Document Number</u>		<u>Index Number</u>
<u>I. LEGAL DOCUMENTS</u>		
1.	Executed counterparts of the INDENTURE, dated as of April 1, 2007, by and between the Authority and the Trustee. (BC)	1
2.	Executed counterparts of the FACILITY LEASE, dated as of April 1, 2007, by and between the Authority and the City. (BC)	2
3.	Executed counterparts of the SUBLEASE, dated as of April 1, 2007, by and between the Authority and the City. (BC)	3
4.	Certified copy of the LEASE/PURCHASE AGREEMENT, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002, each by and between the Authority and the City. (BC)	4
5.	Certified copy of the SITE LEASE (Parks Project, Police Headquarters Building and Miscellaneous Public Properties), dated as of March 1, 1998, as amended by Amendment No. 1 to Site Lease, dated October 15, 2002, each by and between the Authority and the City. (BC)	5
6.	Certified copy of the SITE LEASE (Parking Garage), dated as of March 1, 1998, as amended by Amendment No. 1 to Site Lease, dated June 15, 2000, each by and between the Authority and the Redevelopment Agency. (BC)	6
7.	Certified copy of the FACILITIES LEASE (Communications Dispatch Center), dated as of March 1, 1998, by and between the Authority and the City. (BC)	7

<u>Document Number</u>		<u>Index Number</u>
8.	Certified copy of the FACILITIES LEASE (City-County Administration Building), dated as of March 1, 1998, by and between the Authority and the Financing Agency. (BC)	8
9.	Executed counterparts of the AUCTION AGREEMENT, dated as of April 1, 2007, by and between the Trustee and the Auction Agent, and agreed to by the Authority. (BC)	9
10.	Executed counterparts of the BROKER-DEALER AGREEMENT, dated as of April 1, 2007, by and among the Broker-Dealer, the Auction Agent and the Authority. (BC)	10
11.	TAX CERTIFICATE for the Series 2007 Bonds, together with exhibits thereto, pursuant to Section 9(f)(22) of the Purchase Contract. (BC)	11

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2.	PRELIMINARY OFFICIAL STATEMENT, dated April 5, 2007, pursuant to Section 9(f)(4) of the Purchase Contract. (DC)	13
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MODESTO PUBLIC FINANCING AUTHORITY

and

THE BANK OF NEW YORK TRUST COMPANY, N.A.
as Trustee

INDENTURE

Dated as of April 1, 2007

relating to

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

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THIS INDENTURE, made and entered into as of April 1, 2007, by and between the MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise of powers authority duly organized and existing under the laws of the State of California (the "Authority"), and THE BANK OF NEW YORK TRUST COMPANY, N.A., a national banking association organized and existing under and by virtue of the laws of the United States of America, being qualified to accept and administer the trusts hereby created, as trustee (the "Trustee");

WITNESSETH:

WHEREAS, the Authority is a joint exercise of powers authority duly organized and operating pursuant to Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California;

WHEREAS, Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California authorizes and empowers the Authority to issue bonds to assist local agencies in financing and refinancing projects and programs consisting of certain public capital improvements or working capital or liability and other insurance needs whenever a local agency determines that there are significant public benefits from so doing;

WHEREAS, the Authority previously issued its Lease Revenue Bonds, Series 1997 (John Thurman Field Renovation Project) (the "1997 Bonds") and Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "1998 Bonds" and, together with the 1997 Bonds, the "Prior Bonds") to assist in the financing of certain public capital improvements in the City of Modesto, California (the "City");

WHEREAS, the Authority desires to issue its Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the "Series 2007 Bonds") for the purposes, among others, of refunding all of the 1997 Bonds and a portion of the 1998 Bonds and, to that end, the Authority desires to enter into an escrow agreement related to the 1997 Bonds, dated April 1, 2007 (the "1997 Escrow Agreement") by and between the Authority and U.S. Bank National Association (as successor trustee), as escrow agent thereunder (the "1997 Escrow Agent") and an escrow agreement related to the 1998 Bonds, dated April 1, 2007 (the "1998 Escrow Agreement" and together with the 1997 Escrow Agreement, the "Escrow Agreements") by and between the Authority and The Bank of New York Trust Company, N.A. (as successor trustee), as escrow agent thereunder (the "1998 Escrow Agent");

WHEREAS, the Authority also desires to issue the Series 2007 Bonds for the purposes of providing financing for certain additional improvements to John Thurman Field located within the City (as hereinafter more fully defined, the "2007 Project");

WHEREAS, the Authority desires to enter into a Facility Lease, dated as of April 1, 2007 (the "Facility Lease") with the City, which Facility Lease shall provide for the payment by the City of amounts sufficient, together with certain amounts, and with income from the investment thereof, held in the funds and accounts established under this Indenture, to enable the Authority to pay the principal of and interest on the Series 2007 Bonds and other costs incurred in connection with the 2007 Project;

WHEREAS, as security for the Series 2007 Bonds, the Authority will assign and pledge to the Trustee its rights under the Facility Lease;

WHEREAS, in order to provide for the authentication and delivery of the Series 2007 Bonds and Additional Bonds issued hereunder, to establish and declare the terms and conditions upon which such Bonds are to be issued and secured and to secure the full and timely payment of the principal thereof and premium, if any, and interest thereon, the Authority has authorized the execution and delivery of this Indenture;

WHEREAS, in order to manage interest rate risk with respect to the Series 2007 Bonds, the Authority and the City have authorized the execution of the Swap Agreement (including the schedule thereto), dated April 11, 2007, between the Authority and Bank of America, N.A., and pursuant thereto confirmation, dated as of April 12, 2007, between the Authority and Bank of America, N.A.; and

WHEREAS, the Authority has determined that all acts and proceedings required by law necessary to make the Bonds, when executed by the Authority, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal obligations of the Authority payable in accordance with their terms, and to constitute this Indenture a valid and binding agreement of the parties hereto for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Indenture have been in all respects duly authorized;

GRANTING CLAUSE

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in order to secure the full and timely payment of the principal of, premium, if any, and the interest on all Bonds at any time issued and outstanding under this Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the holders thereof, and for other valuable considerations, the receipt whereof is hereby acknowledged, the Authority does hereby assign and pledge, bargain, sell, convey, transfer, and grant a security interest in, to Trustee, and its successors in trust and assigns forever all right, title and interest of the Authority in and to Revenues (as hereinafter defined). Any security or Bond Insurance provided for specific Bonds or a specific Series of Bonds, as provided by Supplemental Indenture, may secure only such specific Bonds or Series of Bonds and, therefore, shall not be included as security for all Bonds under this Indenture. Nothing herein shall prevent additional security being provided to specific Bonds or Series of Bonds or the creation of a bond reserve fund therefor under any Supplemental Indenture.

ARTICLE I

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

SECTION 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Indenture and of any indenture supplemental hereto and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined.

Accreted Value

“Accreted Value” means, with respect to Capital Appreciation Bonds, as of the date of calculation, the Denominational Amount thereof plus the interest accrued thereon to such date of calculation, compounded from the date of initial delivery at the interest rate thereof on each March 1 and September 1, as determined in accordance with the Supplemental Indenture authorizing the Capital Appreciation Bonds.

Act

“Act” means the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the Government Code of the State), as the same is now in effect and as from time to time hereafter amended or supplemented.

Additional Bonds

“Additional Bonds” means any Bonds issued hereunder pursuant to the provisions of Section 3.07 and a Supplemental Indenture.

Additional Payments

“Additional Payments” means the payments so designated and required to be made by the City pursuant to Section 3.02 of the Facility Lease.

Alternate Liquidity Facility

“Alternate Liquidity Facility” means a letter of credit, insurance policy, line of credit, surety bond, standby purchase agreement or other security or liquidity instrument, as the case may be, for the applicable Series of Bonds and issued in accordance with the terms hereof with respect to such Series of Bonds as a replacement or substitute for any Liquidity Facility then in effect.

Alternate Rate

“Alternate Rate” means, on any Rate Determination Date, for any Series of Bonds in a Daily Mode, a Weekly Mode, a Flexible Rate Mode or a Term Rate Mode, a rate per annum equal to (a) the BMA Municipal Swap Index of Municipal Market Data, formerly the PSA Municipal Swap Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty

Definitions) (the “BMA Rate”) most recently available as of the date of determination, or (b) if such index is no longer available, or if the BMA Rate is no longer published, the Kenny Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions), or (c) if neither the BMA Rate nor the Kenny Index is published, the index determined to equal the prevailing rate determined by the Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by the Remarketing Agent to be comparable under the circumstances to the criteria used by The Bond Market Association to determine the BMA Rate just prior to when The Bond Market Association stopped publishing the BMA Rate. If there is no Remarketing Agent for such Series of Bonds, if the Remarketing Agent fails to make any such determination or if the Remarketing Agent has suspended its remarketing efforts in accordance with the Remarketing Agreement, then the Trustee shall make the determinations required by this definition, or if the Trustee shall decline to make such determination, a financial advisor, investment banker or other qualified party shall make such determination at the expense of the Authority.

ARS

“ARS” means Auction Rate Securities.

ARS Bonds

“ARS Bonds” means any Series of Bonds in the ARS Mode.

ARS Mode

“ARS Mode” means the Mode during which a Series of Bonds evidence interest at the ARS Rate.

ARS Rate

“ARS Rate” shall have the meaning specified in Exhibit B.

ARS Rate Convention Date

“ARS Rate Conversion Date” shall have the meaning specified in Exhibit B.

Auction Agreement

“Auction Agreement” shall have the meaning specified in Exhibit B.

Authority

“Authority” means the Modesto Public Financing Authority, a joint exercise of powers authority duly organized and existing under and by virtue of the laws of the State.

Authority Account

“Authority Account” means the account by that name in the Bond Purchase Fund established pursuant to Section 4.17.

Authorized Denominations

“Authorized Denominations” means, with respect to a Series of Bonds in (i) a Daily Mode or Weekly Mode, \$100,000 and any integral multiple of \$5,000 in excess thereof; (ii) a Flexible Mode, \$100,000 and any integral multiple of \$1,000 in excess thereof; (iii) a Term Rate Mode or Fixed Rate Mode, \$5,000 and any integral multiple thereof; and (iv) the ARS Mode, \$25,000 and any integral multiple thereof.

Authorized Officer or Authorized Representative

“Authorized Officer” or “Authorized Representative” means, with respect to the Authority, any of its Chairperson, Vice Chairperson, Executive Director, Auditor and Treasurer or any other person designated as an Authorized Representative and, with respect to the City means the Mayor, City Manager, Finance Director or any other officer of the City designated by any such office as an Authorized Representative.

Automatic Termination Event

“Automatic Termination Event” means an event of default set forth in a Liquidity Agreement between the Authority and a Liquidity Facility Provider which would result in the immediate termination of the Liquidity Facility provided pursuant to such Liquidity Agreement prior to its stated expiration date without prior notice from the Liquidity Facility Provider to the Trustee.

Base Rental Payments

“Base Rental Payments” means all amounts payable to the Authority from the City as Base Rental Payments pursuant to Section 3.01 of the Facility Lease.

Beneficial Owner

“Beneficial Owner” means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the Bonds (including any Person holding Bonds through nominees, depositories or other intermediaries).

Bond Counsel

“Bond Counsel” means Sidley Austin LLP or another attorney-at-law, or firm of such attorneys, of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on obligations issued by states and their political subdivisions and acceptable to the Authority.

Bond Insurer

“Bond Insurer” means any issuer of a Bond Insurance Policy with respect to a Series of Bonds.

Bond Insurance Policy

“Bond Insurance Policy” means the financial guaranty insurance policy issued by the related Bond Insurer insuring the payment when due of principal of and interest on the related Insured Bonds.

Bond Purchase Fund

“Bond Purchase Fund” means the fund by that name established pursuant to Section 4.17

Bonds

“Bonds” means, collectively, the Series 2007 Bonds and any Additional Bonds issued, and at any time Outstanding pursuant to this Indenture.

“Capital Appreciation Bonds” means the Bonds of any Series designated as Capital Appreciation Bonds in the Supplemental Indenture providing for the issuance of such Series and on which interest is compounded and paid at maturity or on prior redemption.

“Current Interest Bonds” means the Series 2007 Bonds and Bonds of any other Series designated as Current Interest Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and which pay interest at least semiannually to the Owners thereof excluding the first payment of interest thereon.

“Serial Bonds” means the Bonds, maturing in specified years, for which no mandatory Sinking Fund Installments are provided.

“Term Bonds” means the Bonds payable at or before their specified maturity date or dates from Sinking Fund Installments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

Business Day

“Business Day” means any day on which banks located in New York, New York, San Francisco, California and the city in which the Principal Office of the Trustee is located are not required or authorized to be closed and on which The New York Stock Exchange is open.

Certificate, Statement, Request or Requisition of the Authority or the City

“Certificate,” “Statement,” “Request” and “Requisition” of the Authority or the City means, respectively, a written certificate, statement, request or requisition signed in the name of the Authority by its Authorized Officer or such other person as may be designated and authorized to sign for the Authority and signed in the name of the City by its Authorized Officer or such other person as may be designated and authorized to sign for the City in writing to the Trustee. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the

extent required by Section 1.02, each such instrument shall include the statements provided for in Section 1.02.

City

“City” means the City of Modesto, a charter city and a municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State.

Code

“Code” means the Internal Revenue Code of 1986, or any successor statute thereto and any regulations promulgated thereunder.

Conversion Date

“Conversion Date” shall have the meaning specified in Exhibit B.

Costs of Issuance

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the City and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee, initial and ongoing fees and charges of the Authority, legal fees and charges, fees and disbursements of consultants and professionals, title insurance fees, Rating Agency fees, fees and charges for preparation, execution, transportation and safekeeping of the Bonds, and any other cost, charge or fee in connection with the original issuance of the Bonds.

Costs of Issuance Fund

“Costs of Issuance Fund” means the fund by that name established pursuant to Section 3.03.

Current Mode

“Current Mode” shall have the meaning specified in Section 2.15(A)(1) hereof.

Daily Mode

“Daily Mode” means the Mode during which any Series of Bonds evidence interest at the Daily Rate.

Daily Rate

“Daily Rate” means the per annum interest rate with respect to a Series of Bonds in the Daily Mode determined pursuant to Section 2.12 hereof.

Daily Rate Period

“Daily Rate Period” means the period during which a Series of Bonds in the Daily Mode shall evidence interest at a Daily Rate, which shall be from the Business Day upon which a Daily Rate is set to but not including the next succeeding Business Day.

Date of Issuance

“Date of Issuance,” with respect to each Series of Bonds, means the date of issuance and delivery for such Series of Bonds and, with respect to the Series 2007 Bonds, means April 18, 2007.

Debt Service

“Debt Service” means, for any Fiscal Year or other period, the sum of (a) the interest accruing during such Fiscal Year or other period on all Outstanding Bonds and Swaps assuming that all Outstanding Serial Bonds are retired as scheduled and that all Outstanding Term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds so long as such funded interest is in an amount equal to the gross amount necessary to pay such interest on the Bonds and is invested in United States Government Obligations which mature no later than the related Interest Payment Date), (b) the principal amount of all Outstanding Serial Bonds maturing during such Fiscal Year or other period, and (c) the principal amount of all Outstanding Term Bonds required to be redeemed or paid (together with the premiums, if any, thereon) during such Fiscal Year or other period; provided, that the foregoing shall be subject to adjustment and recalculation as follows:

(1) with respect to Capital Appreciation Bonds, the Accreted Value payment shall be deemed a principal payment; and

(2) with respect to Swaps and Swapped Bonds, the interest payments shall be adjusted to give effect to the Swap in such manner and to such extent (1) as may be required under generally accepted accounting principles, consistently applied or (2) as shall be stated in a Certificate of the Authority (which Certificate shall be delivered to the Trustee concurrently with the later of the issuance of the Swapped Bonds or the execution of the Swap) in such manner as shall present fairly the reasonably expected Debt Service on the Swap and Swapped Bonds after the execution of the Swap; and

(3) with respect to Variable Rate Bonds, the interest payments shall be calculated at a rate equal to 150% of the highest rate borne by such Bonds in the last 12 months or with respect to the initial issuance of such Variable Rate Bonds at 150% of the highest rate borne by a comparable issue of bonds as certified to by the Remarketing Agent or Broker-Dealer.

Delayed Remarketing Period

“Delayed Remarketing Period” shall have the meaning specified in Section 4.18 hereof.

Depository

“Depository” means DTC or another recognized securities depository selected by the Authority which maintains a book-entry system for the Bonds.

DTC

The term “DTC” means The Depository Trust Company, New York, New York.

Electronic Means

“Electronic Means” means telecopy, facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including a telephonic communication confirmed by any other method set forth in this definition.

Eligible Bonds

“Eligible Bonds” means any Bonds other than Liquidity Facility Bonds or Bonds owned by, for the account of, or on behalf of, the Authority or the City.

Event of Default

“Event of Default” means any of the events specified in Section 7.01.

Expiration Date

“Expiration Date” means (i) the date upon which a Liquidity Facility is scheduled to expire (taking into account any extensions of such Expiration Date by virtue of extensions of a particular Liquidity Facility, from time to time) in accordance with its terms, including without limitation termination upon delivery of an Alternate Liquidity Facility and (ii) the date upon which a Liquidity Facility terminates following voluntary termination by the Authority.

Extraordinary Swap Payment

“Extraordinary Swap Payment” means any termination payment or any payment other than a Regular Swap Payment due under or pursuant to a Swap.

Facility Lease

“Facility Lease” means that certain lease entitled “Facility Lease” by and between the Authority and the City, dated as of April 1, 2007, which lease or a memorandum thereof was recorded in the office of the County Recorder of the County of Stanislaus on April 18, 2007 under Recorders Serial No. 2007-0048575-00, as originally executed and recorded or as it may from time to time be supplemented, modified or amended pursuant to the provisions hereof and thereof.

Favorable Opinion of Bond Counsel

“Favorable Opinion of Bond Counsel” means an opinion of Bond Counsel addressed to the Authority and the Trustee to the effect that the action proposed to be taken is authorized or permitted by the laws of the State of California and this Indenture and will not result in the inclusion of interest on the Bonds in gross income for federal income tax purposes.

Fiscal Year

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other annual accounting period hereafter selected and designated by the Authority as its Fiscal Year.

Fitch

“Fitch” means Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

Fixed Rate

“Fixed Rate” means the per annum interest rate or interest rates evidenced by Fixed Rate Bonds determined pursuant to Section 2.13(B) hereof.

Fixed Rate Bonds

“Fixed Rate Bonds” means a Series of Bonds in a Fixed Rate Mode that are not Swapped Bonds.

Fixed Rate Mode

“Fixed Rate Mode” means the Mode during which Fixed Rate Bonds evidence interest at a Fixed Rate.

Fixed Rate Period

“Fixed Rate Period” means, with respect to Fixed Rate Bonds converted to the Fixed Rate Mode, the period from the Mode Change Date upon which such Fixed Rate Bonds were converted to a Fixed Rate Mode to but not including the Maturity Date.

Fixed Rate Remarketing Agent

“Fixed Rate Remarketing Agent” means an investment banking firm or firms selected by the Authority that has or have entered into a written agreement with the Authority to remarket or purchase and remarket the Bonds of a Series upon their being converted to a Fixed Rate Mode in accordance with the terms and provisions set forth herein.

Flexible Mode

“Flexible Mode” means the Mode during a Series of Bonds evidence interest at Flexible Rates.

Flexible Rate

“Flexible Rate” means the per annum interest rate determined for the Flexible Rate Bonds pursuant to Section 2.11 hereof.

Flexible Rate Bonds

“Flexible Rate Bonds” means any Series of Bonds in a Flexible Mode.

Flexible Rate Period

“Flexible Rate Period” means, with respect to the Flexible Rate Bond, the period of from one (1) to three hundred ninety-seven (397) calendar days (which Flexible Rate Period must end on a day preceding a Business Day) during which a Flexible Rate Bond shall evidence interest at a Flexible Rate, as established by the Remarketing Agent pursuant to Section 2.11 hereof.

Holder, Bondholder or Owner

“Holder,” “Bondholder” or “Owner,” whenever used herein with respect to a Bond, means the Person in whose name such Bond is registered.

Immediate Termination Date

“Immediate Termination Date” means the date on which a Liquidity Facility Provider’s obligation to advance funds or purchase Bonds under a Liquidity Facility terminates or is suspended immediately in accordance with its terms.

Indenture

“Indenture” means this Indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Insured Bonds

“Insured Bonds” means the Series 2007 Bonds, together with any Bonds identified as Insured Bonds pursuant to a Supplemental Indenture and insured by a Bond Insurance Policy.

Interest Account

“Interest Account” means the account by that name in the Revenue Fund established pursuant to Section 5.02.

Interest Accrual Period

“Interest Accrual Period” means the period during which Bonds accrue interest payable on the next Interest Payment Date applicable thereto. Each Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid, from the date of original authentication and delivery of the Bonds) to, but not including, the Interest Payment Date on which interest is to be paid. If, at the time of authentication of any Bond, interest is in default or overdue with respect to the Bonds, such Bond shall evidence interest from the date to which interest has previously been paid in full or made available for payment in full with respect to the Bonds.

Interest Payment Date

“Interest Payment Date” means each date on which interest is to be paid and is: (i) with respect to a Series of Bonds in an ARS Mode, each date defined as an Interest Payment Date in the ARS Provisions set forth in Exhibit B hereto, and any date that is an ARS Rate Conversion Date; (ii) with respect to a Series of Bonds in a Flexible Mode, each Mandatory Purchase Date applicable thereto; (iii) with respect to a Series of Bonds in a Daily Mode or a Weekly Mode, the first Business Day of each month; (iv) with respect to a Series of Bonds in a Fixed Rate Mode or a Term Rate Mode, the first day of April or October, which is at least three (3) months after the month in which such Long-Term Mode takes effect, and the first day of each April and October thereafter or, upon the receipt by the Trustee of a Favorable Opinion of Bond Counsel, any other six-month interval chosen by the Authority (beginning with the first such day which is at least three months after the Mode Change Date) and, with respect to a Term Rate Mode, the final day of the current Interest Period if other than a regular six-month interval; (v) (without duplication as to any Interest Payment Date listed above) any Mode Change Date, other than a change between a Daily Mode and a Weekly Mode, and each Maturity Date; and (vi) with respect to any Liquidity Provider Bonds, the day set forth in the applicable Liquidity Agreement.

Interest Period

“Interest Period” means, for any Series of Bonds in a particular Mode, the period of time that such Series of Bonds evidence interest at the rate (per annum) which becomes effective at the beginning of such period, and shall include an ARS Rate Period, a Daily Rate Period, a Weekly Rate Period, a Flexible Rate Period, a Term Rate Period, and a Fixed Rate Period.

Joint Powers Agreement

“Joint Powers Agreement” means the Joint Exercise of Powers Agreement by and between the City and the Industrial Development Authority of the City of Modesto, dated as of December 1, 1989 as originally executed and as it may from time to time be amended or supplemented pursuant to the provisions hereof and thereof.

Lease Default Event

“Lease Default Event” means any Event of Default occurring under Section 6.01 of the Facility Lease.

Leased Property

“Leased Property” means the real property described in Exhibit A to the Facility Lease, together with all property subsequently added thereto, or any property substituted for all or any portion of the Leased Property in accordance with this Indenture or the Facility Lease.

Liquidity Agreement

“Liquidity Agreement” means any reimbursement agreement, credit agreement, line of credit agreement, standby purchase agreement or other agreement, between a Bond Insurer or a Liquidity Facility Provider, as applicable, and the Authority and/or the City, as the same may be amended from time to time pursuant to its terms.

Liquidity Facility

“Liquidity Facility” means a line of credit, letter of credit, standby purchase agreement or similar liquidity facility issued by a commercial bank or other financial institution or, in the event of the delivery or availability of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

Liquidity Facility Account

“Liquidity Facility Account” means the account by that name in the Bond Purchase Fund established pursuant to Section 4.17.

Liquidity Facility Bonds

“Liquidity Facility Bonds” means Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility, but excluding Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the applicable Liquidity Facility.

Liquidity Facility Provider

“Liquidity Facility Provider” means the commercial bank, insurance company, pension fund or other financial institution issuing (or having primary obligation, or acting as agent for the financial institutions obligated, under) a Liquidity Facility then in effect.

Long-Term Interest Period

“Long-Term Interest Period” means a Term Rate Period or a Fixed Rate Period.

Long-Term Mode

“Long-Term Mode” means a Term Rate Mode or a Fixed Rate Mode.

Mandatory Purchase Date

“Mandatory Purchase Date” means: (i) with respect to a Flexible Rate Bond, the first Business Day following the last day of each Flexible Rate Period with respect to such Flexible Rate Bond; (ii) for any Series of Bonds in a Term Rate Mode, the first Business Day following the last day of each Term Rate Period for such Bonds; (iii) any Mode Change Date (except a change in Mode between the Daily Mode and the Weekly Mode); (iv) any Substitution Date; (v) the fifth (5th) Business Day prior to an Expiration Date; (vi) the date specified by the Trustee following the occurrence of an event of default with respect to the Liquidity Facility which requires or gives the Liquidity Facility Provider the option to terminate the Liquidity Facility upon notice and requires that all Outstanding Bonds secured by such Liquidity Facility be tendered for purchase under the applicable Liquidity Agreement, which date shall be a Business Day not less than twenty (20) days after the Trustee’s receipt of notice of such event of default from the applicable Liquidity Facility Provider and in no event later than the Business Day preceding the termination date specified in the notice of event of default delivered to the Trustee by such Liquidity Facility Provider; (vii) for a Series of Bonds in a Daily Mode or a Weekly Mode, any Business Day specified by the Authority in a notice delivered to the Trustee, which Mandatory Purchase Date shall be not less than twenty (20) days after the Trustee’s receipt of such notice from the Authority; and (viii) for a Series of Bonds in an ARS Mode, any date on which such Series of Bonds may be prepaid by the Authority in a notice delivered to the Trustee, which Mandatory Purchase Date should be not less than forty-five (45) days (or such lesser period as shall be agreed to by the Trustee) after the Trustee’s receipt of such notice from the Authority, and which notice shall be accompanied by a Favorable Opinion of Bond Counsel.

Maturity Date

“Maturity Date” means the final date upon which principal is due on a Series of Bonds, which is September 1, 2033 with respect to the Series 2007 Bonds.

Maximum Annual Base Rental Payment

“Maximum Annual Base Rental Payment” means the maximum annual payment which the City may be obligated to make with respect to the Base Rental Payments for the 2007 Project, as provided in the Facility Lease, or for any Subsequent Project, as provided and determined in a supplement to the Facility Lease.

Maximum Rate

“Maximum Rate” means, with respect to all Bonds other than Liquidity Facility Bonds, 12% per annum, and with respect to Liquidity Facility Bonds, such rate as is provided for in the applicable Liquidity Facility and not greater than 25% per annum; provided, however, that the Maximum Rate shall not exceed the highest rate then permitted by law.

Mode

“Mode” means, as the context may require, the ARS Mode, the Daily Mode, the Weekly Mode, the Flexible Mode, the Term Rate Mode, or the Fixed Rate Mode.

Mode Change Date

“Mode Change Date” means with respect to a Series of Bonds in a particular Mode, the day on which another Mode for such Series of Bonds begins, and includes an ARS Rate Conversion Date and a Conversion Date.

Mode Change Notice

“Mode Change Notice” means the notice from the Authority to the other Notice Parties of the intention of the Authority to change the Mode with respect to a Series of Bonds.

Moody’s

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

Nationally Recognized Municipal Securities Information Repository or NRMSIR

“Nationally Recognized Municipal Securities Information Repository” or “NRMSIR” means each such repository identified by the Securities Exchange Commission as such from time to time.

New Mode

“New Mode” shall have the meaning specified in Section 2.15(A)(1) hereof.

Noticed Termination Date

“Noticed Termination Date” means the date on which a Liquidity Facility Providers obligation to advance funds or purchase Bonds under a Liquidity Facility terminates as stated in the Liquidity Facility Providers notice of termination delivered pursuant to the Liquidity Facility due to a default under specified sections of the Liquidity Facility, which date of termination shall be twenty (20) days (or such longer period as is specified in the Liquidity Facility) after the date of receipt by the Trustee of such notice.

Notice Parties

“Notice Parties” means the Authority, the City, the Trustee, the Bond Insurer, if any, the Liquidity Facility Provider, if any, the Broker-Dealer, if any, the Auction Agent, if any, the Remarketing Agent, if any, and the Fixed Rate Remarketing Agent, if any.

Opinion of Counsel

“Opinion of Counsel” means a written opinion of counsel of recognized standing in the field of law being addressed in such opinion retained the Authority.

Optional Redemption Account

“Optional Redemption Account” means the account by that name in the Redemption Fund established pursuant to Section 5.07.

Outstanding

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.10) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with Section 10.01 including Bonds (or portions of Bonds) referred to in Section 11.10; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to this Indenture and when used with reference to Swaps, means all Swaps that have not been terminated pursuant to the terms thereof and all Swaps pursuant to which the Authority has existing or future obligations.

Permitted Encumbrances

“Permitted Encumbrances” means (1) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the City may, pursuant to the Facility Lease, permit to remain unpaid; (2) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of recordation of the Facility Lease in the office of the County Recorder of the County of Stanislaus and which the City certifies in writing will not materially impair the use of the Leased Property; (3) the Sublease, as it may be amended from time to time and the Facility Lease, as it may be amended from time to time; (4) this Indenture, as it may be amended from time to time; (5) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (6) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions to which the Authority and the City consent in writing and certify to the Trustee will not materially impair the ownership interests of the Authority or use of the Leased Property by the City; and (7) subleases and assignments of the City which will not adversely affect the exclusion from gross income of interest on the Bonds.

Permitted Investments

“Permitted Investments” means any of the following obligations if and to the extent then permitted by law:

- (1) Federal Securities;
- (2) Obligations, participations, or other instruments of or issued by, or fully guaranteed as to interest and principal by, the Government National Mortgage Association (excluding stripped mortgage backed securities which are valued at greater than par on the unpaid principal);

(3) Bills of exchange or time drafts drawn on and accepted by a commercial bank (including the Trustee or any of its affiliates), otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System and which are drawn on any bank the short-term obligations of which are rated in the highest letter and numerical rating category as provided by Moody's and by S&P; provided, that purchases of eligible bankers acceptances may not exceed 270 days' maturity;

(4) Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating category as provided by Moody's and by S&P, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of \$500,000,000 and that have an "A1" or higher rating for the issuer's unsecured debentures, other than commercial paper, as provided by Moody's and by S&P; provided, that purchases of eligible commercial paper may not exceed 180 days' maturity nor represent more than 10% of the outstanding commercial paper of an issuing corporation;

(5) Non-negotiable certificates of deposit issued by a state or national bank (including the Trustee or any of its affiliates) that have maturities of not more than 365 days or deposit accounts with a state or national bank and that are fully insured by the Federal Deposit Insurance Corporation or the short term obligations of which state or national bank are rated no lower than "A1" by Moody's and "A+" by S&P;

(6) Any repurchase agreement of any securities enumerated in subdivisions (1) and (2) with any state or national bank (including the Trustee or any of its affiliates) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is either (A) with any institution which has debt rated no lower than "A1" by Moody's and "A+" by S&P or whose commercial paper is rated no lower than "P-1" by Moody's and no lower than "A-1" by S&P; (B) with any corporation or other entity that falls under the jurisdiction of the Federal Bankruptcy Code; provided, that (a) the term of such repurchase agreement is less than one (1) year or due on demand; (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral; (c) the market value of the collateral (as determined at least once in every 14 days) exceeds the principal amount of the repurchase agreement plus accrued interest and the market value of the collateral is maintained at levels acceptable to Moody's and to S&P; (d) failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral immediately; and (e) the repurchase agreement securities are free and clear of any third-party lien or claim; or (C) with financial institutions insured by the Federal Deposit Insurance Corporation or any broker-dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corporation; provided, that: (a) the market value of the collateral (as determined at least once in every 14 days) exceeds the principal amount of the repurchase agreement plus accrued interest and the market value of the collateral is maintained at levels acceptable to Moody's and to S&P; (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral; (c) the Trustee has a perfected first priority security interest in the collateral; (d) the collateral is free and clear of third-party liens and in the case of a Securities Investors Protection Corporation broker was not acquired pursuant to a repurchase

agreement or reverse repurchase agreement; and (e) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the collateral immediately;

(7) Certificates, notes, warrants, bonds or other evidence of indebtedness of the State or any local agencies therein which are rated in the highest short-term rating category or within one of the three highest long-term rating categories by Moody's and by S&P (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date);

(8) For amounts less than \$100,000, interest-bearing demand or time deposits (including certificates of deposit) in a nationally or state-chartered bank fully insured by the Federal Deposit Insurance Corporation, including the Trustee or any affiliate thereof, and of which an aggregate total of \$100,000 is not exceeded in any one financial institution;

(9) Investments in units of a money-market fund portfolio that is rated in the highest letter and numerical rating category by Moody's and by S&P (including funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services) and that is composed of obligations guaranteed by the full faith and credit of the United States of America or repurchase agreements collateralized by such obligations;

(10) A guaranteed investment contract with a financial institution or insurance company (or guaranteed by a financial institution or insurance company) which has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated within the two highest rating categories of any Rating Agency;

(11) The Local Agency Investment Fund or similar pooled fund operated by or on behalf of the State and which is authorized to accept investments by or on behalf of the Authority of the moneys held by the Trustee in any of the accounts or funds established pursuant hereto to the extent deposits and withdrawals may be made by the Trustee directly; and

(12) other forms of investments approved in writing by the related Bond Insurer.

Person

"Person" means an individual, corporation, firm, association, partnership, trust, joint venture or any other legal entity or group of entities, including a government or political subdivision or an agency or instrumentality thereof.

Principal Account

"Principal Account" means the account by that name in the Revenue Fund established pursuant to Section 5.02.

Principal Office

“Principal Office” means, as appropriate, the designated corporate trust office of (1) the Trustee, which as of the date hereof is located at 550 Kearny Street, Suite 600, San Francisco, CA 94108-2527 Attention: Corporate Trust Services.

Project

“Project” means the 2007 Project and any additional facilities or improvements financed with proceeds of Additional Bonds.

Project Fund

“Project Fund” means the fund by that name established pursuant to Section 3.04.

Provider Payment Account

“Provider Payment Account” means the account by that name established pursuant to Section 5.02.

Providers

“Providers” means, collectively, the Swap Providers, the Liquidity Facility Providers, and the Reserve Facility Providers (if applicable) and any other party to an agreement with the City or the Authority in connection with the Bonds by which any Related Obligation is created.

Purchase Date

“Purchase Date” means (i) for a Series of Bonds in the Daily Mode or the Weekly Mode, any Business Day selected by the Beneficial Owner of said Bond pursuant to the provisions of Section 4.09 hereof, and (ii) any Mandatory Purchase Date.

Purchase Price

“Purchase Price” means an amount equal to the principal amount of a Series of Bonds purchased on any Purchase Date, plus accrued interest to such Purchase Date (unless such Purchase Date is also an Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which shall be paid in the normal course).

Rate Determination Date

“Rate Determination Date” means any date on which the interest rate with respect to a Series of Bonds shall be determined, which: (i) in the case of an ARS Mode, shall be each Auction Date for the ARS Bonds of each Series; (ii) in the case of a Flexible Mode, shall be the first day of an Interest Period; (iii) in the case of a Daily Mode, shall be each Business Day commencing with the first day (which must be a Business Day) a Series of Bonds become subject to the Daily Mode; (iv) in the case of the initial conversion to a Weekly Mode, shall be no later than the Business Day prior to the Mode Change Date for a Series of Bonds, and

thereafter, shall be each Wednesday or, if Wednesday is not a Business Day, then the Business Day next succeeding such Wednesday; (v) in the case of a Term Rate Mode, shall be a Business Day no earlier than fifteen (15) Business Days and no later than the Business Day next preceding the first day of an Interest Period for such Series of Bonds, as determined by the Remarketing Agent; and (vi) in the case of a Fixed Rate Mode, shall be a date determined by the Remarketing Agent which shall be at least one (1) Business Day prior to the Mode Change Date.

Rating Agency

“Rating Agency” means S&P, Moody’s and Fitch.

Rebate Fund

“Rebate Fund” means the Rebate Fund established pursuant to Section 5.08.

Record Date

“Record Date” means: (i) with respect to a Series of Bonds in a Short-Term Mode, the last Business Day before each Interest Payment Date; (ii) with respect to a Series of Bonds in a Long-Term Mode, the fifteenth (15th) day (whether or not a Business Day) of the month next preceding each Interest Payment Date; and (iii) with respect to a Series of Bonds in an ARS Mode, the Business Day immediately preceding each Interest Payment Date.

Redemption Fund

“Redemption Fund” means the fund by that name established pursuant to Section 5.07.

Redemption Price

“Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and this Indenture.

Regular Swap Payment

“Regular Swap Payment” means any net payment (excluding any termination payment) due on any settlement date based on the swap rate pursuant to the Swap.

Related Obligations

“Related Obligations” means the obligations of the Authority under any hedge agreement (including without limitation, any Swap), credit agreement, liquidity agreement or similar agreement entered into in connection with or related to the Bonds or a series thereof.

Remarketing Agent

“Remarketing Agent” means, with respect to any Series of Bonds, any Remarketing Agent or successor or additional Remarketing Agent appointed in accordance with this Indenture

with respect to such Series of Bonds. “Principal Office” of the Remarketing Agent means the address for the Remarketing Agent designated in writing to the Trustee and the Authority.

Remarketing Agreement

“Remarketing Agreement” means each such agreement between the Authority and a Remarketing Agent with respect to any Series of Bonds, and any similar agreement with a successor Remarketing Agent, in each case as from time to time in effect.

Remarketing Proceeds Account

“Remarketing Proceeds Account” means the account by that name within the Bond Purchase Fund established pursuant to Section 4.17.

Required Stated Amount

“Required Stated Amount” means with respect to a Liquidity Facility, at any time of calculation, an amount equal to the aggregate principal amount of all Bonds then Outstanding secured by such Liquidity Facility together with interest accruing thereon (assuming an annual rate of interest equal to the Maximum Rate) for the period specified in a Certificate of the Authority to be the minimum period specified by the Rating Agencies then rating such Bonds as necessary to obtain (or maintain) a specified short-term rating of such Bonds.

Reserve Facility

“Reserve Facility” means a surety bond or insurance policy issued to the Trustee, on behalf of the Bondholders, by a company licensed to issue an insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds if such entity shall be rated in the highest rating categories issued by Moody’s and by S&P, or a letter of credit issued or confirmed by a state or national bank, or a foreign bank with an agency or branch located in the United States, which has outstanding an issue of unsecured long term debt securities rated at least equal to the second highest rating category by Moody’s and S&P, or any combination thereof, deposited with the Trustee by the Authority to satisfy the Reserve Fund Requirement.

Reserve Facility Costs

“Reserve Facility Costs” means amounts owed with respect to repayment of draws on a Reserve Facility, including interest thereon at the rate specified in the agreement pertaining to such Reserve Facility and expenses owed to the provider of a Reserve Facility.

Reserve Facility Provider

“Reserve Facility Provider” means the provider of a Reserve Facility.

Reserve Fund

“Reserve Fund” means the fund of that name established pursuant to Section 5.05.

Reserve Fund Requirement

“Reserve Fund Requirement” means with respect to all Outstanding Bonds an amount equal to the lesser of (i) the maximum annual Debt Service attributable to the Outstanding Bonds and (ii) 125% of average annual Debt Service attributable to the Outstanding Bonds; provided that with respect to the calculation of the Reserve Fund Requirement upon the issuance of an Additional Series of Bonds the amount calculated shall be the least of (i) or (ii) above, or the amount derived by the addition of 10% of the proceeds from the sale of such Series of Additional Bonds to the Reserve Fund and provided further that the Reserve Fund Requirement shall be reduced to the extent necessary so that all amounts therein may be deposited from Bond proceeds without requiring a portion thereof to be yield restricted in accordance with requirements of the Code. For purposes of determining the Reserve Fund Requirement, the fixed interest rate assumed for Variable Rate Bonds shall be The Bond Buyer Revenue Bond Index published the week preceding the sale of such Variable Rate Bonds, as certified by the Authority.

Revenue Fund

“Revenue Fund” means the fund by that name established pursuant to Section 5.01.

Revenues

The term “Revenues” means, with respect to a Series of Bonds, (i) all Base Rental Payments and other payments paid by the City and received by the Authority pursuant to the Facility Lease (but not Additional Payments), (ii) all interest or other income from any investment, pursuant to Section 5.09, of any money in any fund or account (other than the Rebate Fund) established pursuant to this Indenture or the Facility Lease, (iii) Swap Revenues, if any, and (iv) any additional security, pursuant to Section 5.11, for such Series of Bonds provided for pursuant to a Supplemental Indenture.

S&P

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

Securities Depository

“Securities Depository” means The Depository Trust Company and its successors and assigns, or any other securities depository selected as set forth herein.

Series

“Series” when used with respect to the Bonds, means all the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, and any Bonds thereafter authenticated and delivered upon a transfer or exchange or in lieu of or substitution for such Bonds as herein provided.

Series 2007 Bonds

“Series 2007 Bonds” means the Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007.

Series 2007 Bond Insurance Policy

“Series 2007 Bond Insurance Policy” means the financial guaranty insurance policy insuring the payment when due of principal of and interest on the Series 2007 Bonds.

Series 2007 Bond Insurer

“Series 2007 Bond Insurer” means CIFG Assurance North America, Inc., a financial guaranty insurance company incorporated under the laws of the State of New York, the Bond Insurer with respect to the Series 2007 Bonds.

Sinking Fund Installment

“Sinking Fund Installment” means the amount required to be paid by the Authority on any single date for the retirement of the principal of Term Bonds.

Special Redemption Account

“Special Redemption Account” means the account by that name in the Redemption Fund established pursuant to Section 5.07.

State

“State” means the State of California.

Sublease

“Sublease” means that certain sublease entitled “Sublease” by and between the Authority and the City, dated as of April 1, 2007, which lease or a memorandum thereof was recorded in the office of the County Recorder of the County of Stanislaus on April 18, 2007 under Recorders Serial No. 2007-0048574-00, as originally executed and recorded or as it may from time to time be supplemented, modified or amended pursuant to the provisions hereof and thereof.

Subsequent Project

“Subsequent Project” means any and all facilities and buildings for use by the City, whether within or without the City, and all additions, extensions or improvements thereto hereafter added to the Project and hereafter described by a notice to the Trustee.

Supplemental Indenture

“Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending this Indenture or providing for the issuance of Additional Bonds and entered into as provided in Article IX hereof.

Swap

“Swap” means an interest rate swap, cap, floor, collar or other hedging transaction which is entered into by the Authority for the purpose of managing interest rate risk with respect to specified Bonds which are being issued concurrently with the execution of the Swap, which are proposed to be issued in connection with such Swap, or which are Outstanding at the time of execution of such Swap.

Swap Payment Date

“Swap Payment Date” means each date on which Regular Swap Payments are to be paid.

Swap Provider

“Swap Provider” means an entity which is a party to a Swap with the Authority.

Swap Revenues

“Swap Revenues” means the sum of money due to be paid by a Swap Party to the Authority pursuant to any Swap subject to any netting of payments provided by the applicable Swap.

Swapped Bonds

“Swapped Bonds” means the Bonds to which a Swap relates.

Tax Certificate

“Tax Certificate” means the Tax Certificate and Agreement delivered by the Authority and the City at the time of issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

Tender Notice Deadline

“Tender Notice Deadline” means: (i) during the Daily Mode, 11:00 a.m. New York City time on any Business Day; and (ii) during the Weekly Mode, 5:00 p.m. New York City time on the Business Day seven (7) days prior to the applicable Purchase Date.

Tender Notice

“Tender Notice” means a notice delivered by Electronic Means or in writing that states: (i) the principal amount of Bonds of a Series to be purchased pursuant to Section 4.09 hereof; (ii) the Purchase Date on which such Bonds are to be purchased; (iii) applicable payment instructions with respect to such Bonds being tendered for purchase; and (iv) an irrevocable demand for such purchase.

Term Rate

“Term Rate” means the per annum interest rate for any Series of Bonds in the Term Rate Mode determined pursuant to Section 2.13(A) hereof.

Term Rate Mode

“Term Rate Mode” means the Mode during which a Series of Bonds evidence interest at a Term Rate.

Term Rate Period

“Term Rate Period” means the period from (and including) the Mode Change Date or the date of initial conversion of a Series of Bonds to a Term Rate Mode, as applicable, to (but excluding) the last day of the first period that such Series of Bonds shall be in the Term Rate Mode as established by the Authority pursuant to Section 2.13(A) hereof and, thereafter, the period from (and including) the beginning date of each successive Interest Rate Period selected for a Series of Bonds by the Authority pursuant to Section 2.13(A) hereof while such Bonds are in the Term Rate Mode to (but excluding) the commencement date of the next succeeding Interest Period, including another Term Rate Period. Except as otherwise provided in this Indenture, an Interest Period for Bonds in the Term Rate Mode must be at least one hundred eighty (180) days in length.

Trustee

“Trustee” means The Bank of New York Trust Company, N.A., a national banking association organized and existing under and by virtue of the laws of the United States or its successor, as Trustee hereunder as provided in Section 8.01.

2007 Project

“2007 Project” means the refunding of all of the 1997 Bonds and a portion of the 1998 Bonds and the financing of additional improvements to John Thurman Field, all to be financed with proceeds of the Series 2007 Bonds.

Variable Rate Bonds

“Variable Rate Bonds” means Bonds of any Series that are not Swapped Bonds which bear interest in a Daily Mode, Weekly Mode, Flexible Mode or ARS Mode.

Weekly Mode

“Weekly Mode” means the Mode during which a Series of Bonds evidence interest at the Weekly Rate.

Weekly Rate

“Weekly Rate” means the per annum interest rate with respect to a Series of Bonds in the Weekly Mode determined pursuant to Section 2.12(B) hereof.

Weekly Rate Period

“Weekly Rate Period” means the period during which a Series of Bonds evidence interest at a Weekly Rate, which shall be the period commencing on Thursday of each week to and including Wednesday of the following week, except the first Weekly Rate Period which shall be from the Mode Change Date for such Bonds to and including the Wednesday of the following week and the last Weekly Rate Period which shall be from and including the Thursday of the week prior to the Mode Change Date to and including the day next preceding the Mode Change Date.

SECTION 1.02. Content of Certificates and Opinions. Every certificate or opinion provided for herein with respect to compliance with any provision hereof shall include (1) a statement that the Person making or giving such certificate or opinion has read such provision and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such Person, he has made or caused to be made such examination or investigation as is necessary to enable such Person to express an informed opinion with respect to the subject matter referred to in the instrument to which such Person’s signature is affixed; and (4) a statement as to whether, in the opinion of such Person, such provision has been complied with.

Any such certificate or opinion made or given by an officer of the Authority or the City may be based, insofar as it relates to legal, accounting or health care matters, upon a certificate or opinion of or representation by counsel, an accountant or a management consultant unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel, an accountant or a management consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the Authority or the City, as the case may be) upon a certificate or opinion of or representation by an officer of the Authority or the City, unless such counsel, accountant or management consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person’s certificate or opinion representation may be based, as aforesaid, is erroneous. The same officer of the Authority or the City, or the same counselor accountant or management consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of this Indenture, but different officers, counsel, accountants or management consultants may certify to different matters, respectively.

SECTION 1.03. Interpretation.

(A) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine or feminine gender is for

convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(B) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(C) All references herein to “Article,” “Section” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II

THE BONDS

SECTION 2.01. Authorization of Bonds.

(A) The Bonds may be issued hereunder from time to time in order to obtain moneys to carry out the purposes of the Authority. The maximum principal amount of Bonds which may be issued hereunder is not limited. The Bonds are designated generally as “Modesto Public Financing Authority Lease Revenue Bonds;” each Series thereof to bear such additional designation as may be necessary or appropriate to distinguish such Series from every other Series of Bonds. The Bonds may be issued in such Series as from time to time shall be established and authorized by the Authority, subject to the covenants, provisions and conditions herein contained. This Indenture constitutes a continuing agreement with the Holders from time to time of the Bonds to secure the full payment of the principal of and premium, if any, and interest on all such Bonds subject to the covenants, provisions and conditions herein contained.

(B) An initial Series of Bonds is hereby created and designated as “Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007” and is authorized to be issued hereunder. The aggregate principal amount of the Series 2007 Bonds which may be issued and Outstanding under this Indenture shall not exceed \$65,000,000.

(C) The Authority has reviewed all proceedings heretofore taken relative to the authorization of the Series 2007 Bonds and has found, as a result of such review, and hereby finds and determines that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in the issuance of the Series 2007 Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and that the Authority is now duly authorized, pursuant to each and every requirement of the Act, to issue the Series 2007 Bonds in the form and manner provided herein for the purpose of providing funds to finance and refinance the 2007 Project, and that the Series 2007 Bonds shall be entitled to the benefit, protection and security of the provisions hereof.

(D) The validity of the issuance of the Series 2007 Bonds shall not be dependent on or affected in any way by the proceedings taken by the Authority for the finance and refinancing of the 2007 Project or by any contracts made by the Authority or its agents in connection therewith, and shall not be dependent upon the performance by any person, firm or corporation of his or its

obligation with respect thereto. The recital contained in the Series 2007 Bonds that the same are issued pursuant to the Act and pursuant hereto shall be conclusive evidence of their validity and of the regularity of their issuance, and all Series 2007 Bonds shall be incontestable from and after their issuance. The Series 2007 Bonds shall be deemed to be issued, within the meaning hereof, whenever the definitive Series 2007 Bonds (or any temporary Series 2007 Bonds exchangeable therefor) shall have been delivered to the purchaser thereof and the proceeds of sale thereof received.

SECTION 2.02. Terms of the Bonds; Registration; Denominations; Payment of Principal and Interest.

(A) The Bonds of each Series shall be issued as fully registered Bonds without coupons in Authorized Denominations. The Bonds shall be registered in the name of Cede & Co. as nominee of the Securities Depository, and shall be evidenced by one Bond certificate for each maturity and Series of Bonds (or in the case of a Series of Bonds in a Flexible Mode, one Bond Certificate for each Flexible Rate and Interest Period within such Series) in the total aggregate principal amount of the Bonds of that Series and maturity. Registered ownership of the Bonds of such Series, or any portion thereof, may not thereafter be transferred except as set forth in Section 2.09.

(B) The Bonds shall be dated the Date of Issuance. The Bonds of each Series shall be numbered in consecutive numerical order from 1 upwards, with a separate designation for each Series.

(C) The Bonds of each Series will mature on their respective Maturity Dates.

(D) The Bonds of each Series shall bear interest and be payable in lawful money of the United States of America, at the rates determined pursuant to this Article II from the date thereof.

Payment of interest on the Bonds of each Series shall be made to the person appearing on the registration books of the Trustee as the Owner thereof as of the close of business on the applicable Record Date, such interest to be payable on each Interest Payment Date by the Trustee (i) by check mailed on such Interest Payment Date to such Owner's address as it appears on the registration books of the Trustee at the close of business on the Record Date or (ii) by wire transfer to any Owner of at least \$1,000,000 aggregate principal amount of the Bonds according to the written instructions provided by such Owner on or prior to the applicable Record Date to the Trustee, which written instructions shall remain in effect until revised by such Owner by an instrument in writing delivered to the Trustee.

The principal or Redemption Price of the Bonds of each Series shall be payable in lawful money of the United States of America upon the surrender thereof at the Corporate Trust Office of the Trustee.

(E) During each Interest Period for each Mode, the interest rate or rates shall be payable on the applicable Interest Payment Date for such Interest Period; provided that the interest rate or rates shall not exceed the Maximum Rate. All Bonds of a Series shall evidence interest in the same Mode, but need not evidence interest at the same rate at any one time.

Interest with respect to a Series of Bonds accruing at the Daily Rate, Weekly Rate or Flexible Rate shall be computed upon the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest with respect to a Series of Bonds accruing at an ARS Rate shall be computed on the basis of a 360-day year for the actual number of days elapsed if the Auction Period is less than one hundred eighty (180) days; if the Auction Period is one hundred eighty (180) days or more, except as provided in Section 2.02(I), interest shall be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest with respect to a Series of Bonds accruing at a Fixed Rate or a Term Rate shall be computed upon the basis of a 360-day year, consisting of twelve 30-day months. Each Bond shall evidence interest on overdue principal and, to the extent permitted by law, on overdue interest at the rate evidenced by such Bond on the date on which such principal became due and payable. Notwithstanding the foregoing, the interest rate and payment terms of Liquidity Provider Bonds shall be governed by the provisions of the Liquidity Facility.

(F) Interest on the Bonds of each Series shall accrue from and including the Interest Accrual Date immediately preceding the date of authentication thereof, or, if such date of authentication shall be an Interest Accrual Date, from such Interest Accrual Date or if such date of authentication shall be prior to the second Interest Accrual Date, from the Date of Issuance; provided, however, that if interest on the Bonds shall be in default, interest on the Bonds issued in exchange for such Bonds surrendered for registration of transfer or exchange shall accrue from the date to which interest has been paid in full with respect to such Bonds or, if no interest has been paid with respect to such Bonds, from the Date of Issuance.

(G) In the absence of manifest error, the determination of any ARS Rate, Daily Rate, Weekly Rate, Flexible Rate, Term Rate and Fixed Rate by the Auction Agent or the Remarketing Agent, the determination of each Flexible Rate Period for any Series of Bonds in a Flexible Mode by the Remarketing Agent and the determination of the length of each Term Rate Period by the Authority shall be conclusive and binding upon the Authority, the other Notice Parties and each Owner.

(H) The Bonds shall be subject to redemption as provided in Article IV and, in the case of Additional Bonds, in a Supplemental Indenture.

(I) The Series 2007 Bonds and the authentication and registration endorsement and assignment to appear thereon shall be substantially in the forms set forth Exhibit A hereto attached and by this reference herein incorporated.

The first Mode for the Series 2007 Bonds shall be an ARS Mode. The Series 2007 Bonds shall initially evidence interest at a rate of 3.70% for the period commencing on and including the Date of Issuance and ending on and including September 2, 2008, with interest payable on September 1, 2007, March 1, 2008 and September 3, 2008, in each case computed upon the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Thereafter, the Auction Period shall be a seven-day Auction Period with Auctions generally conducted on Thursdays as provided in Exhibit B hereto. The first Auction for the Series 2007 Bonds shall occur on September 2, 2008. The Mode for the Series 2007 Bonds may be changed in accordance with this Article II.

SECTION 2.03. Execution of Bonds. The Bonds shall be executed in the name and on behalf of the Authority with the manual or facsimile signature of its Chairman or Vice Chairman attested by the manual or facsimile signature of its Secretary. The Bonds shall then be delivered to the Trustee for authentication by it.

In case any of the officers who shall have signed or attested any of the Bonds shall cease to be such officer or officers of the Authority before the Bonds so signed or attested shall have been authenticated or delivered by the Trustee or issued by the Authority, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Authority as though those who signed and attested the same had continued to be such officers of the Authority, and also any Bond may be signed and attested on behalf of the Authority by such persons as at the actual date of execution of such Bond shall be the proper officers of the Authority although at the nominal date of such Bond any such person shall not have been such officer of the Authority.

Only such of the Bonds as shall bear thereon a certificate of authentication substantially in the form hereinbefore recited, manually executed by an authorized signatory of the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

SECTION 2.04. Transfer of Bonds. Subject to the provisions of Section 2.09 any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.06, by the Person in whose name it is registered, in person or by such Person's duly authorized attorney, upon surrender of such Bond for cancellation accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds, of the same Series and maturity and for a like aggregate principal amount. The Trustee shall require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer, and the Trustee may also require the Bondholder requesting such transfer to pay a reasonable sum to cover expenses incurred by the Trustee or the Authority in connection with such transfer. The Trustee shall not be required to transfer (i) any Bond during the fifteen (15) days next preceding the date on which notice of redemption of Bonds is given, or (ii) any Bond called for redemption.

SECTION 2.05. Exchange of Bonds. Bonds may be exchanged at the Principal Office of the Trustee for a like aggregate principal amount of Bonds of other Authorized Denominations of the same Series and maturity. The Trustee shall require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange and the Trustee may also require the Bondholder requesting such exchange to pay a reasonable sum to cover expenses incurred by the Trustee or the Authority in connection with such exchange. The Trustee shall not be required to exchange (i) any Bond during the fifteen (15) days immediately preceding the date on which notice of redemption of Bonds is given or (ii) any Bond called for redemption.

SECTION 2.06. Bond Register. The Trustee will keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which shall at all times (during regular business hours at the location where such books are kept) be open to inspection by any Bondholder or such Bondholders agent duly authorized in writing, the Authority or the City; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as hereinbefore provided.

SECTION 2.07. Temporary Bonds. The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bond may be printed, lithographed or typewritten, shall be of such denomination as may be determined by the Authority, shall be in fully registered form without coupons and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the Authority and be authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Authority issues temporary Bonds it will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds shall be surrendered, for cancellation, in exchange therefor at the Principal Office of the Trustee, and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of Authorized Denominations of the same Series and maturity. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder.

SECTION 2.08. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Authority, at the expense of the Holder of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to it and indemnity satisfactory to it shall be given, the Authority, at the expense of the Holder, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall be about to mature, instead of issuing a substitute Bond, the Trustee may pay the same without surrender thereof). The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the Authority and the Trustee in complying with this Section. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall replace the Bond alleged to be lost, stolen or destroyed as an original contractual obligation on the part of the Authority, and shall be entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

SECTION 2.09. Use of Securities Depository. Notwithstanding any provision of this Indenture to the contrary:

(A) The Bonds shall be initially issued as provided in Section 2.02. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except:

(1) To any successor of the Securities Depository or its nominee, or to any substitute depository designated pursuant to clause (2) of this subsection (A) (“substitute depository”); provided that any successor of the Securities Depository or substitute depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(2) To any substitute depository designated by the Authority upon (a) the resignation of the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository or (b) a determination by the Authority that the Securities Depository or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; provided that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(3) To any Person as provided below, upon (a) the resignation of the Securities Depository or its successor (or substitute depository or its successor) from its functions as depository; provided that. no substitute depository can be obtained or (b) a determination by the Authority that it is in the best interests of the Authority to remove the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository.

(B) In the case of any transfer pursuant to clause (1) or clause (2) of subsection (A), upon receipt of the Outstanding Bonds by the Trustee, together with a Certificate of the Authority to the Trustee, a single new Bond for each Series shall be executed and delivered in the aggregate principal amount of the Bonds of such Series then Outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such Certificate of the Authority. In the case of any transfer pursuant to clause (3) of subsection (A), upon receipt of the Outstanding Bonds by the Trustee together with a Certificate of the Authority to the Trustee, new Bonds shall be executed and delivered in such Authorized Denominations and registered in the names of such Persons as are requested in such a Certificate of the Authority, subject to the limitations of Section 2.02, provided the Trustee shall not be required to deliver such new Bonds within a period less than sixty (60) days from the date of receipt of such a Certificate of the Authority.

(C) In the case of partial redemption or an advance refunding of any Series of Bonds evidencing all or a portion of such principal amount Outstanding, the Securities Depository shall make an appropriate notation on such Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee.

(D) The Authority, the Bond Insurer and the Trustee shall be entitled to treat the Person in whose name any Bond is registered as the Bondholder thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee, the Bond Insurer or the Authority; and the Authority, the Bond Insurer and the Trustee shall have no responsibility for transmitting payments to, communicating with, notifying or otherwise dealing with any Beneficial Owners of the Bonds. None of the Authority, the Bond Insurer or the Trustee will have any responsibility or obligations, legal or otherwise, to the Beneficial Owners or to any other party including the Securities Depository or its successor (or substitute depository or its successor), except for the Holder of any Bond.

(E) So long as the Outstanding Bonds are registered in the name of Cede & Co. or its registered assign, the Authority and the Trustee shall cooperate with Cede & Co., as sole registered Bondholder, and its registered assigns in effecting payment of the principal of and premium, if any, and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

SECTION 2.10. Determination of Auction Rate. While in an ARS Mode, the ARS Bonds shall evidence interest at the Auction Rate which shall be determined as provided in Exhibit B hereto.

SECTION 2.11. Determination of Flexible Rates and Interest Periods During Flexible Mode. An Interest Period for a Series of Bonds in the Flexible Mode shall be of such duration of from one (1) to three hundred ninety-seven (397) calendar days, ending on a day preceding a Business Day or the Maturity Date, as the Remarketing Agent shall determine in accordance with the provisions of this Section 2.11. In making the determinations with respect to Interest Periods, subject to limitations imposed by the immediately preceding sentence, on each Rate Determination Date for a Flexible Rate Bond, the Remarketing Agent shall select the Interest Period that would result in the Remarketing Agent being able to remarket such Flexible Rate Bonds at par in the secondary market at the lowest average interest cost under then-existing marketing conditions; provided, however, that if the Remarketing Agent has received notice from the Authority to the effect that the Mode for the Bonds is to be changed from the Flexible Mode to any other Mode, the Remarketing Agent shall select Interest Periods that do not extend beyond the resulting Mode Change Date. The Flexible Rate for a Series of Bonds in a Flexible Mode shall be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if evidenced by such Bonds, would enable the Remarketing Agent to sell such Bonds under then existing market conditions, including length of Interest Period, on the effective date of such rate at a price equal to the principal amount thereof. Each Bond of a Series in a Flexible Mode may evidence interest at a different Flexible Rate and may have an Interest Period within the Flexible Mode which differs from the Interest Period applicable to any Bond of such Series in a Flexible Mode.

The Trustee, in consultation with the Remarketing Agent, shall take such actions as shall be necessary to distinguish Bonds of a Series having different Flexible Rate Periods, which actions may include obtaining different CUSIP numbers if determined desirable by the Trustee or the Remarketing Agent.

By 1:00 p.m. New York City time on each Rate Determination Date, the Remarketing Agent, with respect to each Flexible Rate Bond in the Flexible Mode that is subject to adjustment on such Rate Determination Date, shall determine the Flexible Rate for the Interest Period then selected for such Flexible Rate Bond and shall give notice of the Interest Period, the Purchase Date and the Flexible Rate for such Flexible Rate Bond, such notice to be given by Electronic Means to the Trustee and the Authority. The Remarketing Agent shall make the Flexible Rate and Interest Period available after 2:00 p.m. New York City time on each Rate Determination Date by telephone or Electronic Means to any Beneficial Owner or Notice Party other than the Authority requesting such information.

In the event the use of the Book-Entry System is discontinued, in order to receive payment of the Purchase Price of any Flexible Rate Bond in the Flexible Mode, the Owner of such Flexible Rate Bond must present such Flexible Rate Bond to the Trustee, by 12:00 noon New York City time on the applicable Mandatory Purchase Date. Upon receipt of such Flexible Rate Bond by 12:00 noon New York City time on a Mandatory Purchase Date, the Trustee shall pay the Purchase Price to such Owner by 2:30 p.m. New York City time on such Mandatory Purchase Date.

SECTION 2.12. Determination of Interest Rates During the Daily Mode and the Weekly Mode. The interest rate for a Series of Bonds during the Daily Mode or Weekly Mode shall be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of such Series of Bonds in the Daily Rate Period or Weekly Rate Period, as applicable, at a price equal to 100% of the principal amount thereof.

(A) During the Daily Mode, the Remarketing Agent shall establish the Daily Rate by 10:00 a.m. New York City time on each Rate Determination Date. The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the immediately preceding Rate Determination Date. The Remarketing Agent shall make the Daily Rate available no less frequently than once each week by telephone or Electronic Means to the Authority, each other Notice Party and any Beneficial Owner requesting such rate.

(B) During the Weekly Mode, the Remarketing Agent shall establish the Weekly Rate by 4:00 p.m. New York City time on each Rate Determination Date. The Weekly Rate shall be in effect during the applicable Weekly Rate Period. The Remarketing Agent shall make the Weekly Rate available no later than 5:00 p.m. New York City time on the Business Day following the Rate Determination Date by telephone or Electronic Means to the Authority, each other Notice Party and any Beneficial Owner requesting such rate.

SECTION 2.13. Determination of Term Rates and Fixed Rates.

(A) Term Rates. The interest rate for a Series of Bonds in the Term Rate Mode shall be the minimum rate which, in the opinion of the Remarketing Agent, would result in a sale of such Bonds, under then existing market conditions, at a price equal to 100% of the principal amount thereof on the Rate Determination Date for a Term Rate Period of the duration selected by the Authority, written notice of which shall have been delivered by the Authority to the Remarketing Agent prior to such Rate Determination Date. Notwithstanding the foregoing, if the Authority shall deliver a Favorable Opinion of Bond Counsel, the interest rate set for some or all of the affected Bonds may include a premium or a discount. In no event shall any Term Rate be greater than the Maximum Rate and no Term Rate Period may extend beyond the Maturity Date.

The Term Rate shall be determined by the Remarketing Agent not later than 4:00 p.m. New York City time on the Rate Determination Date and the Remarketing Agent shall make the Term Rate available by telephone or Electronic Means after 5:00 p.m. New York City time on

the Rate Determination Date to the Authority and each other Notice Party requesting such Term Rate. A copy of each such notice shall be provided to the Bond Insurer for the applicable Series.

Except as is otherwise provided in Section 2.14 hereof, once the Bonds are changed to a Term Rate Mode, the such Bonds shall continue in the Term Rate Mode until changed to another Mode in accordance with Section 2.15 hereof. If the Authority shall have failed to select a new Term Rate Period prior to the applicable Rate Determination Date for such new Term Rate Period, the new Term Rate Period shall be the same length as the current Term Rate Period; provided however, that no Term Rate Period may extend beyond the Maturity Date.

(B) Fixed Rates. The Fixed Rate for a Series of Bonds when being converted from a Daily Mode, Weekly Mode, Flexible Mode or a Term Rate Mode to the Fixed Rate Mode shall be determined by the Fixed Rate Remarketing Agent in the following manner: not later than 12:00 noon New York City time on the applicable Rate Determination Date, the Fixed Rate Remarketing Agent shall determine the Fixed Rate or Fixed Rates, as applicable. The Fixed Rate or Fixed Rates shall be the minimum interest rate(s) which, in the opinion of the applicable Fixed Rate Remarketing Agent, will result in a sale of such Bonds at a price equal to the principal amount thereof on the Rate Determination Date. Notwithstanding the foregoing, if the Authority shall deliver a Favorable Opinion of Bond Counsel, the interest rate set for some or all of the Bonds of a Series may include a premium or a discount. The Fixed Rate Remarketing Agent shall make the Fixed Rate or Fixed Rates, as applicable, available by telephone or by Electronic Means after 5:00 p.m. New York City time on the Rate Determination Date to the Authority and each other Notice Party requesting notice of such Fixed Rate or Fixed Rates. A copy of each such notice shall be provided to the Bond Insurer for the applicable Series. The Fixed Rate or Rates, as applicable, so established for Bonds of a Series shall remain in effect until the Maturity Date or Maturity Dates, as applicable, of such Bonds.

SECTION 2.14. Alternate Rates. When Bonds of a Series are in a Daily Mode, a Weekly Mode, a Flexible Rate Mode or a Term Rate Mode, the following provisions shall apply in the event (i) the Remarketing Agent fails or is unable to determine the interest rate for such Bonds or to determine the interest rate or Flexible Rate Period for Bonds of a Series within the Flexible Mode, (ii) the method by which the Remarketing Agent determines the interest rate or Interest Period with respect to Bonds of a Series (or the selection by the Authority of the duration of a Term Rate Period for such Bonds) shall be held to be unenforceable by a court of law of competent jurisdiction, or (iii) the Remarketing Agent suspends its remarketing effort in accordance with the provisions of the Remarketing Agreement. The provisions set forth in this Section shall continue to apply until such time as the Remarketing Agent (or the Authority, if applicable) resumes making such determinations. In the case of clause (ii) above, the Remarketing Agent (or the Authority, if applicable) shall resume making such determination at such time as there is delivered to the Remarketing Agent or the Authority, as applicable, an opinion of Bond Counsel to the effect that there are no longer any legal prohibitions against the Remarketing Agent or Authority, as applicable, making such determinations.

The following shall be the methods by which the interest rates and, in the case of the Flexible Rate Mode and Term Rate Modes, the Interest Periods, shall be determined for Bonds of a Series or for any Flexible Rate Bond as to which any of the events described in clauses (i), (ii) or (iii) above shall be applicable. Such methods shall be applicable from and after the date

any of the events described in clauses (i), (ii) or (iii) of the immediately preceding paragraph shall become applicable until such time as the events described in clauses (i), (ii) or (iii) of the immediately preceding paragraph are no longer applicable to Bonds of a Series or any Flexible Rate Bond. Notwithstanding any other provision herein, these provisions shall not apply with respect to the selection of the length of the Term Rate Period for the Bonds of a Series in a Term Rate Mode if the Authority fails to select the length of the Term Rate Period for such Bonds for a reason other than as described in clause (ii) of the immediately preceding paragraph.

(A) For Flexible Rate Bonds, the next Interest Period shall be from, and including, the first day following the last day of the current Interest Period for the applicable Flexible Rate Bonds to, but excluding, the next succeeding Business Day, and thereafter the Interest Period for such Flexible Rate Bond shall commence on each Business Day and extend to, but exclude, the next succeeding Business Day. For each such Interest Period, the interest rate for such Flexible Rate Bonds shall be the applicable Alternate Rate in effect on the Business Day that begins an Interest Period.

(B) If Bonds of a Series are in a Daily Mode or a Weekly Mode, then such Bonds shall evidence interest during each subsequent Interest Period for such Bonds at the Alternate Rate in effect on the first day of such Interest Period.

(C) If Bonds a Series are in a Term Rate Mode, then such Bonds shall automatically convert to a Flexible Rate Mode, with an Interest Period commencing on the first day following the last day of the current Interest Period for such Bonds to, but excluding, the next succeeding Business Day, and thereafter the Interest Period for such Bonds shall commence on each Business Day and extend to, but exclude, the next succeeding Business Day. For each such Interest Period, the interest rate for such Bonds shall be the applicable Alternate Rate in effect at the beginning of each such Interest Period.

SECTION 2.15. Changes in Mode. Subject to compliance with the provisions set forth in this Section, the Authority may elect to effect a change in Mode with respect any Series of Bonds (other than Bonds of a Series in a Fixed Rate Mode).

(A) Changes to Modes Other Than ARS Mode and Fixed Rate Mode. At the option of the Authority, Bonds of any Series (other than Bonds of a Series being changed to or from an ARS Mode, which shall be governed by the provisions set forth in Section 2.15(B), Section 2.15(C) and Section 2.15(D) hereof, and other than Bonds of a Series, including ARS Bonds in an ARS Mode, being changed to a Fixed Rate Mode, which shall be governed by the provisions set forth in Section 2.15(D) hereof) may be changed from one Mode to another Mode (other than an ARS Mode or a Fixed Rate Mode) as set forth below:

(1) Notice by Authority. At least five (5) Business Days (or such shorter time as may be agreed to by the Authority, the Trustee and the Remarketing Agent) prior to the date that notice of the proposed Mode Change Date is required to be given to the Owners by the Trustee as specified below, the Authority shall give written notice to each of the Notice Parties of its intention to effect a change in the Mode from the Mode then prevailing (for purposes of this Section, the “Current Mode”) to another Mode (for purposes of this Section, the “New Mode”) which shall be specified in such written notice. Such notice to the Notice Parties shall

specify the proposed Mode Change Date and shall also include a statement as to whether a Liquidity Facility is expected to be in effect with respect to such Series of Bonds following such change and, if a Liquidity Facility is expected to be in effect, such notice shall identify the anticipated provider of such Liquidity Facility. If the change is to a Term Rate Mode, such notice shall specify the length of the initial Term Rate Period.

(2) Notice to Owners. Notice of the proposed change in Mode, unless otherwise specified in Section 2.15(B), Section 2.15(C) and Section 2.15(D) hereof, shall be given by the Trustee to the Owners of such Series of Bonds not less than the fifteenth (15th) day next preceding the applicable Mode Change Date; provided that no notice need be given for a Mode Change Date occurring on the first Business Day following the last day of a Flexible Rate Period or a Term Rate Mode or on a Substitution Date. Such notice shall state the Mode to which the conversion will be made and the proposed Mode Change Date and, if applicable, shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to Section 4.10 hereof. If the Book-Entry System is no longer in effect, such notice shall also provide information with respect to required delivery of physical such Series of Bonds and procedures for payment of Purchase Price. Notwithstanding any other provision of this Indenture, the Trustee shall not mail such written notice if such Series of Bonds are being converted from a Flexible Mode until the Trustee shall have received a written confirmation from the Remarketing Agent to the effect that no Interest Period for such Bonds extends beyond the proposed Mode Change Date. The Trustee shall provide a copy of such notice to the Authority and to each of the other Notice Parties.

(3) Determination of Interest Rates and Interest Periods. The New Mode shall commence on the Mode Change Date and the interest rate(s), together, in the case of a change to the Flexible Mode, with the Interest Period or Interest Period(s), as applicable, shall be determined by the Remarketing Agent (or the Authority in the case of the Interest Period for Bonds of a Series being converted to a Term Rate Mode) in the manner provided in Section 2.11, Section 2.12 and Section 2.13 hereof, as applicable.

(4) Conditions Precedent:

(a) The Mode Change Date shall be: (i) in the case of a change from a Flexible Mode, the next Mandatory Purchase Date for all of the Flexible Rate Bonds; (ii) in the case of a change from a Daily Mode or a Weekly Mode, any Business Day; and (iii) in the case of a change from a Term Rate Mode to another Mode, or from a Term Rate Period to a Term Rate Period of a different duration, the Mode Change Date shall be limited to (yy) any Interest Payment Date on which Bonds of a Series are subject to optional redemption or (zz) the last Interest Payment Date of the current Term Rate Period. The Bonds of a Series shall be subject to mandatory tender for purchase on such Mode Change Date in accordance with Section 4.10 hereof, and, except as is otherwise provided herein, such Bonds shall be purchased on the Mode Change Date at a Purchase Price equal to 100% of the principal amount thereof; provided, however, that if such Bonds are to be purchased on an Interest Payment Date other than the last Interest Payment Date applicable to such Bonds, and if such Bonds would otherwise be subject to optional redemption on such Mode Change Date at a redemption price of more than

100% of the principal amount thereof, then such Bonds shall be purchased at a Purchase Price equal to such redemption price.

(b) If the Bonds of a Series to be converted are in the Flexible Mode, no Interest Period for such Bonds set after delivery by the Authority to the Remarketing Agent of the notice of the intention to effect a change in Mode shall extend beyond the day preceding the proposed Mode Change Date.

(c) As and to the extent applicable, the Authority shall select a Remarketing Agent for such Bonds, and shall provide for the delivery of a Liquidity Facility if required.

(d) The following items shall have been delivered to the Authority, the Trustee, the applicable Bond Insurer and the Remarketing Agent on or prior to the Mode Change Date:

(i) in the case of a change from any Mode other than a change from a Daily Mode to a Weekly Mode or a change from a Weekly Mode to a Daily Mode, a Favorable Opinion of Special Counsel dated the Mode Change Date;

(ii) if there is to be a Liquidity Facility delivered in connection with such change, the items required by Section 4.19 hereof; and

(iii) a notice from the Rating Agencies of the rating(s) to be assigned to such Bonds on such Mode Change Date.

(5) Rescission of Election. The Authority may rescind any election by it to change a Mode in accordance with this Section 2.15(A) as provided in Section 2.15(F) hereof.

(B) Change to ARS Mode. At the option of the Authority, Bonds of any Series may be converted from a Daily Mode, a Weekly Mode, a Term Rate Mode or a Flexible Mode to an ARS Mode; provided, however, Bonds of a Series may not be converted to an ARS Mode if such Bonds will not be held by a Securities Depository in a Book-Entry System. Any such conversion of Bonds of a Series shall be made as set forth below:

(1) General Provisions. In any such conversion from a Daily Mode or a Weekly Mode, the ARS Rate Conversion Date shall be a regularly scheduled Interest Payment Date on which interest is payable for the Interest Rate Period from which the conversion is to be made. In any such conversion from a Term Rate Mode, the ARS Rate Conversion Date shall be a regularly scheduled Interest Payment Date on which a new Term Rate Period would otherwise have commenced. In any such conversion from a Flexible Mode, the ARS Rate Conversion Date shall be the last regularly scheduled Interest Payment Date on which interest is payable for any Interest Period theretofore established for such Bonds and no Interest Period for such Bonds set after delivery by the Authority of a notice of the intention to effect a change in Mode shall extend beyond the proposed ARS Rate Conversion Date. Such Bonds shall be subject to mandatory tender for purchase pursuant to Section 4.10 hereof and shall be purchased on such ARS Rate Conversion Date at the applicable Purchase Price.

(2) Notice by Authority; Delivery of Favorable Opinion of Bond Counsel.

The Authority shall give written notice of any such conversion to the Notice Parties not less than seven (7) Business Days (or such shorter time as may be agreed to by the Trustee, the Remarketing Agent and the Auction Agent) prior to the date on which the Trustee is required to notify the Owners of the conversion pursuant to Section 2.15(B)(3). Such notice shall specify the Bonds of a Series to be converted, the ARS Rate Conversion Date and the length of the initial Auction Period for such Bonds and, if applicable, shall confirm the appointment of an Auction Agent and a Broker-Dealer for such Bonds. Together with such notice, the Authority shall file with the Trustee a Favorable Opinion of Bond Counsel concerning such conversion. No such change to an ARS Mode shall become effective unless the Authority shall also file with the Trustee a Favorable Opinion of Bond Counsel dated the ARS Rate Conversion Date.

(3) Notice to Owners.

Not less than fifteen (15) days prior to the ARS Rate Conversion Date, the Trustee shall mail a written notice of the conversion to the Owners of Bonds of a Series to be converted; provided, however, that the Trustee shall not mail such written notice if such Bonds are being converted from a Flexible Rate Period until the Trustee has received a written confirmation from the Remarketing Agent to the effect that no Interest Period for such Bonds extends beyond the proposed ARS Rate Conversion Date. Such notice shall specify the ARS Rate Conversion Date and the length of the initial Auction Period for such Bonds to be converted. Such notice shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to Section 4.10 hereof. The Trustee shall provide a copy of such notice to the Authority and to each of the other Notice Parties.

(4) Determination of Interest Rate.

The initial interest rate for the Interest Period commencing on the ARS Rate Conversion Date shall be the lowest rate which, in the judgment of the Broker-Dealer, is necessary to enable such Bonds of a Series to be remarketed at a price equal to 100% of the principal amount thereof on the ARS Rate Conversion Date. The initial interest rate so determined by the Broker-Dealer shall remain in effect to but not including the first Interest Payment Date subsequent to such ARS Rate Conversion Date.

(5) Notification of Interest Rate.

Not later than 5:00 p.m., New York City time, on the date of determination of the interest rate for the Interest Period commencing on the ARS Rate Conversion Date, the applicable Broker-Dealer shall notify the Trustee, the Authority and the Auction Agent of the ARS Rate, such notice to be provided by telephone or other Electronic Means, promptly confirmed in writing.

(6) Rescission of Election.

The Authority may rescind its election to convert Bonds of a Series to an ARS Mode by giving written notice of such rescission to the Trustee and each of the other Notice Parties at any time prior to the setting by the Broker-Dealer of the initial interest rate for such ARS Mode.

(7) Book-Entry Form.

No Bonds of a Series may be converted to an ARS Mode when such Bonds are not held by a depository in book-entry form.

(C) Change from ARS Mode to Daily Mode, Weekly Mode, Term Rate Mode or Flexible Mode. At the option of the Authority, a Series of Bonds may be converted from an

ARS Mode to a Daily Mode, a Weekly Mode, a Term Rate Mode or a Flexible Mode. Any such conversion shall be made as set forth below:

(1) General Provisions. The Conversion Date from an ARS Mode shall be the Interest Payment Date following the final Auction Period for Bonds of a Series.

(2) Notice by Authority. The Authority shall give written notice of any such conversion to the Trustee and each of the other Notice Parties not less than seven (7) Business Days (or such shorter time as may be agreed to by the Authority, the Trustee, the Broker-Dealer and the Auction Agent) prior to the date on which the Trustee is required to notify the Owners of the conversion pursuant to Section 2.15(C)(3). Such notice shall specify that such Bonds will be converted, the Conversion Date and the Mode to which the conversion will be made and shall confirm the selection of a Remarketing Agent for such Bonds to be converted. Such notice to the Notice Parties shall also include a statement as to whether a Liquidity Facility is expected to be in effect with respect to such Bonds following such change and, if a Liquidity Facility is expected to be in effect, such notice shall identify the anticipated provider of such Liquidity Facility. If the interest rate on such Bonds is being converted to a Term Rate, such notice shall specify the length of the initial Term Rate Period within the Term Rate Mode. Together with such notice, the Authority shall file with the Trustee a Favorable Opinion of Bond Counsel. No change from the ARS Mode to another Mode shall become effective unless the Authority shall also file with the Trustee and the applicable Bond Insurer, (i) a Favorable Opinion of Bond Counsel to the same effect dated the Conversion Date and (ii) notice from the Rating Agencies of the rating(s) to be assigned to such Bonds on the Conversion Date, such notice to be provided on or prior to the Conversion Date.

(3) Notice to Owners. Not less than twenty (20) days prior to the Conversion Date, the Trustee shall mail a written notice of the conversion to the Owners of all of the Bonds of such Series. Such notice shall specify the Conversion Date and the Mode to which the conversion will be made and, if the interest rate on such Bonds is being converted to a Term Rate Mode, the length of the initial Term Rate Period during such Term Rate Mode. Such notice shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to Section 4.10 hereof.

(4) Conditions Precedent.

(a) The Authority shall appoint a Remarketing Agent for Bonds of Such Series as provided in Section 4.20 hereof.

(b) In the event that the Mode on Bonds of a Series is being changed to a Daily Mode, a Weekly Mode, a Flexible Mode or a Term Rate Mode, the Authority shall provide a Liquidity Facility meeting the requirements specified in Section 4.19 hereof, such Liquidity Facility to be delivered to the Trustee and to become effective on the Conversion Date.

(5) Rescission of Election. At anytime prior to 10:00 a.m. New York City time on the Business Day immediately preceding the proposed Conversion Date, the Authority may withdraw its notice of conversion by giving written notice of such withdrawal to each of the

Notice Parties. If the Authority so withdraws such notice, the Auction for Bonds of such Series will be held on the scheduled Auction Date as if no notice of conversion had ever been given.

(6) Failed Conversion. On the Conversion Date, Bonds of such Series shall be subject to mandatory tender for purchase at a Purchase Price equal to 100% of the principal amount thereof. The Purchase Price of such Bonds shall be payable solely from the proceeds of the remarketing of such Bonds. In the event that any of the conditions to conversion set forth in this Section 2.15(C) hereof are not satisfied or if there is a failure to remarket all of the Bonds of such Series on the proposed Conversion Date, the Mode on such Bonds will not be converted, Bonds of such Series will not be purchased, such Bonds will be returned to their Owners, the Auction Period will automatically convert to a seven-day Auction Period and such Bonds will evidence interest at the Maximum Rate for the seven-day Auction Period then commencing. Succeeding Auction Periods shall be seven-day Auction Periods until subsequently changed in accordance with the provisions set forth in Exhibit B and the Auction Rate for succeeding Auction Periods shall be determined in accordance with the provisions set forth in Exhibit B. Notwithstanding any other provision of this Indenture, a failure to purchase Bonds of such Series on a proposed Conversion Date shall not constitute an Event of Default hereunder.

(7) Notice to Owners of Failed Conversion. If on any proposed Conversion Date there has not been a timely withdrawal of the conversion notice as set forth in Section 2.15(C)(5) and any condition precedent to such conversion set forth in this Section 2.15(C) has not been satisfied, the Trustee will give notice by Electronic Means as soon as practicable and in any event not later than the next succeeding Business Day to the Owners of Bonds of such Series to have been converted to the effect that such conversion has not occurred, that such Bonds were not purchased on the proposed Conversion Date, that the Auction Agent will continue to implement the Auction Procedures on the Auction Dates with respect to such Series of Bonds that would otherwise have been converted, excluding, however, the Auction Date falling on the Business Day next preceding the proposed Conversion Date, and that the interest rate applicable to such Bonds will continue to be the ARS Rate; provided, however, that the interest rate evidenced by such Bonds that otherwise would have been converted during the Auction Period commencing on such failed Conversion Date will be the Maximum Rate for the Auction Period then commencing, and the Auction Period will be a seven-day Auction Period. The Trustee shall provide a copy of such notice to each of the Notice Parties.

(D) Change to Fixed Rate Mode. At the option of the Authority, any Series of Bonds (other than Bonds of a Series in a Fixed Rate Mode) may be converted to a Fixed Rate Mode. Any such conversion shall be made as set forth below.

(1) Mode Change Date Provisions. The Mode Change Date shall be:

- (a) in the case of a change from an ARS Rate Period, the Interest Payment Date following the final Auction Period for such Series of Bonds;
- (b) in the case of a change from a Flexible Mode, the day which is the last regularly scheduled Interest Payment Date on which interest is payable for any Interest Period established for such Series of Bonds to be converted for the Flexible Rate Bonds of such Series;

(c) in the case of a change from a Daily Mode or a Weekly Mode, a regularly scheduled Interest Payment Date on which interest is payable for Bonds of a Series in the Daily Mode or Weekly Mode; and

(d) in the case of a change from a Term Rate Mode, the Mode Change Date shall be limited to a regularly scheduled Interest Payment Date on which a new Term Rate Mode would have otherwise have commenced such Series of Bonds. The Bonds of a Series in a Term Rate Mode shall be subject to mandatory tender for purchase pursuant to Section 4.10 hereof and shall be purchased on such Mode Change Date at a Purchase Price equal to 100% of the principal amount thereof; provided that if such Bonds would otherwise be subject to optional redemption on such Mode Change Date at a redemption price of more than 100% of the principal amount thereof, such Bonds shall be purchased at a Purchase Price equal to such redemption price.

(2) Serialization Provisions. Upon conversion of Bonds of a Series to a Fixed Rate Mode, unless otherwise directed by the Authority, such Bonds will be converted to Serial Bonds maturing in such years and such principal amounts as correspond to the years and principal amounts set forth in a Supplemental Indenture.

(3) Notice by Authority. At least seven (7) Business Days (or such shorter time as may be agreed to by the Trustee, the Auction Agent, if any, and the Remarketing Agent, if any) prior to the date that notice of the Mode Change Date is required to be given to the Owners by the Trustee as specified in Section 2.15(D)(4), the Authority shall give written notice to each of the Notice Parties. Such notice shall state that the Mode will be changed to the Fixed Rate Mode, shall set forth the proposed Mode Change Date, and shall be accompanied by the appointment of one or more firms of investment bankers to remarket Bonds of a Series being changed to the Fixed Rate Mode (such firm or firms of investment bankers being hereinafter referred to as the “Fixed Rate Remarketing Agent”). Together with such notice, the Authority shall file with the Trustee a Favorable Opinion of Bond Counsel. No conversion to a Fixed Rate Mode shall occur unless the Authority shall also file with the Trustee a Favorable Opinion of Bond Counsel to the same effect dated the Mode Change Date.

(4) Notice to Owners. Not less than thirty (30) days prior to the proposed Mode Change Date (not less than the twenty (20) days if such change is being made in connection with Bonds of a Series in the ARS Mode), the Trustee shall mail notice of such proposed change to the Owners of such Bonds, such notice to state that the Mode on such Bonds will be changed to a Fixed Rate Mode and to set forth the proposed Mode Change Date. Such notice shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to Section 4.10 hereof. If the Book-Entry System is no longer in effect, such notice shall also provide information with respect to required delivery of physical Bonds and the procedures for payment of Purchase Price. Notwithstanding any other provision of this Indenture, the Trustee shall not mail such written notice if such Bonds are being converted from a Flexible Mode until the Trustee shall have received a written confirmation from the Remarketing Agent to the effect that no Interest Period for such Bonds extends beyond the proposed Mode Change Date. The Trustee shall provide a copy of such notice to the Authority and to each of the other Notice Parties.

(5) General Provisions Applying to Change to Fixed Rate Mode. The change to a Fixed Rate Mode shall not occur unless the Authority shall have selected a Fixed Rate Remarketing Agent to remarket Bonds of a Series being changed to the Fixed Rate Mode and the following items shall have been delivered to the Authority and each of the Notice Parties, such items to be delivered on or prior to the Mode Change Date:

(a) a Favorable Opinion of Bond Counsel dated the Mode Change Date; and

(b) notice from the Rating Agencies of the rating(s) to be assigned such Bonds on such Mode Change Date.

(6) Determination of Fixed Rates. The Fixed Rate (or Fixed Rates in the case of Serial Bonds) for Bonds of a Series shall be established by the applicable Fixed Rate Remarketing Agent on the Rate Determination Date applicable thereto. Such Fixed Rate Remarketing Agent shall set the interest rate or interest rates with respect to such Bonds in accordance with the provisions set forth in Section 2.13(B) hereof. Such Fixed Rate or Fixed Rates, as applicable, shall remain in effect until the Maturity Date or Maturity Dates, as applicable, of such Bonds. The applicable Remarketing Agent shall make the Fixed Rate or Rates available by telephone or Electronic Means not later than 5:00 p.m., New York City time, on the Rate Determination Date to the Authority, the Trustee and each of the other Notice Parties requesting such notice.

(7) Modification of Serialization Provisions, Redemption Provisions and Price. Upon conversion of Bonds of a Series to a Fixed Rate Mode, such Bonds shall be subject to the serialization provisions set forth in Section 2.15(D)(2), shall be subject to the optional redemption and mandatory sinking fund redemption provisions set forth herein or in a Supplemental Indenture and shall be remarketed at par. Notwithstanding the foregoing or any other provision of this Indenture to the contrary, the Authority may elect to change the serialization provisions, the optional redemption provisions or the mandatory sinking fund redemption provisions and/or remarket some or all of such Bonds at a premium or discount to par if the Authority shall file with the Trustee a Favorable Opinion of Bond Counsel.

(8) Rescission of Election. Except as is otherwise provided by Section 2.15(D)(9) hereof with respect to Bonds of a Series being converted from an ARS Mode to a Fixed Rate Mode, the Authority may rescind any election by it to change a Mode in accordance with this Section 2.15(D) as provided in Section 2.15(F) hereof.

(9) Additional Provisions Applicable to Conversion From ARS Mode to Fixed Rate Mode.

(a) Rescission of Election. At anytime prior to 10:00 a.m. New York City time on the Business Day immediately preceding the proposed Conversion Date, the Authority may withdraw its notice of conversion by giving written notice of such withdrawal to each of the Notice Parties. If the Authority so withdraws such notice, the Auction for such Bonds will be held on the scheduled Auction Date as if no notice of conversion had ever been given.

(b) Failed Conversion. On each Conversion Date Bonds of such Series shall be subject to mandatory tender for purchase at a Purchase Price equal to 100% of the principal amount thereof. The Purchase Price of such Bonds shall be payable solely from the proceeds of the remarketing of such Bonds. In the event that any of the conditions to conversion to a Fixed Rate Mode set forth in this Section 2.15(D) are not satisfied or if there is a failure to remarket all of such Bonds on the proposed Conversion Date, the Mode on such Bonds will not be converted, such Bonds will not be purchased, such Bonds will be returned to their Owners, the Auction Period will automatically convert to a seven-day Auction Period and such Bonds will evidence interest at the Maximum Rate for the seven-day Auction Period then commencing. Succeeding Auction Periods shall be seven-day Auction Periods until subsequently changed in accordance with the provisions set forth in Exhibit B and the Auction Rate for succeeding Auction Periods shall be determined in accordance with the provisions set forth in Exhibit B. Notwithstanding any other provision of this Indenture, a failure to purchase such Bonds on a proposed Conversion Date shall not constitute an Event of Default hereunder.

(c) Notice to Owners of Failed Conversion. If on any proposed Conversion Date there has not been a timely withdrawal of the conversion notice as set forth in subparagraph (A) above and any condition precedent to such conversion set forth in this Section 2.15(D) has not been satisfied, the Trustee will give written notice by first class mail postage prepaid as soon as practicable and in any event not later than the next succeeding Business Day to the Owners of Bonds of a Series to have been converted to the effect that such conversion has not occurred, that such Bonds were not purchased on the proposed Conversion Date, that the Auction Agent will continue to implement the Auction Procedures on the Auction Dates with respect to such Bonds which would otherwise have been converted, excluding, however, the Auction Date falling on the Business Day next preceding the proposed Conversion Date, and that the interest rate applicable to such Bonds will continue to be the ARS Rate; provided, however, that the interest rate evidenced by such Bonds that which otherwise would have been converted during the Auction Period commencing on such failed Conversion Date will be the Maximum Rate for the Auction Period then commencing, and the Auction Period will be a seven-day Auction Period. The Trustee will provide a copy of such notice to each of the Notice Parties.

(E) Failure to Satisfy Conditions Precedent to a Mode Change. In the event that the Authority has not withdrawn any election by it to change a Mode as provided herein and the conditions described above in subsections (A), (B), (C) or (D) of this Section, as applicable, have not been satisfied by the applicable Mode Change Date, then the New Mode shall not take effect (although any mandatory purchase, other than a mandatory purchase in connection with a conversion from an ARS Mode, shall be made on such date if notice has been sent to the Owners stating that Bonds of a Series would be subject to mandatory purchase on such date). If the failed change in Mode was from a Flexible Mode, such Bonds shall remain in the Flexible Mode with interest rates and Interest Periods to be established by the Remarketing Agent on the failed Mode Change Date in accordance with Section 2.11 hereof. If the failed change in Mode was from a Daily Mode, such Bonds shall remain in the Daily Mode, and if the failed change in Mode was from a Weekly Mode, such Bonds shall remain in the Weekly Mode, in each case

with interest rates established in accordance with the applicable provisions of Section 2.12 hereof on and as of the failed Mode Change Date. If the failed change in Mode was from a Term Rate Mode, then such Bonds shall stay in the Term Rate Mode for an Interest Period ending on the following Interest Payment Date for Bonds of a Series in the Term Rate Mode and the interest rate shall be established by the Remarketing Agent on the failed Mode Change Date in accordance with Section 2.13(A) hereof. If the failed change in Mode was from an ARS Mode, then such Bonds shall automatically convert to a seven-day Auction Period and will evidence interest at the Maximum Rate. Succeeding Auction Periods shall be seven-day Auction Periods until subsequently changed in accordance with the provisions set forth in Exhibit B and the Auction Rate for succeeding Auction Periods shall be determined in accordance with the provisions set forth in Exhibit B.

(F) Rescission of Election. Notwithstanding anything herein to the contrary, the Authority may rescind any election by it to change a Mode as described above prior to the Mode Change Date by giving written notice thereof to the Notice Parties prior to such Mode Change Date at any time prior to 10:00 a.m. New York City time on the Business Day immediately preceding the proposed Mode Change Date; provided, however, any such notice given in connection with conversion to an ARS Mode shall be given in accordance with Section 2.15(B)(6) hereof and any notice given in connection with conversion from an ARS Mode shall be given in accordance with Section 2.15(C)(5) or Section 2.15(D)(9) hereof, as applicable. If the Trustee receives notice of such rescission prior to the time the Trustee has given notice to the Owners of Bonds of such Series, then such notice of change in Mode shall be of no force and effect. If the Trustee receives notice from the Authority of rescission of a Mode change after the Trustee has given notice thereof to the Owners of Bonds of such Series, then if the proposed Mode Change Date would have been a Mandatory Purchase Date, such date shall continue to be a Mandatory Purchase Date; provided, however, if the proposed conversion was from an ARS Mode, such Series of Bonds shall in not be subject to mandatory purchase and shall remain in the ARS Mode as more fully described in the following paragraph.

If the proposed change in Mode was from a Flexible Mode, Bonds of such Series shall remain in the Flexible Mode with interest rates and Interest Periods to be established by the Remarketing Agent on the proposed Mode Change Date in accordance with Section 2.11 hereof. If the proposed change in Mode was from a Daily Mode, Bonds of such Series shall remain in the Daily Mode, and if the proposed change in Mode was from a Weekly Mode, Bonds of such Series shall remain in the Weekly Mode, in each case with interest rates established in accordance with the applicable provisions of Section 2.12 hereof on and as of the proposed Mode Change Date. If the proposed change in Mode was from a Term Rate Mode, then Bonds of such Series shall stay in the Term Rate Mode for an Interest Period ending on the following Interest Payment Date for such Bonds in the Term Rate Mode and the interest rate shall be established by the Remarketing Agent on the proposed Mode Change Date in accordance with Section 2.13(A) hereof. If the Remarketing Agent is unable to determine the interest rate on the proposed Mode Change Date, the provisions of Section 2.14 shall apply. If the proposed change in Mode was from an ARS Mode, then an Auction for such Bonds will be held on the scheduled Auction Date as though no notice of conversion had ever been given.

(G) Form of Notices. Upon request, the form of any notice from the Trustee to the Owners of a Series of Bonds required by this Section 2.15 and by Section 4.10 shall be furnished by the Authority to the Trustee.

ARTICLE III

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

SECTION 3.01. Issuance of Bonds. At any time after the execution of this Indenture, the Authority may execute and the Trustee shall authenticate and, upon Request of the Authority, deliver the Series 2007 Bonds in the aggregate principal amount of Sixty-Two Million Two Hundred and Seventy-Five Thousand dollars (\$62,275,000).

SECTION 3.02. Application of Proceeds of Bonds. The proceeds received from the sale of the Series 2007 Bonds (less \$151,178.50 paid to the Bond Insurer as premium for the Bond Insurance Policy) shall be deposited in trust with the Trustee, who shall forthwith set aside the following amounts in the following funds:

- (1) the sum of \$423,201.43 in the Costs of Issuance Fund;
- (2) the sum of \$2,400,000 in the Project Fund;
- (3) the sum of \$2,291,177.17, which shall be transferred by the Trustee to 1997 Escrow Agent, as escrow agent pursuant to the 1997 Escrow Agreement, for deposit in the escrow fund created pursuant to the 1997 Escrow Agreement;
- (4) the sum of \$56,619,946.84, which shall be transferred by the Trustee to 1998 Escrow Agent, as escrow agent pursuant to the 1998 Escrow Agreement, for deposit in the escrow fund created pursuant to the 1998 Escrow Agreement; and
- (5) in the Reserve Fund, the sum of \$182,013.43, equaling a portion of the Reserve Fund Requirement.

SECTION 3.03. Establishment and Application of Costs of Issuance Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund." The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon Requisition substantially in the form attached hereto as Exhibit D stating the Person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against the Costs of Issuance Fund. No later than the date 180 days following the Date of Issuance, or upon the earlier Request of the Authority, amounts, if any, remaining in the Costs of Issuance Fund shall be transferred to the Project Fund.

SECTION 3.04. Establishment and Application of the Project Fund.

(A) The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Project Fund." The moneys in the Project Fund shall be used and withdrawn by the Trustee to pay the costs of the Project.

(B) Before any payment from the Project Fund shall be made, the City shall file or cause to be filed with the Trustee a Requisition of the City (as agent of the Authority) in substantially the form attached hereto as Exhibit C stating (1) the item number of such payment; (2) the name of the Person to whom each such payment is due (unless such payment is for interest on the Bonds during the construction of the Project, in which event the Requisition shall so specify), which may be the City in the case of reimbursement for Project costs theretofore paid by the City; (3) the respective amounts to be paid; (4) the purpose by general classification for which each obligation to be paid was incurred; and (5) that obligations in the stated amounts have been incurred by the City and are presently due and payable and that each item thereof is a proper charge against the Project Fund and has not been previously paid from the Project Fund.

(C) Upon receipt of a Requisition, the Trustee shall pay the amount set forth in such Requisition as directed by the terms thereof out of the Project Fund. The Trustee shall not make any such payment if it has received any written notice of claim of lien, attachment upon, or claim affecting the right to receive payment of, any of the monies to be so paid, that has not been released or will not be released simultaneously with such payment.

(D) When the Project shall have been completed, there shall be delivered to the Trustee a Certificate of the City stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims that are subject to dispute and for which a retention in the Project Fund is to be maintained in the full amount of such claims until such dispute is resolved). Upon the receipt of such Certificate, the Trustee shall, as directed by said Certificate, transfer any remaining balance in the Project Fund, less the amount of any such retention, to the Reserve Fund, to the extent necessary to increase the amount therein to the Reserve Fund Requirement, and then to the Optional Redemption Account; provide that, in lieu of transfer to the Optional Redemption Account, such funds may be transferred to the City for any purpose that does not adversely affect the exclusion from gross income of interest on the Bonds for purposes of federal income taxation.

SECTION 3.05. Additional Funds, Accounts and Subaccounts. The Authority or the Trustee may, in its discretion, create or authorize the creation of additional funds, accounts or subaccounts for any particular Series of Bonds pursuant to the terms of this Indenture or any Supplemental Indenture, which funds, accounts or subaccounts may be held by it or the Trustee.

SECTION 3.06. Conditions for the Issuance of Additional Bonds. The Authority may at any time issue Additional Bonds pursuant to a Supplemental Indenture, payable from the Revenues as provided herein and secured by a pledge of and charge and lien upon the Revenues as provided herein equal to the pledge, charge and lien securing the Outstanding Bonds theretofore issued hereunder, but only subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such Additional Bonds:

(A) The Authority shall be in compliance with all agreements and covenants contained herein.

(B) The Supplemental Indenture shall require that the proceeds of the sale of such Additional Bonds shall be applied to the acquisition (by purchase or lease) or construction of facilities to be added to the Leased Property or for the refunding of Outstanding Bonds.

(C) The Supplemental Indenture shall provide, if necessary, that from such proceeds or other sources an amount shall be deposited in the Reserve Fund so that following such deposit there shall be on deposit in the Reserve Fund an amount at least equal to the Reserve Fund Requirement.

(D) The aggregate principal amount of Bonds issued and at any time Outstanding hereunder shall not exceed any limit imposed by law, by this Indenture or by any Supplemental Indenture.

(E) The Facility Lease shall have been amended, if necessary, so that the Base Rental Payments payable by the City thereunder in each Fiscal Year shall at least equal projected Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year.

(F) The Facility Lease shall have been amended so as to lease to the City the project being financed from the proceeds of such Additional Bonds or facilities of comparable worth and economic life and such facilities shall be ready for immediate use and occupancy by the City or funds shall be deposited with the Trustee as capitalized interest until the expected date of use and occupancy of such facilities.

(G) If the proceeds of such Additional Bonds are to be used, in whole or in part, to finance construction on real property not described in the Facility Lease or the additional Leased Property to be leased is not situated on property described in the Facility Lease, (1) a site lease shall have been executed so as to lease to the Authority such additional real property; and (2) the Facility Lease shall have been amended so as to lease to the City such additional real property.

(H) To the extent practicable the principal payments shall be September 1.

(I) In connection with the issuance of Additional Bonds, the Authority may enter into any Related Obligations relating to such Series of Additional Bonds.

SECTION 3.07. Proceedings for Authorization of Additional Bonds. Whenever the Authority and the City shall determine to execute and deliver any Additional Bonds pursuant to Section 3.06, the Authority and the Trustee shall enter into a Supplemental Indenture providing for the issuance of such Additional Bonds, specifying the maximum principal amount of such Additional Bonds and prescribing the terms and conditions of such Additional Bonds.

The Supplemental Indenture shall prescribe the form or forms of such Additional Bonds and, subject to the provisions of Section 3.06, shall provide for the distinctive designation denominations, method of numbering, dates, payment dates, interest rates (or method of determining the rates, if variable), interest payment dates, provisions for redemption (if desired) and places of payment of principal and interest.

Before such Additional Bonds shall be issued, the City and the Authority shall file or cause to be filed the following documents with the Trustee:

(1) An Opinion of Counsel setting forth that (1) such Counsel has examined the Supplemental Indenture and the amendment to the Facility Lease and the site lease required by Section 3.06(E), (F) and (G); (2) the execution and delivery of the Additional Bonds have been duly authorized by the Authority; and (3) said Supplemental Indenture and the amendment to the Facility Lease and the site lease if any, when duly executed by the City and the Authority, will be valid and binding obligations of the City and the Authority.

(2) A Certificate of the Authority stating that the requirements of Section 3.06 have been met.

(3) A certified copy of a resolution or ordinance of the City authorizing the execution of the amendments to the Facility Lease required by Section 3.06(E), (F) and (G).

(4) An executed counterpart or duly authenticated copy of any amendment to the Facility Lease required by Section 3.06(E), (F) and (G).

(5) A Certificate of the City stating that the insurance required by Article V of the Facility Lease is in effect.

(6) If the proceeds of such Additional Bonds are to be used, in whole or in part, to finance or refinance construction or acquire facilities on real property not then described in the Facility Lease, an executed counterpart or duly authenticated copy of the site lease required by Section 3.06(G).

(7) A title insurance policy insuring the Authority's leasehold or fee title in the real property on which the Leased Property are located, and, if the proceeds of such Additional Bonds are to be used to finance construction on real property not then described in the Facility Lease, a title insurance policy insuring the Authority's leasehold or fee title in such real property, or, at the option of the Authority, an opinion of counsel or Certificate of the City or such other evidence of the Authority's or City's leasehold or fee interest in such real property as shall be acceptable to the Authority.

Upon the delivery to the Trustee of the foregoing instruments and upon the Trustee's receipt of Certificates of the City and of the Authority stating that all applicable provisions of this Indenture have been complied with (so as to permit the issuance of the Additional Bonds in accordance with the Supplemental Indenture then delivered to the Trustee), the Trustee shall authenticate and deliver said Additional Bonds in the aggregate principal amount specified in such Supplemental Indenture to, or upon the Written Request of, the Authority.

SECTION 3.08. Limitations on the Issuance of Obligations Payable from Revenues. The Authority will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, however denominated, payable in whole or in part from Revenues except the following:

(1) Bonds of any Series authorized pursuant to Section 3.07.

(2) Agreements providing for a Reserve Facility or Related Obligations.

(3) Swaps payable on a parity with the Bonds and which will have, when executed, an equal lien and charge upon the Revenues, provided that the following conditions to the execution of such Swaps are satisfied:

(a) The Authority shall be in compliance with all agreements and covenants contained herein;

(b) The Authority shall have filed with the Trustee a Certificate of the Authority certifying that the requirements of Section 3.06(E) have been satisfied; and

(c) The Authority shall have notified Moody's and S&P of the proposed Swap and shall have determined that the execution of the Swap would not cause the reduction or withdrawal of the current rating from such rating agencies on the Bonds.

(4) Obligations owing with respect to a Reserve Facility, including principal interest and fees relating thereto and Related Obligations; provided such obligations shall be payable on a subordinate basis to principal and interest on the Bonds.

(5) Obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Revenues after the prior payment of all amounts then required to be paid hereunder from Revenues for principal, premium, interest and reserve fund requirements for the Bonds, as the same become due and payable and at the times and in the manner as required in this Indenture.

SECTION 3.09. Validity of Bonds. The validity of the authorization and issuance of the Bonds is not dependent on and shall not be affected in any way by any proceedings taken by the Authority or the Trustee with respect to or in connection with the Facility Lease. The recital contained in the Bonds that the same are issued pursuant to the Act and the Constitution and laws of the State of California shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

ARTICLE IV

REDEMPTION AND TENDER OF BONDS; REMARKETING

SECTION 4.01. Terms of Redemption.

(A) The Bonds are subject to extraordinary redemption prior to their stated maturity, at the option of the Authority, which option shall be exercised at least forty-five (45) days (twenty (20) days in the case of Bonds bearing interest at the Daily Rate or Weekly Rate) prior to the date fixed for redemption, in whole or in part, in such amounts and from such Series and maturities as selected by the Authority, on any date, from hazard insurance or condemnation proceeds or other insurance received with respect to the Leased Property pursuant to Section 7.02 of the Facility Lease and deposited in the Special Redemption Account, at a

Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium.

(B) While any Daily Rate or Weekly Rate is in effect with respect to a Series of Bonds, the Bonds of such Series are also subject to redemption prior to their stated maturity, at the option of the Authority, which option shall be exercised at least twenty (20) days prior to the date fixed for redemption, in whole or in part, on any Business Date at a Redemption Price equal to 100% of the principal amount of Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

(C) While any Flexible Rate is in effect with respect to a Series of Bonds, the Bonds of such Series are not subject to optional redemption prior to their respective Mandatory Purchase Dates. Bonds of a Series in a Flexible Mode shall be subject to redemption at the option of the Authority, in whole or in part, on their respective Mandatory Purchase Dates equal to 100% of the principal amount of Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

(D) While any ARS Rate is in effect with respect to a Series of Bonds the Bonds, of such Series are also subject to redemption prior to their stated maturity, at the option of the Authority, which option shall be exercised at least twenty (20) days prior to the date fixed for redemption, in whole or in part, on any Interest Payment Date for such Series immediately following the end of an Auction Period, at a Redemption Price equal to 100% of the principal amount of Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

(E) While any Term Rate is in effect with respect to a Series of Bonds, the Bonds of such Series are also subject to redemption, at the option of the Authority, in whole or in part, on each Mandatory Purchase Date applicable to Bonds of such Series in a Term Rate Mode, at a Redemption Price equal to 100% of the principal amount of the Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

(F) While any Term Rate or Fixed Rate is in effect with respect to a Series of Bonds, the Bonds of such Series are also subject to redemption, in whole or in part, on any date (and if in part, in such order of maturity as the Authority shall specify and within a maturity by lot or by such other method as the Trustee determines to be fair and reasonable and in Authorized Denominations) commencing on the Interest Payment Date next following the tenth anniversary of the change to a Term Rate Mode or a Fixed Mode at a Redemption Price equal to 100% of the principal amount of the Bonds called for redemption, plus accrued interest, to the date fixed for redemption, without premium. If the length of the Term Rate Period or the Fixed Rate Period for such Series of Bonds is less than ten (10) years, then such Series of Bonds shall not be subject to optional redemption during the Term Rate Period or Fixed Rate Period, as applicable.

(G) In connection with a change to a Term Rate Mode or a Fixed Rate Mode for a Series of Bonds, the Authority may waive or otherwise alter its rights to direct the redemption of Bonds of such Series set forth in Section 4.01(F) above; provided that notice describing such waiver or alteration shall be submitted to the Trustee and the Remarketing Agent, or Fixed Rate Remarketing Agent, as applicable, together with a Favorable Opinion of Bond Counsel.

(H) The Series 2007 Term Bonds are also subject to redemption in part prior to their stated maturity from Sinking Fund Installments established pursuant to Section 5.04(C) on any September 1 on or after September 1, 2007, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium. Notwithstanding the foregoing, when any Bond to be redeemed pursuant to this Section 4.01(H) is subject to an ARS Rate Period, if such September 1 is not an Interest Payment Date, the redemption from Sinking Fund Installments shall occur on the Interest Payment Date immediately succeeding such September 1. If any Series 2007 Term Bonds has been optionally redeemed, the amounts of such Sinking Fund Installments shall be reduced as directed by the Authority, or if not so directed, proportionally in increments of Authorized Denominations, by the principal amount of all such Series 2007 Term Bonds so optionally prepaid.

SECTION 4.02. Corresponding Reduction of any Related Swap. Notwithstanding anything to the contrary in this Indenture, no amount of Bonds of a Series may be redeemed, other than pursuant to Section 4.01(H), unless a proportionate amount of any related Swap is terminated or reduced so that following such redemption the remaining notional amount of the Swap for such Series is not greater than the remaining principal amount of the Bonds of such Series, unless the Bond Insurer for such Series waives the requirement for such reduction of the Swap. The Authority agrees not to exercise any such redemption and reduction in any related Swap if such redemption and reduction shall cause the occurrence of any event of default hereunder or under such related Swap.

SECTION 4.03. Selection of Bonds for Redemption. Whenever provision is made in this Indenture for the redemption of less than all of the Bonds of any Series or any given portion thereof, the Trustee shall select the Bonds of such Series to be redeemed, from all Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot in any manner which the Trustee in its sole discretion shall deem appropriate and fair; provided however, that Bonds shall be redeemed in the following order of priority (and by lot within each priority):

FIRST: Any Bonds of such Series which are Liquidity Facility Bonds; and

SECOND: Any other Bonds of such Series

and provided further, that the City may specify which Sinking Fund Installments or maturities shall be allocated to or selected for such redemptions.

SECTION 4.04. Notice of Redemption. Notice of redemption shall be mailed by the Trustee, not less than thirty (30) days nor more than sixty (60) days (except in the case of the redemption of Bonds bearing interest at a Daily Rate, Weekly Rate, and Flexible Rate, in which case no less than ten (10) days, and except for redemption of Bonds bearing interest at an ARS Rate in which case no less than twenty (20) days, prior to the redemption date, to the Holders of Bonds called for redemption at their addresses appearing on the bond registration books of the Trustee and to the Bond Insurer for such Series of Bonds at their address provided herein, with a copy to the Authority. The Trustee shall also give notice of redemption by overnight mail or courier service (or by such other acceptable means) to the Remarketing Agent, the Auction Agent and such securities depositories and/or securities information services. Each notice of

redemption shall state the date of such notice, the Series designation and date of issue of the Bonds, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the maturity, the CUSIP numbers if any, and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that, subject to prior rescission as provided in the next paragraph of this Section, on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered.

If any Series of Bonds are to be redeemed in part and such Bonds are held by a Securities Depository, the Authority shall include in the notice of the call for redemption delivered to the Securities Depository (i) a date placed under an item entitled "Publication Date for Securities Depository Purposes" and such date shall be three Business Days after the Auction Date immediately preceding such redemption date (in the case of a daily Auction Period, such date shall be three Business Days immediately preceding the date of redemption) and (ii) an instruction to the Securities Depository to (x) determine on such Publication Date after the Auction held on the immediately preceding Auction Date has settled, the Securities Depository Participants whose Securities Depository positions shall be redeemed and the principal amount of such ARS Bonds to be redeemed from each such position (the "Securities Depository Redemption Information"), and (y) notify the Trustee immediately after such determination of (1) the positions of the Securities Depository Participants in such Bonds immediately prior to such Auction settlement, (2) the position of the Securities Depository Participants in such ARS Bonds immediately following such Auction settlement, and (3) the Securities Depository Redemption Information. Immediately upon receipt of the notice referred to in (y) of the preceding sentence, the Trustee shall send a copy of such notice to the Auction Agent.

Any notice given pursuant to this Section 4.04 may be rescinded by written notice given to the Trustee by the City no later than the date specified for redemption. The Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same Persons, as notice of such redemption was given pursuant to this Section 4.04.

Failure by the Trustee to give notice pursuant to this Section 4.04 to any one or more of the securities information services or depositories or to a Bond Insurer for such Series, or the insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption pursuant to this Section 4.04. to any one or more of the respective Holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

Notice of redemption of Bonds shall be given by the Trustee, at the expense and for and on behalf of the Authority.

SECTION 4.05. Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Holder thereof, a new Bond or Bonds of Authorized Denominations, and of the same Series and

maturity, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

SECTION 4.06. Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice together with interest accrued thereon to the redemption date, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the date fixed for redemption from funds held by the Trustee for such payment.

All Bonds redeemed pursuant to the provisions of this Article shall be canceled and destroyed by the Trustee upon surrender thereof.

SECTION 4.07. No Notice of Redemption. Notwithstanding any other provision of this Indenture to the contrary, no notice of redemption is required to be given with respect to any redemption occurring on a Mandatory Purchase Date.

SECTION 4.08. Mandatory Purchase in Lieu of Redemption. Each Owner, by purchase and acceptance of any Bonds of any Series irrevocably grants to the Authority the option to purchase such Bonds of such Series on any date such Bonds are subject to redemption as provided in paragraph (B) to (H) of Section 4.01, at a purchase price equal to the Redemption Price then applicable to such Bonds, plus accrued interest thereon to the date of purchase. In order to exercise such option, the Authority shall deliver to the Trustee a Favorable Opinion of Bond Counsel and shall direct the Trustee to provide notice of mandatory purchase in lieu of redemption, such notice to be provided, as and to the extent applicable, in accordance with the provisions set forth in Section 4.10 hereof. On the date fixed for purchase of any Bonds of any Series pursuant to this Section 4.08, and in accordance with Section 5.04 or Section 5.07 hereof, the Authority shall pay the purchase price of such Bonds to the Trustee in immediately available funds and the Trustee shall pay the same to the Owners of such Bonds being purchased against delivery thereof. All such Bonds so purchased shall be delivered to the Trustee for cancellation.

Notwithstanding any other provision of this Indenture, the purchase price of any Bonds of any Series subject to mandatory purchase in lieu of redemption pursuant to this Section 4.08 shall be paid solely by the Authority and such Bond shall not be eligible to be purchased and shall not be purchased from a drawing on any Liquidity Facility. In the event that the Authority lacks sufficient funds to pay the purchase price of any Bond subject to mandatory purchase in lieu of redemption pursuant to this Section 4.08 on the date fixed for such purchase, the Authority shall cancel such mandatory purchase in lieu of redemption and shall return each such Bond to the Owner who shall have tendered such Bond for mandatory purchase in lieu of redemption pursuant to this Section 4.08. The Trustee shall give notice that such mandatory purchase was not effected promptly following the date fixed for such purchase. Any failure to pay the purchase price of any Bond subject to mandatory purchase pursuant to this Section 4.08 shall not constitute an Event of Default under this Indenture.

SECTION 4.09. Optional Tenders of Bonds in a Daily Mode or a Weekly Mode. Subject to Section 4.14 hereof, during any Daily Mode for a Series of Bonds and during any Weekly Mode for a Series of Bonds, any Bonds of such Series or portion thereof in a principal amount equal to an Authorized Denomination shall be purchased on any Business Day at a price equal to the Purchase Price, upon delivery of a Tender Notice to the Trustee by the Tender Notice Deadline. Immediately upon receipt of a Tender Notice, the Trustee shall notify the Remarketing Agent and provide the Remarketing Agent with a copy of such Tender Notice. Notwithstanding any other provision of this Indenture to the contrary, the provisions set forth in this Section 4.09 shall not apply to any Bond in a Delayed Remarketing Period.

SECTION 4.10. Mandatory Tender for Purchase on Mandatory Purchase Date. The Bonds of a Series shall be subject to mandatory purchase on each Mandatory Purchase Date applicable to the Bonds of such Series. The Trustee shall give notice of each such mandatory purchase, such notice to be given by mail to the Owners of such Bonds subject to mandatory purchase no less than fifteen (15) days prior to the applicable Mandatory Purchase Date. No notice shall be required to be given nor shall any notice be given with respect to any Bond in a Flexible Rate Mode in connection with the Mandatory Purchase Date occurring at the end of each Interest Period for such Bonds.

Any notice to be given pursuant to this Section 4.10 shall state the Mandatory Purchase Date, shall set forth the Purchase Price applicable on such Mandatory Purchase Date, and shall identify the Bonds to be purchased. Subject to Section 2.15(C)(6) and Section 2.15(D)(9) hereof, such notice shall also state that interest on the Bonds subject to mandatory purchase shall cease to accrue from and after the Mandatory Purchase Date. The failure to mail such notice with respect to any Bond shall not affect the validity of the mandatory purchase of any other Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Owner. If the Book-Entry System is no longer in effect, such notice shall also provide information with respect to required delivery of physical certificates and the procedures for payment of Purchase Price. A copy of any notice delivered by the Trustee pursuant to this Section 4.10 shall also be provided to each of the Notice Parties.

SECTION 4.11. Purchases of Bonds in Daily Mode, Weekly Mode, Flexible Mode and Term Rate Mode; Payment of Purchase Price; Notices.

(A) On each date on which Bonds of a Series in a Daily Mode, a Weekly Mode, a Flexible Mode or a Term Rate Mode are to be purchased:

(1) the Remarketing Agent shall notify the Trustee and the Authority by 12:00 noon New York City time of the principal amount of such tendered Bonds it has remarketed and of the principal amount of such tendered Bonds it has not remarketed, such notice to be provided by Electronic Means;

(2) the Remarketing Agent shall cause the proceeds of the remarketing by the Remarketing Agent of such tendered Bonds to be paid to the Trustee in immediately available funds not later than 12:15 p.m., New York City time, on the Purchase Date for such tendered Bonds;

(3) the Remarketing Agent shall notify the Trustee by Electronic Means not later than 1:00 p.m. New York City time of such information as may be necessary to register and deliver such remarketed Bonds, such notice to be provided by Electronic Means; and

(4) if the affected Bonds of a Series are no longer in the Book-Entry System, the Trustee shall authenticate new Bonds of such Series for the respective purchasers thereof which shall be available for pick-up by the Remarketing Agent not later than 2:30 p.m. New York City time.

(B) On each date on which a Bond is to be purchased, (i) if the Remarketing Agent shall have given notice to the Trustee pursuant to clause (A)(1) above that it has been unable to remarket all or any portion of any tendered Bonds or (ii) if the Trustee shall not have received any notice from the Remarketing Agent pursuant to clause (A)(1) above, the Trustee shall draw on the applicable Liquidity Facility, if any, by 12:30 p.m. New York City time in an amount equal to the Purchase Price of all such Bonds that have not been successfully remarketed for payment by 2:30 p.m. New York City time and shall notify the Bond Insurer for such Series of such draw; provided, however, that if the draw is in connection with a Mandatory Purchase Date resulting from a Substitution Date, the draw shall be made on the existing Liquidity Facility that is being replaced. In no event shall the Trustee draw on a Liquidity Facility to pay the Purchase Price of any Bond not covered by such Liquidity Facility or to pay the Purchase Price of a Bond owned by the Authority or the City.

(C) If the Trustee is notified in writing by a Liquidity Facility Provider that an Automatic Termination Event has occurred, with respect to its Liquidity Facility, then the Trustee shall provide prompt written notice thereof to the Owners of the Bonds to which such Liquidity Facility relates and shall provide copy of such notice to each of the Notice Parties.

(D) If the Trustee does not have funds in the applicable Remarketing Proceeds Account and the applicable Liquidity Facility Account sufficient to pay the Purchase Price of such Bonds on any Purchase Date, the Trustee shall give the Authority notice of such insufficiency by 2:30 p.m. New York City time on such Purchase Date.

SECTION 4.12. Source of Funds for Purchase of Bonds in Daily Mode, Weekly Mode, Flexible Mode, or Term Rate Mode. By 3:00 p.m. New York City time on the date on which a Bond of a Series in a Daily Mode, a Weekly Mode, a Flexible Mode or a Term Rate Mode is to be purchased, the Trustee shall purchase tendered Bonds of such Series from the tendering Owners at the applicable Purchase Price by wire transfer in immediately available funds. Funds for the payment of such Purchase Price shall be derived solely from the following sources in the order of priority indicated and neither the Trustee nor the Remarketing Agent shall be obligated to provide funds from any other source:

(A) immediately available funds on deposit in the Remarketing Proceeds Account;

(B) immediately available funds on deposit in the applicable Liquidity Facility Account, if any; and

(C) in the Authority's sole discretion, moneys provided by the Authority that may lawfully be used for such purpose.

SECTION 4.13. Delivery of Bonds in Daily Mode, Weekly Mode, Flexible Mode or Term Rate Mode. On each date on which a Bond of a Series in a Daily Mode, a Weekly Mode, a Flexible Mode or a Term Rate Mode is to be purchased, such Bond shall be delivered as follows:

(1) Each Bond sold by the Remarketing Agent and for which payment has been received as described in Section 4.12(A) hereof shall be delivered by the Remarketing Agent to the purchaser of such Bond by 3:00 p.m. New York City time; and

(2) Each Bond purchased by the Trustee with moneys described in Section 4.12(B) hereof shall be registered immediately in the name of the applicable Liquidity Facility Provider or its nominee (which may be the Securities Depository), if any, on or before 3:00 p.m. New York City time.

(3) Each Bond purchased by the Authority with moneys described in Section 4.12(C) hereof shall be registered immediately in the name of the Authority or its nominee on or before 3:00 p.m. New York City time. Any Bond so owned by the Authority shall continue to be Outstanding under the terms of this Indenture and be subject to all of the terms and conditions of the Indenture and shall be subject to remarketing by the applicable Remarketing Agent; provided, however, that the Authority shall not be considered a Owner for the purpose of voting such Bonds under this Indenture.

SECTION 4.14. Book-Entry Tenders.

(A) Notwithstanding any other provision of this Indenture to the contrary, all tenders for purchase of Bonds of a Series during any period in which such Bonds so tendered are registered in the name of Cede & Co. (or the nominee of any successor Securities Depository) shall be subject to the terms and conditions set forth in the Representations Letter and to any regulations promulgated by DTC (or any successor Securities Depository). For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of Owners of Bonds may be exercised only by a Direct Participant of DTC (as such term is described in Schedule A attached to the Representation Letter) acting, directly or indirectly, on behalf of a Beneficial Owner of Bonds by giving notice of its election to tender Bonds or portions thereof at the times and in the manner described above. Beneficial Owners will not have any rights to tender Bonds directly to the Trustee.

Procedures under which a Beneficial Owner may direct a Direct Participant of DTC, or an Indirect Participant of DTC (as such term is described in Schedule A attached to the Representation Letter) acting through a director participant of DTC, to exercise a tender option right in respect of Bonds or portions thereof in an amount equal to all or a portion of such Beneficial Owner's beneficial ownership interest therein, shall be governed by standing instructions and customary practices determined by such Direct Participant or Indirect Participant. For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery of the Bonds required to be tendered for purchase shall be effected by the transfer in the Book-Entry System on the applicable Purchase Date of a book-entry credit to the account of the Trustee of a beneficial interest in such Bonds.

(B) Notwithstanding anything expressed or implied herein to the contrary, so long as the Book-Entry System for the Bonds is maintained by the Authority:

(1) there shall be no requirement of physical delivery to, or by, the applicable Remarketing Agent or the Trustee of:

(a) any Bonds subject to optional or mandatory purchase as a condition to the payment of the Purchase Price therefor;

(b) any Bonds that have become Liquidity Facility Bonds; or

(c) any remarketing proceeds of such Bonds or Liquidity Facility Bonds to any Owner other than the Securities Depository or its nominee, as applicable; and

(2) except as provided in (3) below, the Trustee shall not have any responsibility for paying the Purchase Price of any tendered Bond or for remitting remarketing proceeds to any person and such remarketing proceeds may be remitted directly to the Securities Depository by the applicable Remarketing Agent; and

(3) the Trustee's sole responsibilities in connection with the purchase and remarketing of a tendered Bond shall be:

(a) to draw upon the Liquidity Facility in the event the Remarketing Agent for the Series of Bonds notifies the Trustee as provided herein that the Bonds of such Series have not been remarketed on or before the Purchase Date therefor, which draw shall be in an amount equal to the difference between such Purchase Price and any remarketing proceeds received by the Remarketing Agent in connection with a partial remarketing of such Bonds, and to remit the amount so drawn to or upon the order of the Securities Depository for the benefit of the tendering Beneficial Owners;

(b) remit any proceeds derived from the remarketing of a Liquidity Facility Bond to the applicable Liquidity Facility Provider; and

(c) remit any funds deposited by the Authority for the payment of the Purchase Price of tendered Bonds to the Securities Depository for the benefit of the tendering Beneficial Owners.

SECTION 4.15. Tender Provisions Applicable Upon Discontinuation of Book-Entry System. If at any time the Bonds shall no longer be in the Book-Entry System, the procedures set forth below shall apply.

(A) Each Bond shall be delivered (with all necessary endorsements) at or before 12:00 noon New York City time on the Purchase Date at the corporate trust office of the Trustee; provided, however, that payment of the Purchase Price shall be made pursuant to this Section 4.15(A) only if the Bond so delivered to the Trustee conforms in all respects to the description thereof in the notice provided pursuant to Section 4.09 or Section 4.10 hereof, as applicable. Payment of the Purchase Price with respect to purchases pursuant to the provisions

set forth in this Section shall be made to the Owners of tendered Bonds by wire transfer in immediately available funds by the Trustee by 3:00 p.m. New York City time on the Purchase Date.

(B) The Trustee shall hold all Bonds properly tendered to it for purchase hereunder as agent and bailee of, and in escrow for the benefit of, the respective Owners of the Bonds that shall have so tendered such Bonds until moneys representing the Purchase Price of such Bonds shall have been delivered to or for the account of or to the order of such Owners.

(C) If a Bond to be purchased is not delivered by the Owner to the Trustee by 12:00 noon New York City time on the date in which such Bond is to be purchased, the provisions set forth in Section 4.16 hereof shall apply.

SECTION 4.16. Bonds Deemed Purchased. If funds sufficient to pay the Purchase Price of any Bond are held by the Trustee on any Purchase Date, such Bond shall be deemed to have been purchased and shall be purchased according to the terms hereof, for all purposes of this Indenture, irrespective of whether or not such Bond shall have been delivered to the Trustee, and neither the former Owner of such Bond nor any other person shall have any claim thereon, under this Indenture or otherwise, for any amount other than the Purchase Price thereof.

In the event any Bond purchased according to the terms hereof shall not be presented to the Trustee, the Trustee shall segregate and hold uninvested the moneys for the Purchase Price of such Bond in trust, without liability for interest thereon, for the benefit of the former Owners of such Bond, who shall, except as provided in the following sentence, thereafter be restricted exclusively to such moneys for the satisfaction of any claim for the Purchase Price of such Bond. Any moneys which the Trustee shall segregate and hold in trust for the payment of the Purchase Price of any Bond and remaining unclaimed for two (2) years after the date of purchase shall be paid to the Authority. After the payment of such unclaimed moneys to the Authority, the former Owner of such Bond shall look only to the Authority for the payment thereof.

SECTION 4.17. Establishment of Bond Purchase Fund. The Trustee shall create, establish and maintain, a separate fund to be designated as the “Bond Purchase Fund.” Moneys deposited in the Bond Purchase Fund shall be kept separate from and not commingled with other moneys deposited hereunder or with any other moneys of the Authority. The Trustee shall further create, establish and maintain separate accounts within the Bond Purchase Fund, such separate account to be designated as the “Remarketing Proceeds Account,” the “Liquidity Facility Account” and the “Authority Account.” The Bond Purchase Fund shall be held in trust solely for the benefit of the Owners of tendered Bonds and the Trustee shall not have any interest in, claim on or right to, any Bond Purchase Fund.

(A) **Remarketing Proceeds Account.** Upon receipt of the proceeds of a remarketing of any Bond on the date such Bond is to be purchased, the Trustee shall deposit such remarketing proceeds in the Remarketing Proceeds Account, such remarketing proceeds to be applied to the payment of the Purchase Price of such Bond. The Authority shall not have any right, title or interest in any of the funds held on deposit in any Remarketing Proceeds Account nor any remarketing proceeds held for any period of time by any Remarketing Agent.

(B) Liquidity Facility Account. Upon receipt of the proceeds of a draw on a Liquidity Facility, the Trustee shall deposit such Liquidity Facility proceeds in the applicable Liquidity Facility Account, such Liquidity Facility proceeds to be applied to the payment of the Purchase Price of the Bonds of a Series to the extent that the moneys on deposit in the Remarketing Proceeds Account shall not be sufficient. Any amounts deposited in a Liquidity Facility Account and not needed for the payment of the Purchase Price of the Bonds of such Series shall be immediately returned to the applicable Liquidity Facility Provider of such Series.

(C) Authority Account. Upon receipt of funds from the Authority provided at its sole discretion pursuant to Section 4.12(C) hereof, the Trustee shall deposit such funds in the Authority Account, such funds to be applied to the payment of the Purchase Price of the Bonds of a Series. Any amounts deposited in an Authority Account and not needed for the payment of the Purchase Price of the Bonds of such Series shall be immediately returned to the Authority.

(D) Pursuant to Section 3.05, the Authority, at the time of issuance of each Series of Bonds, may establish separate subaccount or subaccounts within the Remarketing Proceeds Account, Liquidity Facility Account and Authority Account, as provided in a Supplemental Indenture.

(E) Investment of Funds on Deposit in the Bond Purchase Funds. Amounts held in the Remarketing Proceeds Account, the Liquidity Facility Account and the Authority Account shall not be commingled with any other funds held by the Trustee and shall be held uninvested.

SECTION 4.18. Insufficient Funds for Tenders; Delayed Remarketing Period.

(A) If sufficient funds are not available to pay the Purchase Price of all tendered Bonds of a Series to be purchased on any Purchase Date (such Bonds of such Series being hereinafter referred to as the “Tendered Bonds”): (1) no purchase of such Tendered Bonds shall be consummated on such Purchase Date; (2) all such Tendered Bonds shall be returned to the Owners thereof; (3) all remarketing proceeds shall be returned to the applicable Remarketing Agent for return to the persons providing such moneys; and (4) such insufficiency and the failure to pay the Purchase Price on any Payment Date shall not constitute an Event of Default under this Indenture.

(B) All such Tendered Bonds shall evidence interest at the Maximum Rate during the period of time (such period of time being hereinafter referred to as a “Delayed Remarketing Period”) from and including the applicable Purchase Date to (but not including) the date that all such Tendered Bonds are successfully remarketed.

(C) The Authority may direct the conversion of such Tendered Bonds to a different Mode during a Delayed Remarketing Period in accordance with Section 2.15 hereof; provided that the Authority shall not be required to comply with the notice requirements described in Section 2.15 hereof.

(D) During a Delayed Remarketing Period, the Remarketing Agent shall continue to use its best efforts to remarket such Tendered Bonds. Once the Remarketing Agent has advised the Trustee that it has a good faith belief that it is able to remarket all of such Tendered Bonds, the Trustee shall give written notice by mail to the Owners of such Tendered Bonds not later

than five Business Days prior to the proposed Purchase Date, which notice shall state: (1) that such Tendered Bonds will be subject to mandatory tender for purchase on the proposed Purchase Date; (2) the proposed Purchase Date; (3) the Mode applicable to such Tendered Bonds from and after the proposed Purchase Date; (4) the procedures for such mandatory tender for purchase; (5) the Purchase Price applicable to such Tendered Bonds; and (6) the consequences of a failed remarketing.

(E) During a Delayed Remarketing Period, interest on such Tendered Bonds shall be paid to the Owners thereof (1) on the first Business Day of each calendar month occurring during such Delayed Remarketing Period and (2) on the day after the last day of such Delayed Remarketing Period.

(F) Notwithstanding any other provision of this Indenture to the contrary, the provisions set forth in this Section 4.18 shall not apply to any Bonds of a Series in an ARS Mode.

SECTION 4.19. Liquidity Facility; Alternate Liquidity Facility.

(A) The Authority shall provide a Liquidity Facility for the Bonds of a Series in a Daily Mode, a Weekly Mode, a Flexible Mode and in a Term Rate Mode. Each such Liquidity Facility (and any Alternate Liquidity Facility provided in replacement thereof) shall provide for the purchase of the Bonds of such Series upon their optional or mandatory tender in accordance with Section 4.09 and Section 4.10 hereof. Any Liquidity Facility (or Alternate Liquidity Facility) shall be a facility provided by a Liquidity Facility Provider in an amount equal to the Required Stated Amount and be acceptable to the applicable Bond Insurer for such Series of Bonds.

(B) If a Liquidity Facility is in effect with respect to the Bonds of such Series, on each date on which a Bond of such Series is to be purchased, the Trustee, by demand given by Electronic Means before 12:30 p.m. New York City time, shall draw on the applicable Liquidity Facility in accordance with the terms thereof so as to receive thereunder by 2:30 p.m. New York City time on such date an amount, in immediately available funds, sufficient, together with the proceeds of the remarketing of such Bonds on such date, to enable the Trustee to pay the Purchase Price in connection therewith. The proceeds of such draw shall be paid to the Trustee, who shall deposit said proceeds in the applicable Liquidity Facility Account pursuant to Section 4.17(B) hereof.

(C) If the Authority shall have delivered a Liquidity Facility to the Trustee in accordance with subsection (A) of this Section, the Authority: (1) shall maintain such Liquidity Facility or an Alternate Liquidity Facility, in an amount equal to the Required Stated Amount prior to its termination; and (2) shall not voluntarily terminate such Liquidity Facility or any Alternate Liquidity Facility without providing at least thirty (30) days written notice to the Trustee and each of the other Notice Parties.

(D) The Authority may provide an Alternate Liquidity Facility for the Bonds of such Series on any Business Day not later than the fifth (5th) Business Day prior to the Expiration Date of the Liquidity Facility then in effect for the Bonds of such Series. The Authority shall

give at least thirty (30) days' written notice to the Trustee and each of the Notice Parties of its intent to furnish an Alternate Liquidity Facility to the Trustee, which notice shall specify the nature of such Liquidity Facility, the identity of the Liquidity Facility Provider and the proposed Substitution Date. The Trustee shall give notice of each Mandatory Purchase Date resulting from the proposed delivery of an Alternate Liquidity Facility in accordance with the provisions set forth in Section 4.10 hereof.

(E) On or before the Substitution Date, there shall be delivered to the Trustee and the applicable Bond Insurer: (1) the Alternate Liquidity Facility in substitution for the Liquidity Facility then in effect, (2) a Favorable Opinion of Bond Counsel and (3) a written Opinion of Counsel for the provider of Alternate Liquidity Facility to the effect that such Alternate Liquidity Facility is a legal, valid, and binding obligation of the provider thereof and covering such other matters as the Authority shall require. Upon the satisfaction of the conditions described in the preceding sentence, the Trustee shall accept such Alternate Liquidity Facility and shall surrender the Liquidity Facility then in effect to the provider thereof on the Substitution Date; provided, however, that if there are insufficient remarketing proceeds to pay the Purchase Price of all Bonds of such Series subject to mandatory purchase on such Substitution Date, the Trustee shall not surrender the Liquidity Facility then in effect until the Trustee shall have drawn upon the existing Liquidity Facility to pay the Purchase Price for Bonds of such Series subject to mandatory purchase on such Substitution Date. Notwithstanding any other provision of this Indenture to the contrary, if any condition precedent to the substitution of an Alternate Liquidity Facility is not satisfied, the substitution shall not occur but the affected Bonds of such Series shall remain subject to mandatory purchase on the proposed Substitution Date.

(F) In addition to the notice provided pursuant to Section 4.19(D) hereof, the Trustee shall give written notice to the Owners of the Bonds of such Series and each of the Notice Parties of the extension of the Expiration Date of any Liquidity Facility, such notice to be given by mail as promptly as possible upon receipt by the Trustee of notification of such extension.

SECTION 4.20. Appointment of Remarketing Agent.

(A) Upon conversion of a Series of Bonds to a Mode which requires the appointment of a Remarketing Agent, the Authority shall appoint a Remarketing Agent for Bonds of such Series. Any Remarketing Agent shall be a member of the National Association of Securities Dealers, Inc., shall have a capitalization of at least fifty million dollars (\$50,000,000) and shall be authorized by law to perform all the duties set forth herein.

(B) By acceptance of appointment as Remarketing Agent for the Bonds of such Series, the Remarketing Agent shall be deemed to have agreed: (1) to remarket such Bonds in accordance with the provisions set forth herein; (2) to keep such books and records as shall be consistent with prudent industry practice; and (3) to make such books and records available for inspection by each of the Notice Parties at all reasonable times.

(C) The Remarketing Agent may at any time resign and be discharged of the duties and obligations created herein as set forth in the Remarketing Agreement entered into by such Remarketing Agent and the Authority. The Remarketing Agent may suspend its remarketing efforts in accordance with the provisions set forth in Remarketing Agreement entered into by the

Remarketing Agent and the Authority. The Remarketing Agent may be removed at any time, at the direction of the Authority in accordance with the provisions set forth in the Remarketing Agreement entered into by the Remarketing Agent and the Authority. The Authority shall provide written notice to each of the Notice Parties of the appointment of any successor Remarketing Agent.

(D) If the Remarketing Agent consolidates with, merges or converts into, or transfers all or substantially all of its assets, to another entity meeting the requirements specified in subparagraph (A) above, the resulting, surviving or transferee entity shall be the successor Remarketing Agent without any further act.

SECTION 4.21. Duties of Remarketing Agent. Each Remarketing Agent shall use its best efforts to offer for sale: (A) all Bonds of a Series (or portions thereof to be remarketed) for which notice of optional tender pursuant to Section 4.09 hereof has been given; (B) all Bonds of a Series that are required to be purchased (yy) on a Mandatory Purchase Date described in clauses (i), (ii), (iii), (iv) or (vii) of the definition of Mandatory Purchase Date set forth in Section 1.01 hereof and (zz) on a Mandatory Purchase Date described in clause (v) of the definition of Mandatory Purchase Date set forth in Section 1.01 hereof if no Liquidity Facility is required to be delivered by the Authority in connection with such Mandatory Purchase Date; and (C) all Liquidity Facility Bonds that are: (1) purchased on a Purchase Date described above in clause (A) or (B) of this Section 4.21, (2) with respect to which the Liquidity Facility Provider has provided notice that it is ready to reinstate the Available Amount, such notice to have been provided to the Authority, the Trustee and the Remarketing Agent, (3) with respect to which an Alternate Liquidity Facility is in effect, or (4) which are being marketed as Fixed Rate Bonds (if the Remarketing Agent shall have been engaged to be the Fixed Rate Remarketing Agent).

If a notice of redemption or a notice of mandatory purchase shall have been given with respect to a Bond of a Series, the Remarketing Agent shall provide a copy of such notice to each Person to which such Bond is remarketed.

SECTION 4.22. Limitations on Remarketing. No Bonds of any Series shall be remarketed by the Remarketing Agent to the Authority or the City.

ARTICLE V

REVENUES; FUNDS AND ACCOUNTS

SECTION 5.01. Pledge and Assignment; Revenue Fund.

(A) Subject only to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, there are hereby pledged all of the Revenues and any other amounts held in any fund or account established pursuant to this Indenture (other than the Bond Purchase Fund and the Rebate Fund) to (1) secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms and the provisions hereof and thereof, and (2) secure the payment of any Related Obligations. Said pledge shall constitute a first lien on and security interest in such assets and shall attach, be

perfected and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

(B) The Authority hereby transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds and any Providers, all of the Revenues and other assets pledged in subsection (A) of this Section and all of the rights of the Authority under the Facility Lease to receive and collect Base Rental Payments and other amounts (except for (1) the right to receive any Additional Payments to the extent payable to the Authority and (2) any rights of the Authority to indemnification), and the right to enforce, whether by action at law or in equity or by other means, all provisions covenants and agreements of the Facility Lease with respect to the payment of Base Rental Payments. The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall take all steps actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the City under the Facility Lease; provided that these rights shall not extend to any right to terminate the Facility Lease or re-enter or re-let the Leased Property or any other possessory right to the Leased Property.

(C) The Authority shall notify the Trustee of the execution of any Related Obligations. With respect to the Series 2007 Bonds, the Authority is executing a Swap with Bank of America, N.A. The Swap Revenues shall be deposited in the Revenue Fund and Regular Swap Payments shall be paid from the Interest Account. Any Extraordinary Swap Payments owed to the Swap Provider shall be paid from the Provider Payment Account on a subordinate basis to any amounts then due and owing on the Bonds payable hereunder.

(D) All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Trustee is hereby directed to establish, maintain and hold in trust, except as otherwise provided in Sections 5.08 and Section 5.09 and except that all moneys received by the Trustee and required to be deposited in the Bond Purchase Fund or the Redemption Fund, shall be promptly deposited in the Bond Purchase Fund and Redemption Fund, respectively. All Revenues deposited with the Trustee shall be held disbursed, allocated and applied by the Trustee only as provided in this Indenture.

At least three (3) Business Days prior to each date on which a Base Rental Payment is due, pursuant to the Facility Lease, the Trustee shall notify the City of the amount of the installment of Base Rental Payment needed to pay the principal of and interest on the Bonds and any Regular Swap Payments estimated to become due prior to the next succeeding Base Rental Payment Date. Any failure to send such notice shall not affect the City's obligation to make timely payments of installments of Base Rental Payments.

(E) In order to carry out and effectuate the pledge, charge and lien on Swap Revenues contained herein, the Authority agrees and covenants that all Swap Revenues shall be transferred when received to the Trustee for deposit in the Revenue Fund.

SECTION 5.02. Allocation of Revenues. (A) On or before the dates specified below the Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee is hereby directed to establish and maintain within the Revenue Fund) the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

FIRST: on or before each Interest Payment Date and Swap Payment Date, to the Interest Account, the amount of interest becoming due and payable on such Interest Payment Date on all Bonds and any Regular Swap Payments becoming due and payable on Swaps, until the balance in said account is equal to said amount of payments due; and

SECOND: to the Principal Account, on or before each September 1 commencing September 1 2007 the amount of the principal payment or Sinking Fund Installment becoming due and payable on such September 1 (or the succeeding Interest Payment Date if September 1 is not an Interest Payment Date), until the balance in said account is equal to said amount of such principal or Sinking Fund Installment; and

THIRD: to the Provider Payment Account, the amount of any Extraordinary Swap Payments or other amounts with respect to Related Obligations becoming due and payable on any date; provided however that payment of such amounts shall be subordinate to all amounts becoming due and payable on all Bonds and any Regular Swap Payments becoming due and payable on Swaps.

(B) Pursuant to Section 3.05, the Authority, at the time of issuance of each Series of Bonds, may establish separate subaccount or subaccounts within the Interest Account, Principal Account and the Provider Payment Account, as provided in a Supplemental Indenture.

SECTION 5.03. Application of Interest Account. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds and any Regular Swap Payments as they shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to this Indenture).

SECTION 5.04. Application of Principal Account.

(A) All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to purchase or redeem or pay Sinking Fund Installments for a Series of Bonds or pay at maturity the Bonds of a Series as provided herein or in a Supplemental Indenture.

(B) On each Sinking Fund Installment date established pursuant to Section 5.04(C) herein or in a Supplemental Indenture, the Trustee shall apply the Sinking Fund Installment required on that date to the redemption (or payment at maturity, as the case may be) of a Series of Bonds, upon the notice and in the manner provided in Article IV; provided that, pursuant to Section 4.08, at any time prior to giving such notice of such redemption, the Trustee may apply moneys in the Principal Account to the purchase of such Series of Bonds as directed in writing

by the Authority, except that the purchase price (excluding accrued interest) shall not exceed the par amount of such Series of Bonds so purchased. If, during the twelve-month period immediately preceding a Sinking Fund Installment payment date, the Trustee has purchased a Series of Bonds with moneys in the Principal Account pursuant to Section 4.08 or a Series of Bonds were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Sinking Fund Installment, such Bonds shall be applied, to the extent of the full principal amount thereof to reduce said Sinking Fund Installment. All Bonds purchased or deposited pursuant to this subsection, if any, shall be cancelled by the Trustee. Bonds purchased from the Principal Account, purchased or redeemed from the Redemption Fund shall be allocated first to the next succeeding Sinking Fund Installment, then as a credit against such future Sinking Fund Installments as the Authority may specify in writing.

(C) Subject to the terms and conditions set forth in this Section and in Section 4.01(H), the Series 2007 Term Bonds shall be redeemed (or paid at maturity, as the case may be) by application of Sinking Fund Installments in the following amounts and on the following dates:

Sinking Fund Installment Date (September 1)	Sinking Fund Installments	Sinking Fund Installment Date (September 1)	Sinking Fund Installments
2007	\$825,000	2021	\$2,275,000
2008	250,000	2022	2,450,000
2009	925,000	2023	2,625,000
2010	1,050,000	2024	2,800,000
2011	1,150,000	2025	3,025,000
2012	1,275,000	2026	3,225,000
2013	1,400,000	2027	3,450,000
2014	1,500,000	2028	3,500,000
2015	1,650,000	2029	3,625,000
2016	1,800,000	2030	3,775,000
2017	1,650,000	2031	3,925,000
2018	1,800,000	2032	4,075,000
2019	1,925,000	2033	4,250,000
2020	2,075,000		

* Final Maturity

Notwithstanding the foregoing, when any Bond to be redeemed pursuant to this Section 5.04(C) is subject to an ARS Rate Period, if such September 1 is not an Interest Payment Date, the redemption from Sinking Fund Installments shall occur on the Interest Payment Date immediately preceding such September 1, unless such September 1 is the Maturity Date therefor.

If any Series 2007 Term Bonds has been optionally redeemed, the amounts of such Sinking Fund Installments shall be reduced as directed by the Authority, or if not so directed, proportionally in increments of Authorized Denominations, by the principal amount of all such Series 2007 Term Bonds so optionally prepaid.

SECTION 5.05. Reserve Fund. (A) The Authority hereby agrees to establish a separate fund titled the “Reserve Fund” to be held by the Trustee. All money in the Reserve Fund shall be deposited with, used and withdrawn by the Trustee solely for the purpose of funding the Interest Account or the Principal Account, in that order, in the event of any deficiency in either of such accounts on a Principal Payment Date or Interest Payment Date or Swap Payment Date, except that so long as the Authority is not in default hereunder, any cash amounts in the Reserve Fund in excess of the Reserve Fund Requirement shall be withdrawn from the Reserve Fund and transferred to the Revenue Fund or, if so directed by the Authority, deposited into a Project Fund during construction of any Project on each July 1, following the payment of any amounts due on such date and on each date Bonds are redeemed or defeased. The Trustee shall notify the Authority if any withdrawal is made from the Reserve Fund for the purpose of funding the Interest Account or the Principal Account.

(B) Pursuant to Section 3.05, the Authority, at the time of issuance of each Series of Bonds, may establish separate subaccount or subaccounts within the Reserve Fund, as provided in a Supplemental Indenture.

(C) The Reserve Fund Requirement shall be determined upon the issuance of a Series of Bonds, the defeasance or optional redemption of Bonds and upon the retirement of a Series of Bonds. The Authority shall certify to the Trustee the amount of the Reserve Fund Requirement.

(D) The Authority may satisfy the Reserve Fund Requirement, in whole or in part, at any time by the deposit with the Trustee for the credit of the Reserve Fund of a Reserve Facility. If the Reserve Fund Requirement is satisfied by a Reserve Facility, the Trustee shall draw on such Reserve Facility in accordance with its terms and the terms hereof, in a timely manner, to the extent necessary to fund any such deficiency in the Interest Account or the Principal Account. The Authority shall repay solely from Revenues any draws under a Reserve Facility and any Reserve Facility Costs related thereto. Interest shall accrue and be payable on such draws and expenses from the date of payment by a Reserve Facility provider at the rate specified in the agreement with respect to such Reserve Facility.

(E) If the Authority causes a cash-funded Reserve Fund to be replaced with a Reserve Facility, amounts on deposit in the Reserve Fund shall, upon Written Request of the Authority to the Trustee, be transferred to the City and applied for any lawful purpose, subject, in the case where such moneys are proceeds of Bonds, to the receipt by the Authority of an Opinion of Counsel that such transfer will not cause the interest on the Bonds to be included in gross income for purposes of federal income taxation.

SECTION 5.06. Application of Insurance Proceeds. In the event of any damage to or destruction of any part of the Leased Property covered by insurance, the Authority shall cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Property, and the Trustee shall hold said proceeds in a fund established by the Trustee for such purpose separate and apart from all other funds designated the “Insurance and Condemnation Fund,” to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Authority shall file a Certificate

with the Trustee that sufficient funds from insurance proceeds or from any funds legally available to the Authority, or from any combination thereof, are available in the event it elects to repair reconstruct or replace the Leased Property. The Trustee shall invest said proceeds in Permitted Investments pursuant to the Request of the Authority, as agent for the Authority under the Facility Lease, and withdrawals of said proceeds shall be made from time to time upon the filing with the Trustee of a Request of the Authority, stating that the Authority has expended moneys or incurred liabilities in an amount equal to the amount therein stated for the purpose of the repair, reconstruction or replacement of the Leased Property, and specifying the items for which such moneys were expended, or such liabilities were incurred, in reasonable detail. Any balance of such proceeds not required for such repair reconstruction or replacement and the proceeds of use and occupancy insurance shall be paid to the Trustee as Base Rental Payments and applied in the manner provided by Section 5.01. Alternatively, the Authority, if the proceeds of such insurance together with any other moneys then available for such purpose are sufficient to prepay all, in case of damage or destruction in whole of the Leased Property, or that portion, in the case of partial damage or destruction of the Leased Property, of the Base Rental Payments and all other amounts relating to the damaged or destroyed portion of the Leased Property, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property and thereupon shall cause said proceeds to be deposited in the Special Redemption Account and used for the redemption of Outstanding Bonds pursuant to the applicable provisions of Section 4.01(A). The Authority shall not apply the proceeds of insurance as set forth in this Section 5.06 to redeem the Bonds in part due to damage or destruction of a portion of the Leased Property unless the Base Rental Payments on the undamaged portion of the Leased Property will be sufficient to pay the scheduled principal and interest on the Bonds remaining unpaid after such redemption.

SECTION 5.07. Application of Redemption Fund. (A) The Trustee shall establish maintain and hold in trust a fund separate from any other fund established and maintained hereunder designated as the “Redemption Fund” and within the Redemption Fund a separate Optional Redemption Account and a separate Special Redemption Account. All amounts deposited in the Optional Redemption Account and in the Special Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in Article IV, at the next succeeding date of redemption for which notice has not been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account respectively; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon direction of the Authority, apply such amounts to the purchase of Bonds pursuant to Section 4.08; and provided further that, in the case of the Optional Redemption Account, in lieu of redemption at such next succeeding date of redemption or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Base Rental Payments in order of their due date as set forth in a Request of the Authority.

(B) Pursuant to Section 3.05, the Authority, at the time of issuance of each Series of Bonds, may establish separate subaccount or subaccounts within the Optional Redemption Account and Special Redemption Account, as provided in a Supplemental Indenture.

SECTION 5.08. Rebate Fund.

(A) The Trustee shall establish and maintain a fund separate from any other fund established and maintained hereunder designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be specified by the Tax Certificate. Subject to the transfer provisions provided in subsection (E) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Tax Certificate), for payment to the federal government of the United States of America. Neither the Authority, the City, nor the Holder of any Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section, by Section 6.05 and by the Tax Certificate (which is incorporated herein by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the Authority including supplying all necessary information in the manner provided in the Tax Certificate, and shall have no liability or responsibility to enforce compliance by the City or the Authority with the terms of the Tax Certificate. The Authority shall be deemed conclusively to have complied with the provisions of this Section if it takes such action as may reasonably be requested by the City or the Authority pursuant to the Tax Certificate.

(B) Upon the Authority's written direction, an amount shall be deposited to the Rebate Fund by the Trustee from deposits by the Authority or from available investment earnings on amounts held in the Revenue Fund, if and to the extent required, so that the balance in the Rebate Fund shall equal the Rebate Amount. Computations of the Rebate Amount shall be furnished to the Trustee by or on behalf of the Authority in accordance with the Tax Certificate.

(C) The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section, other than from moneys held in the funds and accounts created under this Indenture or from other moneys provided to it by the Authority.

(D) At the written direction of the Authority, the Trustee shall invest all amounts held in the Rebate Fund in Permitted Investments, subject to the restrictions set forth in the Tax Certificate. Money shall not be transferred from the Rebate Fund except as provided in subsection (E) below.

(E) Upon receipt of the Authority's written directions, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States, as so directed. In addition, if the Authority so directs in writing, the Trustee will deposit money into or transfer money out of the Rebate Fund from or into such accounts or funds, as so directed. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Amount, or provision made therefor satisfactory to the Trustee, shall be withdrawn and remitted to the Authority.

(F) Notwithstanding any other provision of this Indenture, including in particular Article X, the obligation to remit the Rebate Amounts to the United States and to comply with all other requirements of this Section, Section 6.05 and the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

SECTION 5.09. Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts established pursuant to this Indenture (other than the Bond Purchase Fund) shall be invested by the Trustee solely in Permitted Investments. Moneys in the Bond Purchase Fund shall remain uninvested. Permitted Investments shall be purchased at such prices as the Authority may direct. The directions of the Authority shall be subject to the limitations set forth in Section 6.05. All Permitted Investments shall be acquired subject to the limitations as to maturities hereinafter in this Section set forth and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Authority. No Request of the Authority shall impose any duty on the Trustee inconsistent with its fiduciary responsibilities. In the absence of directions from the Authority, the Trustee shall invest in Permitted Investments specified in subsection (9) of the definition thereof in Section 1.01.

Moneys in all funds and accounts (other than the Bond Purchase Fund) shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in this Indenture. Permitted Investments purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Trustee may deliver such Permitted Investments for repurchase under such agreement. Permitted Investments purchased under an investment agreement may be deemed to mature on the date or dates on which the Trustee may withdraw the full amount invested therein, without penalty.

All interest, profits and other income received from the investment of moneys in the Rebate Fund shall be deposited when received in such fund. All interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to this Indenture shall be deposited when received (1) prior to the delivery of the Certificate of the Authority required by Section 3.04(D) in the Project Fund and (2) thereafter in the Revenue Fund. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Investment Security equal to the amount accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account for the credit of which such Investment Security was acquired.

Permitted Investments acquired as an investment of moneys in any fund or account established under this Indenture shall be credited to such fund or account. For the purpose of determining the amount in any such fund or account all Permitted Investments credited to such fund or account shall be valued at the lower or cost (exclusive of accrued interest after the first payment of interest following acquisition) or market value (plus, prior to the first payment of interest following acquisition, the amount of interest paid as part of the purchase price).

The Trustee may commingle any of the amounts on deposit in the funds or accounts established pursuant to this Indenture (other than the Bond Purchase Fund or the Rebate Fund) into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee hereunder shall be accounted for separately as required by this Indenture. The Trustee may act as principal or agent in the making or disposing of any investment. The Trustee may sell at the best price reasonably obtainable, or present for redemption, any Permitted Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such

Investment Security is credited. For investment purposes, the Trustee may commingle the funds and accounts established hereunder, but shall account for each separately.

SECTION 5.10. Application of Provider Payment Account. All amounts in the Provider Payment Account shall be used and withdrawn by the Trustee solely for the purpose of paying any amounts owed to Providers, including Extraordinary Swap Payments, when due. To the extent amounts deposited therein are insufficient to pay all amounts owed to Providers, such amounts shall be applied on a pro rate basis to the payment of amounts owed to Providers.

SECTION 5.11. Additional Security. In addition to the pledge of Revenues and other security provided in the Granting Clause hereof, the Authority or the City may, in its discretion, provide additional security or credit enhancement for specified Bonds or Series of Bonds (including, without limitation, any tax increment reimbursement agreements) with no obligation to provide such additional security or credit enhancement to other Series of Bonds.

ARTICLE VI

PARTICULAR COVENANTS

SECTION 6.01. Punctual Payment. The Authority shall punctually cause to be paid the principal or Redemption Price and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of this Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in this Indenture.

SECTION 6.02. Extension of Payment of Bonds. Except as set forth in Section 9.01, the Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default hereunder to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section shall be deemed to limit the right of the Authority to issue obligations for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

SECTION 6.03. Against Encumbrances. The Authority shall not create any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under this Indenture while any of the Bonds or Swaps are Outstanding, except the pledges and assignments created by this Indenture, and will assist the Trustee in contesting any such pledge, lien, charge or other encumbrance which may be created. Subject to this limitation the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes and reserves the right to issue other obligations for such purposes.

SECTION 6.04. Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into this Indenture

and to pledge and assign the Revenues and other assets purported to be pledged and assigned respectively, under this Indenture in the manner and to the extent provided in this Indenture. The Bonds and the provisions of this Indenture are and will be the legal, valid and binding limited obligations of the Authority in accordance with their terms, and the Authority and Trustee shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bondholders under this Indenture against all claims and demands of all Persons whomsoever.

SECTION 6.05. Tax Covenants; Rebate Fund.

(A) Pursuant to Section 5.08, the Trustee shall establish and maintain a fund separate from any other fund or account established and maintained hereunder designated as the Rebate Fund. There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States of America. Notwithstanding the provisions of Article V relating to the pledge of Revenues, the allocation of money in the Revenue Fund, the investments of money in any fund or account, the application of funds upon acceleration and the defeasance of Outstanding Bonds, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by this Section 6.05 and by the Tax Certificate (which is incorporated herein by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the Authority or the City, and shall have no liability or responsibility to enforce compliance by the Authority or the City with the terms of the Tax Certificate.

(B) Any funds remaining in the Rebate Fund after redemption and payment with respect to all of the Bonds and all other amounts due hereunder or under the Facility Lease or provision made therefor satisfactory to the Trustee, including accrued interest and payment of any applicable fees and expenses to the Trustee and satisfaction of the Rebate Requirement (as defined in the Tax Certificate), shall be withdrawn by the Trustee and remitted to or upon the direction of the Authority.

(C) The Authority shall not use or permit the use of any proceeds of the Series 2007 Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations, and shall not take or permit to be taken any other action or actions, which would cause any of the Series 2007 Bonds to be an “arbitrage bond” within the meaning of Section 148 of the Code “private activity bond” within the meaning of Section 141(a) of the Code, or “federally guaranteed” within the meaning of Section 149(b) of the Code and any such applicable requirements promulgated from time to time thereunder and under Section 103(c) of the Internal Revenue Code of 1954, as amended. The Authority shall observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Authority shall comply with all requirements of Section 148 and 149(b) of the Code to the extent applicable to the Series 2007 Bonds. In the event that at any time the Authority is of the opinion that for purposes of this Section 6.05(c) it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee under this Indenture, the Authority shall so instruct the Trustee under this Indenture in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(D) The Authority and the Trustee (as directed by the Authority) specifically covenant to comply with the provisions and procedures of the Tax Certificate; provided that the Trustee shall not be bound by this covenant if an Event of Default has occurred and continuing.

(E) The Authority shall not use or permit the use of any proceeds of the Series 2007 Bonds or any funds of the Authority, directly or indirectly, in any manner, and shall not take or omit to take any action that would cause any of the Series 2007 Bonds to be treated as an obligation not described in Section 103(a) of the Code.

(F) Notwithstanding any provisions of this Section 6.05, if the Authority shall provide to the Trustee an Opinion of Counsel that any specified action required under this Section 6.05 or the Tax Certificate is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Series 2007 Bonds the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of this Section, and, notwithstanding Article IX hereof, the covenants hereunder shall be deemed to be modified to that extent.

(G) The Authority covenants that, in the event of any change in this Indenture or other relevant documents relating to the Series 2007 Bonds, or any other actions taken or omitted by the Authority, upon the advice or with the approving Opinion of Counsel other than Sidley Austin LLP, Bond Counsel in connection with the original execution and delivery of the Series 2007 Bonds, the Authority will, upon the making of any such change, or the taking or omission of any such other action, cause to be delivered an Opinion of Counsel (together with a reliance letter thereon addressed to the Bond Insurer for the Series 2007 Bonds and the Trustee) nationally recognized in the area of municipal bonds to the effect that the interest on the Series 2007 Bonds is excluded from gross income for federal income tax purposes.

SECTION 6.06. Accounting Records and Reports. The Authority will keep or cause to be kept proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocation and application of the Revenues, and such books shall be available for inspection by the Trustee at reasonable hours and under reasonable conditions. Not more than two hundred seventy (270) days after the close of each Fiscal Year, the Authority shall furnish or cause to be furnished to the Trustee a complete financial statement covering receipts, disbursements, allocation and application of Revenues for such Fiscal Year. The Authority shall also keep or cause to be kept such other information as required under the Tax Certificate. The Trustee shall have no duty to review or examine such statement.

SECTION 6.07. Construction of Project. The Authority will construct or cause to be constructed the Project from the proceeds of the Bonds with all practicable dispatch and such construction will be made in an expeditious manner and in conformity with the law so as to complete the same as soon as possible.

SECTION 6.08. Amendments to Facility Lease or Sublease. The Authority shall not supplement, amend, modify or terminate any of the terms of the Facility Lease or Sublease, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the Trustee and the Bond Insurer. The Trustee shall give such written consent

(a) if such supplement, amendment, modification or termination will not materially adversely affect the interests of the Bondholders or result in any material impairment of the security hereby given for the payment of the Bonds (provided that such supplement amendment or modification shall not be deemed to have such adverse effect or to cause such material impairment solely by reason of substitution of real property pursuant to Section 2.04 of the Facility Lease), (b) to accommodate the issuance of Additional Bonds pursuant to a Supplemental Indenture, (c) to add to the agreements, conditions, covenants and terms required to be observed or performed thereunder by any party thereto, or to surrender any right or power therein reserved to the Authority or the City, (d) to cure, correct or supplement any ambiguous or defective provision contained therein, which action does not materially adversely affect the interests of the Bondholders, (e) to accommodate any removal or substitution of the Leased Property in accordance with Section 2.04 of the Facility Lease, (f) to modify the legal description of the Leased Property to conform to the requirements of title insurance or otherwise to add or delete property descriptions to reflect accurately the description of the parcels intended or preferred to be included therein, or (g) the Trustee first obtains the written consent of the Bondholders of a majority in principal amount and Accreted Value, as the case may be, of the Bonds then Outstanding to such settlement, amendment, modification or termination; provided, that no such supplement, amendment, modification or termination shall reduce the amount of Base Rental Payments to be made to the Authority or the Trustee by the City pursuant to the Facility Lease, or extend the time for making such payments, or permit the creation of any lien prior to or on a parity with the lien created by the Indenture on the Base Rental Payments (except as expressly provided in the Facility Lease), in each case without the written consent of all of the Bondholders of the Bonds then Outstanding and the Bond Insurer.

Any supplement, amendment or modification entered into pursuant to this Section 6.08 shall not, for purposes of this Section 6.08, be deemed to materially adversely affect the interest of the Bondholders or result in any material impairment of the security given for the payments of the Bonds so long as all Bonds are insured by a Bond Insurance Policy, and each Bond Insurer shall be rated in the highest rating category by two of the Rating Agencies.

SECTION 6.09. Leasehold Estate; Enforcement of Facility Lease. The Authority will be, on the date of the delivery of the Bonds, the owner and lawfully possessed of the leasehold estate described in the Facility Lease, and the Facility Lease will be, on the date of delivery of the Bonds, a valid subsisting demise for the term therein set forth of the property which it purports to demise. At the time of the delivery of the Bonds the City will be the owner in fee simple of the premises described therein, and the Facility Lease will be lawfully made by the City, and the covenants contained in the Facility Lease on the part of the City will be valid and binding. At the time of the delivery of the Bonds, the Authority will have good right, full power and lawful authority to lease said leasehold estate, in the manner and form provided in the Facility Lease, and the Facility Lease will be duly and regularly executed.

Without allowance for any days of grace which may or might exist or be allowed by law or granted pursuant to any terms or conditions of the Facility Lease, the Authority will in all respects promptly and faithfully keep, perform and comply with all the terms, provisions covenants, conditions and agreements of the Facility Lease to be kept, performed and complied with by it. The Authority will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such

omission of or refraining from action, would or might be a ground for declaring a forfeiture of the Facility Lease, or would or might be a ground for cancellation or termination of the Facility Lease by the lessee thereunder. The Authority will promptly deposit with the Trustee (to be held by the Trustee until the title and rights of the Trustee under this Indenture shall be released or reconvened) any and all documentary evidence received by it showing compliance with the provisions of the Facility Lease to be performed by the Authority. The Authority, immediately upon its receiving or giving any notice, communication or other document in any way relating to or affecting the Facility Lease, or the leasehold estate thereby created, which mayor can in any manner affect the estate of the lessor or of the Authority in or under the Facility Lease, will deliver the same, or a copy thereof, to the Trustee.

The Trustee shall promptly collect all amounts due from the City pursuant to the Facility Lease, shall perform all duties imposed upon it pursuant to the Facility Lease and shall diligently enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of, all of the rights of the Authority and all of the obligations of the City.

SECTION 6.10. Waiver of Laws. The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in this Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority to the extent permitted by law.

SECTION 6.11. Further Assurances. The Authority shall make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture and for the better assuring and confirming unto the Holders of the Bonds of the rights and benefits provided in this Indenture.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

SECTION 7.01. Events of Default. The following events shall be Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise or default in the redemption of any Bonds from Sinking Fund Installments in the amount and at the times provided therefor;

(B) default in the due and punctual payment of any installment of interest on any Bond or any Regular Swap Payment when and as such interest installment or Regular Swap Payment shall become due and payable;

(C) default in any material respect by the Authority in the observance of any of the other covenants, agreements or conditions on its part in this Indenture or in the Bonds contained, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the

Authority and the City by the Trustee, or to the Authority, the City and the Trustee by any of the Bond Insurer or the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or

(D) an Event of Default occurring under Section 6.01 of the Facility Lease.

Upon actual knowledge of the existence of any Event of Default, the Trustee shall notify the Authority, the City, and the Bond Insurer in writing as soon as practicable; provided, however, that the Trustee need not provide notice of any event of default pursuant to subsection (D) above (a "Lease Default Event) if the City has expressly acknowledged the existence of such Lease Default Event in a writing delivered to the Trustee, the Bond Insurer and the Authority. Additionally, the Trustee shall immediately notify the applicable Bond Insurer if at any time there are insufficient moneys to make any payments of principal of and/or interest on the Insured Bonds insured by such Bond Insurer and immediately upon the occurrence of any Event of Default hereunder and shall provide such additional information as such Bond Insurer shall reasonably request.

SECTION 7.02. Acceleration of Maturities. Whenever any Event of Default referred to in Section 7.01 shall have happened and be continuing, the Trustee may take the following remedial steps:

(A) In the case of an Event of Default described in Section 7.01 (A) or (B) of this Indenture, the Trustee may notify the Authority and the City of such Event of Default may make a demand for payment under the Indenture and may declare the principal of all obligations issued under the Indenture then outstanding to be due and immediately payable, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture to the contrary notwithstanding;

(B) In the case of an Event of Default described in Section 7.01(C) of this Indenture, the Trustee may take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Authority with any covenant condition or agreement by the Authority under this Indenture; and

(C) In the case of an Event of Default described in Section 7.01(D) of this Indenture, the Trustee may take whatever action the Authority would be entitled to take, and shall take whatever action the Authority would be required to take, pursuant to the Facility Lease in order to remedy the Lease Default Event.

Nothing contained herein, however, shall require the Trustee to exercise any remedies in connection with an Event of Default unless the Trustee shall have actual knowledge or shall have received written notice of such Event of Default.

SECTION 7.03. Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of this Indenture (subject to Section 11.10 and other than moneys required to be deposited in the Rebate Fund or the Bond Purchase Fund) shall be applied by the Trustee as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and the Providers and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under this Indenture; and

(2) To the payment of the principal or Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) and the Regular Swap Payments subject to the provisions of this Indenture (including Section 7.02), as follows:

(a) Unless the principal of all of the Bonds shall have become or have been declared due and payable

FIRST: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments and any Regular Swap Payments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

SECOND: To the payment to the Persons entitled thereto of the unpaid principal (including Sinking Fund Installments) or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference.

THIRD: To the payment to the Providers entitled thereto of amounts due with respect to any Related Obligations, and, if the amount available shall not be sufficient to pay in full any amounts due with respect to any Related Obligations, then to the payment thereof ratably, according to the amounts due thereon, to the Providers entitled thereto without discrimination or preferences.

(b) If the principal of all of the Bonds shall have become or have been declared due and payable

FIRST: To the payment to the Persons entitled thereto of the principal and interest then due and unpaid upon the Bonds and any Regular Swap Payments, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond or of any principal or interest over any Regular Swap Payment, according to the

amounts due respectively for principal and interest and Regular Swap Payments, to the Persons entitled thereto without any discrimination or preference.

SECOND: To the extent funds remain available, to the payment to the Providers entitled thereto of amounts due with respect to any Related Obligations, and, if the amount available shall not be sufficient to pay in full any amounts due with respect to any Related Obligations, then to the payment thereof ratably, according to the amounts due thereon, to the Providers entitled thereto, without discrimination or preferences.

SECTION 7.04. Trustee to Represent Bondholders. The Trustee is hereby irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as Trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, this Indenture, the Facility Lease, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under this Indenture, the Facility Lease, the Act or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other amounts and assets pledged under this Indenture pending such proceedings. If more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%). All rights action under this Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of this Indenture.

SECTION 7.05. Bondholders' Direction of Proceedings. Anything in this Indenture to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall, have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefor, to direct the method of conducting all remedial proceedings taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of this Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

SECTION 7.06. Limitation on Bondholders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under this Indenture, the Facility Lease, the Act or any other applicable law with respect to such Bond, unless (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; provided, however, that if more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%); (3) such Holder or said Holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by such Holders or Holders' action to affect disturb or prejudice the security of this Indenture or the rights of any other Holders of Bonds, or to enforce any right under this Indenture, the Facility Lease, the Act or other applicable law with respect to the Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of this Indenture.

SECTION 7.07. Absolute Obligation of Authority. Nothing in Section 7.06 or in any other provision of this Indenture, or in the Bonds, contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal or Redemption Price of and interest on the Bonds to the respective Holders of the Bonds at their respective dates of maturity, or upon call for redemption, as herein provided, but only out of the Revenues and other assets herein pledged therefor, and not otherwise, or affect or impair the right of such Holders, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

SECTION 7.08. Termination of Proceedings. In case any proceedings taken by the Trustee or anyone or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the Authority, the Trustee, the Bond Insurer, the Liquidity Facility Provider (if any) and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee, the Bond Insurer, the Liquidity Facility Provider (if any) and the Bondholders shall continue as though no such proceedings had been taken.

SECTION 7.09. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Holders of the Bonds or to any Provider is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

SECTION 7.10. No Waiver of Default. No delay or omission of the Trustee or of any Holder of the Bonds or of any Provider to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by this Indenture to the Trustee or to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient.

ARTICLE VIII

THE TRUSTEE

SECTION 8.01. Duties, Immunities and Liabilities of Trustee.

(A) The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Indenture, and, except to the extent required by law, no implied covenants or obligations shall be read into this Indenture against the Trustee. The Trustee shall during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person that customarily engages in activities essentially similar to those provided for the Trustee hereunder would exercise or use under the circumstances in the conduct of such person's own affairs.

(B) The Authority may, upon written request of the City shall, remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (E) of this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

(C) The Trustee may at any time resign by giving written notice of such resignation to the Authority, the Bond Insurer, the Liquidity Facility Provider (if any), the City and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation the Authority shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment.

(D) Any removal or resignation of the Trustee and appointment of a successor Trustee shall only become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within thirty (30) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of such Bondholder and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture shall signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee. Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but nevertheless at the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon the request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon the acceptance of appointment by a successor Trustee as provided in this subsection, the Authority shall mail, or cause to be mailed, a notice of the succession of such Trustee to the trusts hereunder to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the Authority fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Authority.

(E) The Trustee and any successor Trustee shall be a trust company or bank having a combined capital and surplus of at least seventy-five million dollars (\$75,000,000) (or providing a guarantee of the full and prompt performance by the Trustee of its obligations under this Bond Indenture by a guarantor with such combined capital and surplus) and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (E), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

SECTION 8.02. Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business provided such company shall be eligible under subsection (E) of Section 8.01, shall be the successor to such Trustee without the execution or filing of any paper or any further act anything herein to the contrary notwithstanding.

SECTION 8.03. Liability of Trustee.

(A) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Authority, and the Trustee assumes no responsibility for the correctness of the same, makes no representations as to the validity or sufficiency of this Indenture, of the Facility Lease, of the Remarketing Agreement, or of the Bonds, and shall incur no responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Bonds assigned to or imposed upon it except for any recital or representation specifically relating to the Trustee or its powers. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Trustee may become the owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect, any committee formed to protect the rights of Bondholders, whether or not such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

(B) The Trustee shall not be liable for any error of judgment made in good faith by any of its officers, employees, agents or representatives, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(C) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(D) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of this Indenture, other than to make draws on a Liquidity Facility or Bond Insurance Policy in accordance with the terms of this Indenture, unless such Bondholders shall have offered to the Trustee security or indemnity, satisfactory to the Trustee, against the costs, expenses and liabilities which may be incurred therein or thereby. The Trustee has no obligation or liability to the Holders for the payment of interest on, principal of or premium, if any, with respect to the Bonds from its own funds, but rather the Trustee's obligations shall be limited to the performance of its duties hereunder.

(E) Except with respect to Events of Default specified in Section 7.01(A) or (B), the Trustee shall not be deemed to have knowledge of any Event of Default unless and until an officer at the Principal Office responsible for the administration of its duties hereunder shall have actual knowledge thereof or the Trustee shall have received written notice thereof at the Principal Office. The Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of a default or Event of Default thereunder. The Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it.

(F) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through attorneys-in-fact, agents, receivers, officers, employees or representatives, but shall be answerable for the negligence or misconduct of any such attorney-in-fact, agent, receiver, officer, employee or representative selected by it. The Trustee shall be entitled to advice of counsel and other professionals concerning all matters of trust and its duty hereunder, but the Trustee shall not be answerable for the professional malpractice of any counselor other professional (including without limiting the generality of the foregoing, attorneys-in-law or certified public accountants) in connection with the rendering of such counsels or other professionals' advice in accordance with the terms of this Indenture, if such counselor other professional was selected by the Trustee with due care.

(G) The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys that shall be released or withdrawn in accordance with the provisions hereof.

(H) Whether or not therein expressly so provided, every provision of this Indenture, the Facility Lease or related documents relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article.

(I) The Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence.

(J) The Trustee agrees to accept and act upon facsimile transmission of written instructions and/or directions pursuant to this Section provided; however, that: (1) subsequent to such facsimile transmission of written instructions and/or directions the Trustee shall forthwith receive the originally executed instructions and/or directions, (2) such originally executed instructions and/or directions shall be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (3) the Trustees shall have received a current incumbency certificate containing the specimen signature of such designated person.

SECTION 8.04. Right of Trustee to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond, requisition, statement, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the Authority and/or counsel selected by the Trustee, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the Authority, and such Certificate shall be full warrant to the Trustee for any

action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable.

SECTION 8.05. Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of this Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Authority, the City, the Liquidity Facility Provider (if any) and any Bondholder, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

SECTION 8.06. Compensation and Indemnification. The Authority shall pay to the Trustee from time to time reasonable compensation for all services rendered under this Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under this Indenture.

No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of its rights or powers, if it has not received the agreed compensation for such services or, in cases where the Trustee has a right to reimbursement or indemnification for such performance or . exercise, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

SECTION 8.07. Trustee's Relationship to the Authority.

(A) The Trustee acknowledges that the Bonds are payable solely from Revenues, including payments to be made by the City pursuant to the Facility Lease and the Bonds, that the Authority is a passive conduit for the payments to be made by the City pursuant to the Facility Lease and the Bonds and that the Bonds are not general obligations of the Authority. The Trustee, by execution of this Indenture, has accepted the assignment by the Authority to the Trustee of the payments to be made by the City pursuant to the Facility Lease and the Bonds and of certain of the rights of the Authority under the Facility Lease and the Bonds and, to the extent permitted by law and subject to the limiting provisions contained herein has assumed any and all responsibilities of the Authority under the Facility Lease and the Bonds to enforce those rights. The Trustee will notify the Authority of any default known to the Trustee under the Facility Lease or the Bonds, and will upon receipt of a Request of the Authority provide the Authority with any information reasonably available to the Trustee which the Authority may reasonably request regarding any events of default.

(B) The Trustee agrees to provide the Authority within a reasonable time after the receipt of a Request of the Authority any financial or other information it may reasonably request relating to the City or to the Indenture or the Facility Lease and the Bonds which the Authority finds necessary or desirable and which is reasonably available to the Trustee.

(C) The Trustee will disclose to the Authority each calendar year the total amount of fees charged for performing its duties hereunder.

ARTICLE IX

MODIFICATION OR AMENDMENT OF THE INDENTURE

SECTION 9.01. Amendments Permitted.

(A) This Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Trustee and of any Swap Provider may be modified or amended from time to time and at any time by an indenture or indentures supplemental hereto, which the Authority and the Trustee may enter into when, the City shall have filed with the Trustee the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding. No such modification or amendment shall (1) extend the stated maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof or change the Purchase Price to be paid to Holders tendering their Bonds, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds, the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under this Indenture prior to or on a parity with the lien created by this Indenture, or deprive the Holders of the Bonds or the Swap Provider of the lien created by this Indenture on such Revenues and other assets (except as expressly provided in this Indenture), without the consent of the Holders of all Bonds then Outstanding and the Swap Provider. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture pursuant to this subsection (A), the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Bondholders at the addresses shown on the registration books maintained by the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(B) This Indenture and the rights and obligations of the Authority, of the Trustee and of the Holders of the Bonds, except as it relates to the Swap Agreement, may also be modified or amended from time to time and at any time by an indenture or indentures supplemental hereto, which the Authority and the Trustee may enter into without the necessity of obtaining the consent of any Bondholders, for any purpose that will not materially adversely affect the interests of the Holders of the Bonds, including (without limitation) anyone or more of the following purposes:

(1) to add to the covenants and agreements of the Authority contained in this Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the Authority;

(2) to make such provisions for the purpose of curing any ambiguity inconsistency or omission, or of curing or correcting any defective provision, contained in this

Indenture, or in regard to matters or questions arising under this Indenture, as the Authority or the Trustee may deem necessary or desirable;

(3) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(4) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure set forth in Article III (which shall be deemed not to adversely affect Bondholders);

(5) to evidence or give effect to, or to conform to the terms and provisions of any Liquidity Facility;

(6) to evidence or give effect to, or to conform to the terms and provisions of any insurance policy, letter of credit, surety bond or other credit enhancement for the Bonds;

(7) to facilitate and implement any book entry system (or any termination of a book entry system) with respect to the Bonds;

(8) to maintain the exclusion from gross income of interest payable with respect to the Bonds; or

(9) to make any modification or amendment to the Indenture which will be effective upon the remarketing of Bonds following the mandatory tender of the Bonds pursuant to Section 4.10.

Any Supplemental Indenture entered into pursuant to this paragraph shall not, for purposes of this paragraph, materially adversely affect the interest of the Bondholders so long as (a) all Bonds are insured by a Bond Insurance Policy or are Variable Rate Bonds, (b) each Bond Insurer shall be rated in the highest Rating Category by S&P and Moody's and (c) if there are Variable Rate Bonds, the Supplemental Indenture shall not become effective until notice thereof shall have been given to Bondholders and thirty (30) days shall have passed during which time Owners of the Variable Rate Bonds shall have had the opportunity to tender their Bonds for purchase or if Bonds are ARS, a successful Auction has been conducted.

(C) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (A) or (B) of this Section which materially adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise. In any event, the Trustee shall obtain the Swap Provider's consent prior to entering into any Supplemental Indenture authorized by subsections (A) or (B) of this Section which materially adversely affects the Swap Providers rights, duties, or immunities under this Indenture or otherwise.

SECTION 9.02. Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to this Article, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this

Indenture of the Authority, the Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.03. Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if the Authority so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Holder of any Bond Outstanding at the time of such execution and presentation of such Holders Bond for the purpose at the Principal Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such Bond. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Authority, to any modification or amendment contained in such Supplemental Indenture, shall be prepared by the Trustee at the expense of the Authority, executed by the Authority and authenticated by the Trustee, and upon demand of the Holders of any Bonds then Outstanding shall be exchanged at the Principal Office of the Trustee, without cost to any Bondholder, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts of the same maturity.

SECTION 9.04. Amendment of Particular Bonds. The provisions of this Article IX shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by such Bondholder, provided that due notation thereof is made on such Bonds.

ARTICLE X

DEFEASANCE

SECTION 10.01. Discharge of Indenture. The Bonds may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways:

- (A) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable;
- (B) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in Section 10.03) to pay when due or redeem all Bonds then Outstanding; or
- (C) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable hereunder by the Authority and under any Related Obligations and all Swaps have been terminated and are no longer outstanding, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Trustee signifying the intention of the Authority to discharge all such indebtedness and this Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, this Indenture and the pledge of Revenues and other assets made under this Indenture and all covenants, agreements and other obligations of the Authority

under this Indenture (except as otherwise provided in Section 5.08) shall cease, terminate become void and be completely discharged and satisfied. In such event, upon the request of the Authority, the Trustee shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary to evidence such discharge and satisfaction and the Trustee shall pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it pursuant to this Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption; provided that in all events moneys in the Rebate Fund shall be subject to the provisions of Section 5.08.

SECTION 10.02. Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to payor redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond) and pay any amounts due and payable on any Swaps then Outstanding, provided that, if such Bond is to be redeemed prior to maturity (a) notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, and (b) the Trustee, the Bond Insurer, the Swap Provider and the Authority shall have received (i) verification report prepared by independent certified public accountants, or other verification agent (which may be the Remarketing Agent) satisfactory to the Trustee and the Authority, to the effect that the payment of the principal of and premium, if any, and interest on such Bonds then Outstanding and any and all other amounts required to be paid under the provisions of this Bond Indenture has been provided for in the manner set forth in this Bond Indenture and the Swap Agreement, and (ii) an Opinion of Bond Counsel addressed and delivered to the Trustee and the Authority to the effect that so providing for the payment of such Bond shall not adversely affect the exclusion of the interest on such Bond from gross income for federal income tax purposes, then all liability of the Authority in respect of such Bond shall cease, terminate and be completely discharged, except only that thereafter the Holder thereof shall be entitled to payment of the principal of and interest on such Bond by the Authority, and the Authority shall remain liable for such payments, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.04.

Notwithstanding anything in this Section 10.02 to the contrary, if the interest on or principal of the related Insured Bonds shall have been paid by the related Bond Insurer pursuant to the related Bond Insurance Policy, the obligations of the Authority hereunder and under such Insured Bonds shall not be deemed discharged or satisfied, such Insured Bonds shall remain Outstanding for all the assignment and pledge contained in Section 5.01 of this Indenture and all obligations of the Authority under this Indenture shall continue to exist and run to the benefit of such Bond Insurer, and such Bond Insurer shall be subrogated to the rights of Holders of such Insured Bonds including, without limitation, any rights that the Holders of such Bonds may have in respect of securities law violations arising from the offer and sale of such Insured Bonds.

SECTION 10.03. Deposit of Money or Securities with Trustee. Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to payor redeem any Bonds, the money or securities to be so deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to this Indenture (other than the Rebate Fund) and shall be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity (based on an assumed interest rate equal to the Maximum Rate for periods for which the actual interest rate on the Bonds cannot be determined), except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(B) United States Government Obligations, the principal of and interest on which when due (without any income from the reinvestment thereof) will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity (based on an assumed interest rate equal to the Maximum Rate for periods for which the actual interest rate on the Bonds cannot be determined), or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Request of the Authority) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds, and provided further, that with respect to the deposit of United States Government Obligations pursuant to subsection (B), the Trustee shall have received (i) a verification report from a firm of independent accountants or attorneys acceptable to the Trustee to the effect that the amount deposited is sufficient to make the payment specified therein and (ii) a defeasance opinion addressed to the Bond Insurer.

SECTION 10.04. Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of this Indenture, any moneys held by the Trustee in trust for the payment of the principal of or premium, if any, or interest on, any Bonds and remaining unclaimed for three years (or, if shorter, one day before such moneys would escheat to the State of California under then applicable California law) after such principal or interest, as the case may be, has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in this Indenture), if such moneys were so held at such date, or three years (or, if shorter, one day before such moneys would escheat to the State of California under then applicable California law) after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the City free from the trusts created by this Indenture upon receipt of an indemnification agreement acceptable to the Authority and the Trustee indemnifying the Authority and the Trustee with respect to claims of Holders of Bonds which have not yet been paid and containing the agreement of the City to remain liable for the amount so repaid to the City, and all liability of the Authority and the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee may (at the cost of the City) first mail to the Holders of Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Trustee, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof.

ARTICLE XI

MISCELLANEOUS

SECTION 11.01. Limited Liability of Authority. Notwithstanding anything this Indenture or in the Bonds contained, the Authority shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under this Indenture for any of the purposes in this Indenture mentioned, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of this Indenture.

SECTION 11.02. Successor is Deemed Included in All References to Predecessor. Whenever in this Indenture either the Authority or the Trustee is named or referred, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the Authority or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

SECTION 11.03. Limitation of Rights to Parties, the Authority, the Bond Insurer, the Providers, the City and Bondholders. Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Authority, the Trustee, the City, the Bond Insurer, the Providers (if any) and the Holders of the Bonds, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the City, the Bond Insurer, the Providers (if any) and the Holders of the Bonds.

SECTION 11.04. Waiver of Notice. Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 11.05. Destruction of Bonds. Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to the Authority of any Bonds, the Trustee shall, in lieu of such cancellation and delivery, destroy such Bonds and deliver a certificate of such destruction to the Authority.

SECTION 11.06. Severability of Invalid Provisions. If anyone or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority hereby declares that it would have entered into this Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that anyone or more Sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal invalid or unenforceable.

SECTION 11.07. Notices. Any notice or request to or demand upon the Trustee shall be in writing and may be served or presented, and such demand may be made, at the Principal Office of the Trustee or at such other address as may have been filed in writing by the Trustee with the Authority. Any notice to or demand upon the Authority and the City shall be deemed to have been sufficiently given or served for all purposes by being delivered or sent by confirmed facsimile transmission or by being deposited, postage prepaid, in a post office letter box, addressed as follows:

- (1) to the Authority at:

Modesto Public Financing Authority
c/o City of Modesto
City Hall
1010 Tenth Street, Suite 5200
Modesto, CA 95353
Attention: Auditor and Treasurer
Telephone No.: (209) 577-5371
Facsimile No.: (209) 571-5880

- (2) to the City at:

City of Modesto
1010 Tenth Street, Suite 5200
Modesto, CA 95353
Attention: Finance Director
Telephone No.: (209) 577-5371
Facsimile No.: (209) 571-5880

- (3) to the Trustee at:

The Bank of New York Trust Company, N.A.
550 Kearny Street, Suite 600
San Francisco, CA 94108-2527
Facsimile No.: (415) 399-1647

- (4) to the Auction Agent at:

Deutsche Bank Trust Company Americas
60 Wall Street, 27th Floor
New York, New York 10005
Attention: Kyshawn C. White
Telephone: (212) 250-6658
Facsimile: (212) 797-8600
Email: Kyshawn.White@db.com

(5) to the Series 2007 Bond Insurer

CIFG Assurance North America, Inc.
825 Third Avenue, 6th Floor
New York, New York 10022
Attention: General Counsel
Telephone No.: 312-234-2732
Email: surveillance@cifg.com, general.counsel@cifg.com

(6) to the Swap Provider at:

Bank of America, N.A.
Sears Tower
233 South Wacker Drive, Suite 2800
Chicago, IL 60606
Attention: Swap Operations
Telephone No.: 312-234-2732
Facsimile No.: 866-255-1444

(or in each case at such other or additional addresses as may have been filed in writing with the Trustee).

SECTION 11.08. Consent Rights of the Bond Insurer; Bond Insurer Deemed Holder of Insured Bonds in Certain Circumstances. Whenever in this Indenture the consent of the Holders of the Insured Bonds is required, the consent of the Bond Insurer insuring such Insured Bonds shall be required in lieu thereof. A Bond Insurer shall be deemed to be the Holder of all related Insured Bonds then Outstanding insured by such Bond Insurer for purposes of exercising all remedies following the occurrence of an Event of Default, including without limitation acceleration of the principal represented by such Insured Bonds and the direction of the Trustee to exercise rights and powers conferred upon the Trustee pursuant to Article VII of this Indenture as provided in Section 7.05, so long as such Bond Insurer is itself not in default under the Bond Insurance Policy. Notwithstanding any other provision hereof any provision of this Indenture requiring the consent of, the giving of notice to, or control of proceedings by a Bond Insurer shall be in effect for so long as, and only during such time as (1) the Insured Bonds insured by such Bond Insurer are Outstanding and (2) no default shall have, occurred and be continuing by such Bond Insurer with respect to the payment provisions under the Insurance Policy issued by such Bond Insurer.

SECTION 11.09. Evidence of Rights of Bondholders. Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bondholders in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and of the Authority if made in the manner provided in this Section.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to such notary public or officer the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the bond registration books held by the Trustee.

Any request, consent or other instrument or writing of the Holder of any Bond shall bind every future Holder of the same Bond and the Holder of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in accordance therewith or reliance thereon.

SECTION 11.10. Disqualified Bonds. In determining whether the Holders of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction consent or waiver under this Indenture, Bonds which are owned or held by or for the account of the Authority, the City, or by any other obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority, the City or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority, the City or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon an Opinion of Counsel shall be full protection to the Trustee.

SECTION 11.11. Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Holders of the Bonds entitled thereto, subject, however, to the provisions of Section 10.04.

SECTION 11.12. Funds and Accounts. Any fund required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds shall at all times be maintained in accordance with customary standards of the corporate trust industry, to the extent practicable, and with due regard for the requirements of Section 6.05 and for the protection of the security of the Bonds and the rights of every Holder thereof.

SECTION 11.13. Waiver of Personal Liability. No member, director, officer agent or employee of the Authority shall be individually or personally liable for the payment of the principal of or premium, if any, or interest on the Bonds or be subject to any personal liability or

accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, director, officer, agent or employee from the performance of any official duty provided by law or by this Indenture.

SECTION 11.14. Business Days. If any date specified herein shall not be a Business Day, any action required on such date may be made on the next succeeding Business Day with the same effect as if made on such date.

SECTION 11.15. Certain Affiliates Not Liable. No organization sponsored by the City nor any organization with whom it is affiliated in any manner is liable under the Indenture, or the Facility Lease for the commitments of the City.

SECTION 11.16. Governing Law. This Indenture shall be construed in accordance with and governed by the Constitution and the laws of the State of California.

SECTION 11.17. Execution in Several Counterparts. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

ARTICLE XII

SERIES 2007 BOND INSURANCE POLICY PROVISIONS

SECTION 12.01. Payments Under the Series 2007 Bond Insurance Policy. The payment when due of the principal and interest on the Series 2007 Bonds shall be insured by the Series 2007 Bond Insurance Policy. As long as the Series 2007 Bond Insurance Policy shall be in full force and effect, the Authority and the Trustee agree to comply with the following provisions with respect to the Series 2007 Bonds notwithstanding any other provisions to the contrary herein:

(A) In the event that on the second (2nd) business day prior to the payment date on the Series 2007 Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the Series 2007 Bonds due on the second (2nd) following business day, the Trustee shall immediately notify the Series 2007 Bond Insurer or its designee on the same business day by telephone or electronic mail, confirmed in writing by registered or certified mail, of the amount of the deficiency.

(B) If any deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the Series 2007 Bond Insurer or its designee.

(C) In addition, if the Trustee has notice that any Bondholder for the Series 2007 Bonds has been required to disgorge payments of principal or interest on the Series 2007 Bonds pursuant to a final non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Bondholder within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the Series 2007 Bond Insurer or its designee of such fact by telephone or electronic mail, confirmed in writing by registered or certified mail.

(D) The Trustee shall irrevocably be designated, appointed, directed and authorized to act as attorney-in-fact for holders of the Series 2007 Bonds as follows:

(1) If there is a deficiency in amounts required to pay interest on the Series 2007 Bonds, the Trustee shall (i) execute and deliver to the Series 2007 Bond Insurer, in form satisfactory to the Series 2007 Bond Insurer, an instrument appointing the Series 2007 Bond Insurer as agent for such holders in any legal proceeding related to the payment of and an assignment to the Series 2007 Bond Insurer of the claims for interest on the Series 2007 Bonds, (ii) receive as designee of the respective holders (and not as Paying Agent) in accordance with the tenor of the Series 2007 Insurance Policy payment from the Series 2007 Bond Insurer with respect to the claims for interest so assigned, and (iii) disburse the same to such respective holders; and

(2) If there is a deficiency in amounts required to pay principal of the Series 2007 Bonds, the Trustee shall (i) execute and deliver to the Series 2007 Bond Insurer, in form satisfactory to the Series 2007 Bond Insurer, an instrument appointing the Series 2007 Bond Insurer as agent for such holder in any legal proceeding related to the payment of such principal and an assignment to the Series 2007 Bond Insurer of the Series 2007 Bond surrendered to the Series 2007 Bond Insurer (but such assignment shall be delivered only if payment from the Series 2007 Bond Insurer is received), (ii) receive as designee of the respective holders (and not as Paying Agent) in accordance with the tenor of the Series 2007 Bond Insurance Policy payment therefor from the Series 2007 Bond Insurer, and (iii) disburse the same to such holders.

(E) Payments with respect to claims for interest on and principal of Series 2007 Bonds disbursed by the Trustee from proceeds of the Series 2007 Bond Insurance Policy shall not be considered to discharge the obligation of the Authority with respect to such Series 2007 Bonds, and the Series 2007 Bond Insurer shall become the owner of such unpaid Series 2007 Bond and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(F) Irrespective of whether any such assignment is executed and delivered, the Authority, the City and the Trustee shall agree for the benefit of the Series 2007 Bond Insurer that:

(1) They recognize that to the extent the Series 2007 Bond Insurer makes payments directly or indirectly (e.g., by paying through the Trustee), on account of principal of or interest on the Series 2007 Bonds, the Series 2007 Bond Insurer will be subrogated to the rights of such holders to receive the amount of such principal and interest from the Authority, with interest thereon as provided and solely from the sources stated in the financing documents and the Series 2007 Bonds; and

(2) They will accordingly pay to the Series 2007 Bond Insurer the amount of such principal and interest, with interest thereon as provided in the financing documents and the Series 2007 Bonds, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Series 2007 Bonds to holders, and will otherwise treat the Series 2007 Bond Insurer as the owner of such rights to the amount of such principal and interest.

SECTION 12.02. Additional Provisions Related to the Series 2007 Bond Insurance Policy.

(A) Any notice that is required to be given to the holders of the Series 2007 Bonds, nationally recognized municipal securities information repositories or state information depositories pursuant to Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission or to the Trustee shall also be provided to the Series 2007 Bond Insurer. All notices required to be given to the Series 2007 Bond Insurer.

(B) Within two hundred seventy (270) days of the end of the City's fiscal year, a copy of the audited financial statements of the City and within ninety (90) days of the end of the City's fiscal year, a copy of the annual budget of the City shall be sent to the Series 2007 Bond Insurer.

(C) the Series 2007 Bond Insurer shall have the right to receive such additional information as it may reasonably request.

(D) The Authority and the City will permit the Series 2007 Bond Insurer to discuss the affairs, finances and accounts of the Authority and the City or any information the Series 2007 Bond Insurer may reasonably request regarding the security for the Series 2007 Bonds with appropriate officers of the Authority and the City, and will grant the Series 2007 Bond Insurer access to the facilities, books and records of the Authority and the City on any business day upon reasonable prior notice.

(E) the Series 2007 Bond Insurer shall have the right, if the Series 2007 Bond Insurer has a reasonable basis to believe that the financial position of the Authority or the City has materially deteriorated or financial irregularities have occurred since the date of the date of the most recently provided annual audit or quarterly report, or that such audit or report fails to accurately set forth the financial position of the Authority or the City, to direct Authority or City to cause to be prepared a financial report at the Authority's or the City's expense in form and content acceptable to the Series 2007 Bond Insurer and the Authority or the City shall comply with such direction within thirty (30) days after written notice of the direction from the Series 2007 Bond Insurer; provided, however, that if compliance cannot occur within such period, then such period will be extended with the prior consent of the Series 2007 Bond Insurer so long as compliance is begun within such period and diligently pursued.

(F) In the event that the principal and/or interest due on the Series 2007 Bonds shall be paid by the Series 2007 Bond Insurer pursuant to the Series 2007 Bond Insurance Policy, the Series 2007 Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Authority and the City to the registered owners shall continue to exist and shall run to the benefit of the Series 2007 Bond Insurer, and the Series 2007 Bond Insurer shall be subrogated to the rights of such registered owners including, without limitation, any rights that such owners may have in respect of securities law violations arising from the offer and sale of the Series 2007 Bonds.

(G) The Series 2007 Bond Insurer shall receive the following documents:

(i) the escrow agreement which shall provide that (a) any substitution of securities shall require a verification report and the prior written consent of the Series 2007 Bond Insurer, (b) The Authority will not exercise any optional redemption of Series 2007 Bonds secured by the escrow agreement or any other redemption other than mandatory sinking fund redemptions unless (1) the right to make any such redemption has been expressly reserved in the escrow agreement and such reservation has been disclosed in detail in the official statement for the refunding bonds, and (2) as a condition of any such redemption there shall be provided to Series 2007 Bond Insurer a verification report as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following such redemption, and (c) the Authority shall not amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of the Series 2007 Bond Insurer,

(ii) opinions regarding the validity and enforceability of the escrow agreement,

(iii) a verification report, and

(iv) an opinion that refunding and defeasance will not adversely impact the exclusion from gross income for federal income tax purposes of interest on the Series 2007 Bonds or refunded bonds.

(H) The Series 2007 Bond Insurer shall receive prior written notice of any name change of the Trustee for the Series 2007 Bonds or the resignation or removal of the Trustee.

(I) No removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to the Series 2007 Bond Insurer, shall be appointed.

(J) With respect to amendments or supplements to this Indenture which do not require the consent of the Bondholders for the Series 2007 Bonds, the Series 2007 Bond Insurer must be given notice of any such amendments or supplements. With respect to amendments or supplements to this Indenture, the Facility Lease and the Sublease which require the consent of the Bondholders for the Series 2007 Bonds, the Series 2007 Bond Insurer's prior written consent is required. Copies of any amendments or supplements to such documents which are consented to by the Series 2007 Bond Insurer shall be sent to the rating agencies which have assigned a rating to the Series 2007 Bonds. Notwithstanding any other provision of the financing documents, in determining whether the rights of Bondholders of the Series 2007 Bonds will be adversely affected by any action taken pursuant to the terms and provisions of any financing document, the Trustee shall consider the effect on the Bondholders for the Series 2007 Bonds as if there were no Series 2007 Bond Insurance Policy.

(K) To the extent that this Indenture confer upon or give or grant to the Series 2007 Bond Insurer any right, remedy or claim under or by reason of this Indenture, the Series 2007 Bond Insurer is explicitly recognized as being a third party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

(L) Any provision of this Indenture, the Facility Lease or the Sublease expressly recognizing or granting rights in or to the Series 2007 Bond Insurer may not be amended in any manner which affects the rights of the Series 2007 Bond Insurer hereunder without the prior written consent of the Series 2007 Bond Insurer.

(M) Wherever the consent of Bondholders for the Series 2007 Bonds are required, the Series 2007 Bond Insurer's consent shall also be required, and the Series 2007 Bond Insurer shall be deemed to be the majority insurer under this Indenture with respect to the Series 2007 Bonds.

(N) Any reorganization or liquidation plan with respect to the Authority or the City must be acceptable to the Series 2007 Bond Insurer. In the event of any reorganization or liquidation, the Series 2007 Bond Insurer shall have the right to vote on behalf of all Bondholders for the Series 2007 Bonds absent a default by the Series 2007 Bond Insurer under the Series 2007 Bond Insurance Policy.

(O) Anything in this Indenture to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined herein, the Series 2007 Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders for the Series 2007 Bonds or the Trustee for the benefit of the Bondholders for the Series 2007 Bonds under this Indenture.

(P) The prior written consent of the Series 2007 Bond Insurer is required prior to any change in Mode with respect to the Series 2007 Bond pursuant to Section 2.15 hereof.

(Q) The Authority shall agree to pay or reimburse the Series 2007 Bond Insurer any and all charges, fees, costs and expenses which the Series 2007 Bond Insurer may reasonably pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, in connection with (i) any accounts established to facilitate payments under the Series 2007 Bond Insurance Policy, (ii) the administration, enforcement, defense or preservation of any rights in respect of the trust agreement or any other financing document including defending, monitoring or participating in any litigation or proceeding (including any bankruptcy proceeding in respect of the Authority or any affiliate thereof) relating to this agreement or any other financing document, any party to this agreement or any other financing document or the transaction contemplated by the Indenture, the Facility Lease or the Sublease (the "Transaction"), (iii) the foreclosure against, sale or other disposition of any collateral securing any obligations under this agreement or any other financing document, or the pursuit of any remedies under the trust agreement or any other financing document, to the extent such costs and expenses are not recovered from such foreclosure, sale or other disposition, or (iv) any amendment, waiver or other action with respect to, or related to, this agreement or any other financing document whether or not executed or completed; costs and expenses shall include a reasonable allocation of compensation and overhead attributable to the time of employees of the Series 2007 Bond Insurer spent in connection with the actions described in clauses (ii) - (iv) above; and the Series 2007 Bond Insurer shall reserve the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of this agreement or any other financing document.

(R) In addition to any and all rights of reimbursement, subrogation and any other rights pursuant hereto or under law or in equity, the Authority shall agree to pay or reimburse the Series 2007 Bond Insurer any and all charges, fees, costs, claims, losses, liabilities (including penalties), judgments, demands, damages, and expenses which the Series 2007 Bond Insurer or its officers, directors, shareholders, employees, agents and each Person, if any, who controls the Series 2007 Bond Insurer within the meaning of either Section 15 of the Securities Act of 1933 or Section 20 of the Securities Exchange Act of 1934 may reasonably pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, of any nature in connection with, in respect of or relating to the transactions contemplated by this agreement or any other financing document by reason of:

(i) any omission or action (other than of or by the Series 2007 Bond Insurer) in connection with the offering, issuance, sale, remarketing or delivery of the Series 2007 Bonds;

(ii) the negligence, bad faith, willful misconduct, misfeasance, malfeasance or theft committed by any director, officer, employee or agent of the Authority in connection with any transaction arising from or relating to the Indenture, Facility Lease or Sublease;

(iii) the violation by the Authority of any law, rule or regulation, or any judgment, order or decree applicable to it;

(iv) the breach by the Authority of any representation, warranty or covenant under the Indenture, Facility Lease or Sublease or the occurrence, in respect of the Authority, under the Indenture, Facility Lease or Sublease of any “event of default” or any event which, with the giving of notice or lapse of time or both, would constitute any “event of default”; or

(v) any untrue statement or alleged untrue statement of a material fact contained in any official statement or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such claims arise out of or are based upon any untrue statement or omission in information included in an official statement and furnished by the Series 2007 Bond Insurer in writing expressly for use therein.

(S) The Series 2007 Bond Insurer shall be entitled to pay any amount payable under the Series 2007 Bond Insurance Policy in respect of Regular Payments (as defined in the Series 2007 Bond Insurance Policy) on the Series 2007 Bonds, including any amount payable upon its election on the Series 2007 Bonds on an accelerated basis, whether or not any notice and certificate shall have been Received (as defined in the Series 2007 Bond Insurance Policy) by Series 2007 Bond Insurer as provided in the Series 2007 Bond Insurance Policy.

IN WITNESS WHEREOF, MODESTO PUBLIC FINANCING AUTHORITY has caused this Indenture to be signed in its name by its duly authorized officers, and THE BANK OF NEW YORK TRUST COMPANY, N.A., in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its duly authorized officer, all as of the day and year first above written.

MODESTO PUBLIC FINANCING AUTHORITY

By: 
Authorized Officer

THE BANK OF NEW YORK TRUST
COMPANY, N.A., as Trustee

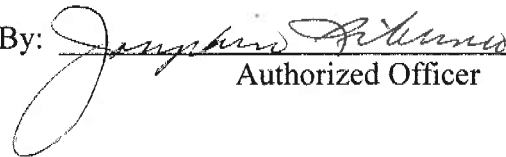
By: 
Authorized Officer

EXHIBIT A

(FORM OF BOND)

NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR THE CITY OF MODESTO IS PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE REVENUES HEREINAFTER REFERRED TO IS PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF THE BONDS. NEITHER THE PAYMENT OF THE PRINCIPAL OF NOR INTEREST ON THE BONDS CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE CITY OF MODESTO OR ANY OF THE PUBLIC AGENCIES WHO ARE PARTIES TO THE AGREEMENT CREATING THE AUTHORITY.

NUMBER

AMOUNT

\$ _____

MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BOND
SERIES 2007
(AUCTION RATE SECURITIES)

MATURITY DATE	INITIAL INTEREST RATE	DATED DATE	CUSIP NUMBER
_____, 20__		_____, 2007	

REGISTERED HOLDER:

PRINCIPAL AMOUNT: _____ DOLLARS

MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise of powers authority duly organized and existing under the laws of the State of California (the "State"), particularly Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State (the "Authority"), for value received, hereby promises to pay from the Revenues (as defined in the Indenture) and any other amounts pledged under the Indenture, dated as of April 1, 2007, by and between the Authority and The Bank of New York Trust Company, N.A. (together with any successor thereto, the "Trustee"), to the Registered Holder identified above or registered assigns, on the Maturity Date, stated above, the Principal Amount specified above, in lawful money of the United States of America, upon presentation and surrender hereof to the Trustee for cancellation; and to pay from such sources to the Registered Holder hereof as of the applicable Record Date by check mailed to such Registered Holder at such Holder's address as it last appears on the registration books kept for that purpose at the office of the Trustee (unless otherwise specified in the Indenture), interest hereon in like lawful money from the Dated Date stated above, or thereafter from the date to which interest has already been paid, payable on each Interest Payment Date (as defined in the Indenture), until payment of the Principal Amount

hereof has been discharged as provided in the Indenture. Capitalized terms used herein have the meanings ascribed thereto in the Indenture.

The term of the Series 2007 Bonds will be divided into consecutive Interest Periods during each of which the Series 2007 Bonds shall bear interest at a Daily Rate, Weekly Rate, Flexible Rate, Term Rate or an ARS Rate. The initial Interest Period for the Series 2007 Bonds shall be an ARS Rate Period. The Series 2007 Bonds shall initially evidence interest at the Initial Interest Rate specified above for the period commencing on and including the Dated Date and ending on and including September 2, 2008, with interest payable on September 1, 2007, March 1, 2008 and September 3, 2008. Thereafter, the Auction Period shall be a seven-day Auction Period with Auctions generally conducted on Tuesdays. The first Auction shall occur on September 2, 2008. The Interest Period on the Series 2007 Bonds thereafter may be changed from time to time to a Weekly Interest Period, Daily Rate Period, Weekly Rate Period, Flexible Rate Period or a Term Rate Period and thereafter again changed as described in the Indenture.

REFERENCE IS MADE TO THE FURTHER PROVISIONS RELATING TO THIS BOND SET FORTH IN THE INDENTURE, WHICH SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS THOUGH FULLY SET FORTH HEREIN.

This Bond is one of a duly authorized issue of bonds of the Authority designated Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007, issued in the aggregate principal amount of \$62,275,000 (the Series 2007 Bonds) and pursuant to the provisions of Sections 6540 et seq. of the Government Code of the State (the “Act) and the Indenture.

The Series 2007 Bonds are issued to provide funds to finance or refinance the cost of the acquisition and construction of certain facilities (the “Project”). The Bonds are limited obligations of the Authority and are payable, as to interest thereon and principal thereof, solely from certain proceeds of the Bonds held in certain funds and accounts pursuant to the Indenture and the Revenues (as defined in the Indenture) derived from Base Rental Payments and other payments made by the City of Modesto (the “City”), and all interest or other investment income thereon, pursuant to the Facility Lease, dated as of April 1 2007, as amended from time to time (collectively, the “Facility Lease”), by and between the Authority and the City, and the Authority is not obligated to pay the interest or premium, if any, on and principal of the Bonds except from the Revenues. All Bonds are equally and ratably secured in accordance with the terms and conditions of the Indenture by a pledge of and charge and lien upon the Revenues, and the Revenues constitute a trust fund for the security and payment of the interest or premium, if any, on and principal of the Bonds as provided in the Indenture. The full faith and credit of the Authority and the City are not pledged for the payment of the interest or premium, if any, on or principal of the Bonds. No tax shall ever be levied to pay the interest on or principal of the Bonds. The Bonds are not secured by a legal or equitable pledge of or charge or lien upon any property of the Authority or any of its income or receipts except the Revenues, and neither the payment of the interest on nor principal of the Bonds is a debt, liability or general obligation of the Authority, the City or any member of the Authority for which such entity is obligated to levy or pledge any form of taxation. Additional Bonds payable from the Revenues may be issued which will rank equally as to security with the Series 2007 Bonds, but only subject to the conditions and upon compliance with the procedures set forth in the Indenture.

This Bond and the Series of which it forms a part are issued pursuant to and in full compliance with the constitution and laws of the State and pursuant to the Indenture. The Bond is a special and limited obligation of the Authority and will be payable solely from and secured exclusively by payments, revenues and other amounts pledged thereto in the Indenture. The Bonds do not represent or constitute a debt of the City or the State or any political subdivision thereof within the meaning of the provisions of the constitution or statutes of the State or a pledge of the faith and credit of the City or the State, or any political subdivision thereof, and the Bonds do not grant to owners or holders thereof any right to have the Authority or the State, or any political subdivision thereof, levy any taxes or appropriate funds for the payment of the principal thereof or interest thereon. The Authority has no taxing power.

No recourse shall be had for the payment of the principal of or premium, if any, or interest on any of the Bonds or for any claim based hereon or upon any obligations, covenant or agreement contained in the Indenture, against any past, present or future officer, director member, trustee, employee or agent of the Authority, and all such liability of any such officers directors, members, trustees, employees or agents as such is hereby expressly waived and released as a condition of and consideration for the execution of the Indenture and the issuance of the Bonds.

Reference is hereby made to the Indenture (a copy of which is on file at the designated corporate trust office of the Trustee) and all indentures supplemental thereto, to the Facility Lease (a copy of which is on file at said designated corporate trust office of the Trustee) and to the Act for a description of the rights thereunder of the Holders of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of the Authority thereunder, to all the provisions of which Indenture and Facility Lease the Holder of this Bond, by acceptance hereof, assents and agrees.

The Series 2007 Bonds are subject to extraordinary redemption, prior to their stated maturity, at the option of the Authority, as provided in the Indenture. The Series 2007 Bonds are also subject to redemption at the option of the Authority at the times and at the Redemption Price as set forth in the Indenture. The Series 2007 Bonds are also subject to redemption in part prior to their stated maturity from Sinking Fund Installments established pursuant to the Indenture on any September 1, on or after September 1, 2007 at the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium, as set forth in the Indenture. When any Series 2007 Bond to be redeemed is subject to an ARS Rate Period, if such September 1 is not an Interest Payment Date, the redemption from Sinking Fund Installments shall occur on the Interest Payment Date immediately preceding such September 1 as set forth in the Indenture.

Notice of redemption shall be given by mail to the registered owners of the Bonds as provided in the Indenture. If notice of redemption shall have been given as aforesaid, the Bonds specified in said notice shall become due and payable at the applicable redemption price on the date of redemption therein designated; subject to the right to rescind such notice as provided in the Indenture.

The Series 2007 Bonds are subject to mandatory tender as provided in the Indenture.

If, on the date of payment, moneys for the payment of all the Bonds to be redeemed or maturing, together with interest to the date of payment shall be available with the Trustee for such payment on said date, then from and after the date of payment, interest on such Bonds shall cease to accrue and become payable.

This Bond is fully transferable by the Registered Holder hereof in person or by such owner's duly authorized attorney on the registration books of the Authority kept at the principal office of the Trustee upon surrender of this Bond together with a duly executed written instrument of transfer satisfactory to the Trustee. Upon such transfer a new fully registered Bond of authorized denominations of the same aggregate principal amount and maturity will be issued to the transferee in exchange therefor, all upon payment of the charges and subject to the terms and conditions set forth in the Indenture.

The owner of this Bond shall have no right to enforce the provisions of the Indenture or to institute action to enforce the covenants therein, or to take any action with respect to any Event of Default under the Indenture, or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Indenture. Modifications or alterations of the Indenture, or of any supplements thereto, may be made only to the extent and in the circumstances permitted by the Indenture.

IT IS HEREBY CERTIFIED RECITED AND DECLARED that all acts conditions and things required to be done, to exist, to happen and to be performed in order to make this Bond a valid and binding obligation of the Authority according to its terms have been done, do exist, have happened and have been performed in regular and due form, time and manner as so required.

The Authority and the Trustee may deem and treat the person in whose name this Bond is registered upon the registration books as the absolute owner hereof, whether this Bond is overdue or not, for the purpose of receiving payment of or on account of the principal or interest and for all other purposes, and all such payments so made to the Registered Holder or upon such Holder's order shall be valid and effectual to satisfy and discharge the liability on this Bond to the extent of the sum or sums so paid, and neither the Authority nor Trustee shall be affected by any notice to the contrary.

This Bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Indenture until the Certificate of Authentication hereon shall have been executed by the Trustee.

IN WITNESS WHEREOF, MODESTO PUBLIC FINANCING AUTHORITY has caused this Bond to be executed in its name and on its behalf by the manual or facsimile signature of its Chairman and attested by the manual or facsimile signature of its Secretary, all as of the date set forth above.

MODESTO PUBLIC FINANCING AUTHORITY

By: _____
Chairman

Attest:

Secretary

[FORM OF TRUSTEES CERTIFICATE OF AUTHENTICATION
AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture, which has been registered on the date set forth below.

Dated:

THE BANK OF NEW YORK TRUST
COMPANY, N.A., as Trustee

By: _____
Authorized Signatory

[FORM OF ASSIGNMENT]

For value received, the undersigned do(es) hereby sell, assign and transfer unto _____ the within mentioned Bond and hereby irrevocably constitute(s) and appoint(s) _____, attorney, to transfer the same on the books of the within named Trustee, with full power of substitution in the premises.

Dated: _____ By: _____

Signature Guaranteed By:

NOTICE: Signature must be guaranteed by
an eligible guarantor institution.

EXHIBIT B

AUCTION AND SETTLEMENT PROCEDURES

ARTICLE I

DEFINITIONS

In addition to the words and terms elsewhere defined in the Indenture (this “Indenture”) to which this Exhibit B is attached, the following words and terms as used in this Exhibit B and elsewhere in this Indenture have the following meanings with respect to a Series of Bonds in an ARS Mode, unless the context or use indicates another or different meaning or intent:

“Agent Member” means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

“All Hold Rate” means, as of any Auction Date, 55% of the ARS Index in effect on such Auction Date.

“ARS” means Auction Rate Securities.

“ARS Bonds” means Bonds evidencing interest at the ARS Rate.

“ARS Index” shall have the meaning specified in Section 2.07 of this Exhibit B.

“ARS Rate” means for each Series of Bonds, the rate of interest to be evidenced by such Series of Bonds during each Auction Period determined in accordance with Section 2.03 of this Exhibit B; provided, however, that in no event may the ARS Rate exceed the Maximum Interest Rate.

“ARS Rate Conversion Date” means the date on which ARS Bonds convert from a Mode other than an ARS Mode to the ARS Mode for an ARS Rate Period and begin to evidence interest at an ARS Rate.

“ARS Rate Period” means (i) any period of time commencing on the day following the Initial Period to but not including a Conversion Date for a Series of ARS Bonds and (ii) the period from and including an ARS Rate Conversion Date for a Series of Bonds to but excluding the next Conversion Date for such Series of Bonds.

“Auction” means each periodic implementation of the Auction Procedures.

“Auction Agent” means the auctioneer appointed in accordance with Section 3.01 or 3.02 of this Exhibit B. The initial Auction Agent for the Series 2007 Bonds shall be Deutsche Bank Trust Company Americas.

“Auction Agreement” means an agreement between an Auction Agent and the Trustee approved by the Bond Insurer for a Series of Bonds pursuant to which an Auction Agent agrees

to follow the procedures specified in this Exhibit B with respect to ARS Bonds, as such agreement may from time to time be amended or supplemented.

“Auction Date” means, with respect to a Series of ARS Bonds, (a) if such Series of ARS Bonds are in a daily Auction Period, each Business Day, (b) if such Series of ARS Bonds are in a Special Auction Period, the last Business Day of the Special Auction Period, and (c) if such Series of ARS Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Series of ARS Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to a Series of ARS Bonds in an Auction Period other than a daily Auction Period or a Special Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for such Series of ARS Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final Maturity Date; and provided, further, that if a Series of ARS Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for such Series of ARS Bonds and (y) the Business Day next preceding the final Maturity Date. The last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion. The first Auction Date for the Series 2007 Bonds is September 2, 2008.

“Auction Period” means with respect to a Series of ARS Bonds:

- (a) a Special Auction Period;
- (b) with respect to a Series of ARS Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;
- (c) with respect to a Series of ARS Bonds in a seven day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally seven days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally seven days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed

by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally seven days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally seven days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(d) with respect to a Series of ARS Bonds in a 28-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 28 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 28 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 28 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 28 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 28 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(e) with respect to a Series of ARS Bonds in a 35-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 35 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Sunday) and ending on the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 35 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Monday) and ending on the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 35 days beginning on a Wednesday (or the day following

the last day of the prior Auction Period if the prior Auction Period does not end on Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 35 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 35 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Thursday) and ending on the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(f) with respect to a Series of ARS Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period (unless such first day of the month is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); and

(g) with respect to a Series of ARS Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the last day of the month which is the sixth calendar month following the beginning date of such Auction Period (such six month period to include the month when the six-month Auction Period commenced) and ending on the last day of every sixth month thereafter; provided that no six-month Auction Period for a Series of ARS Bonds may extend beyond the Maturity Date;

provided, however, that:

(a) if there is a conversion of a Series of ARS Bonds with Auctions generally conducted on Fridays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on Sunday (unless such Sunday is not followed by a Business Day, in which case on the next

succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(b) if there is a conversion of a Series of ARS Bonds with Auctions generally conducted on Mondays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(c) if there is a conversion of a Series of ARS Bonds with Auctions generally conducted on Tuesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(d) if there is a conversion of a Series of ARS Bonds with Auctions generally conducted on Wednesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more

than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion; and

(e) if there is a conversion of a Series of ARS Bonds with Auctions generally conducted on Thursdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Interest Rate because Sufficient Clearing Bids do not exist, the Auction Period shall automatically change to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

“Auction Procedures” means the procedures for conducting Auctions for a Series of ARS Bonds during an ARS Rate Period set forth in this Exhibit B.

“Auction Rate” means for a Series of ARS Bonds, the rate of interest to be borne by such Series of ARS Bonds during each Auction Period determined in accordance with Section 2.03 of this Exhibit B, which: (i) if Sufficient Clearing Bids exist, shall be the Winning Bid Rate, provided, however, if all of the ARS Bonds of such Series are the subject of Submitted Hold Orders, such rate shall be the All Hold Rate with respect to such Series of ARS Bonds; and (ii) if Sufficient Clearing Bids do not exist, such rate shall be the Maximum Interest Rate with respect to such Series of ARS Bonds.

“Available Bond” means for a Series of ARS Bonds on each Auction Date, the aggregate principal amount of such Series of ARS Bonds that are not the subject of Submitted Hold Orders.

“Bid” has the meaning specified in subsection (a) of Section 2.01 of this Exhibit B.

“Bidder” means each Existing Owner and Potential Owner who places an Order.

“Broker-Dealer” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Exhibit B that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Authority and that is a party to a Broker-Dealer Agreement with the Auction Agent.

“Broker-Dealer Agreement” means an agreement approved by the Bond Insurer for a Series of Bonds among the Auction Agent, the Authority and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Exhibit B, as such agreement may from time to time be amended or supplemented.

“Broker-Dealer Deadline” means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; provided, however, that nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions herein. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

“Clerical Error” means a clerical error in the processing of an Order, and includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners (including Orders from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer’s Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a “Clerical Error” is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

“Conversion Date” means the date on a Series of ARS Bonds are converted from an ARS Mode to a Mode other than an ARS Mode and begin to bear interest at a Daily Rate, a Weekly Rate, a Flexible Rate, a Term Rate or a Fixed Rate.

“Error Correction Deadline” means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker-Dealer; provided, however, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time, unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

“Existing Owner” means a Person who is listed as the beneficial owner of ARS Bonds in the records of the Auction Agent; provided, however, that for purposes of conducting an

Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

“Hold Order” has the meaning specified in subsection (a) of Section 2.01 of this Exhibit B.

“Initial Period” means the period from the issue date of the Series 2007 Bond to and including September 2, 2008.

“Interest Payment Date” with respect to Series 2007 Bond means September 1, 2007, March 1, 2008 and September 3, 2008 with respect to the Initial Period for the Series 2007 Bond, and thereafter for any Series of ARS Bonds (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Special Auction Period of (i) seven or more but fewer than one hundred eighty-three (183) days, the Business Day immediately following such Special Auction Period, or (ii) more than one hundred eighty-two (182) days, each March 1 and September 1 and on the Business Day immediately following such Special Auction Period and (d) the date when the final principal amount of the Bonds of a Series becomes due and payable, either at maturity or upon early redemption.

“LIBOR” means, with respect to a Series of ARS Bonds, on any date of determination for an Auction Period for such Series of ARS Bonds, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

“Maximum Interest Rate” means the lesser of 12% or the maximum rate permitted by applicable law.

“Order” means a Hold Order, Bid or Sell Order.

“Potential Owner” means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in ARS Bonds in addition to ARS Bonds currently owned by such Person, if any; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

“Principal Office” means, with respect to the Auction Agent of a Series of ARS Bonds, the office thereof designated in writing to the Authority, the Trustee and each Broker-Dealer.

“Sell Order” has the meaning specified in subsection (a) of Section 2.01 of this Exhibit B.

“Special Auction Period” means, with respect to a Series of ARS Bonds, (a) any period of one hundred eighty-two (182) days or less which is divisible by seven and which begins on an

Interest Payment Date and ends (i) in the case of a Series of ARS Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of a Series of ARS Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a Series of ARS Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of a Series of ARS Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a Series of ARS Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, or (b) any period which is longer than one hundred eighty-two (182) days, which begins on an Interest Payment Date and ends not later than the final scheduled Maturity Date and, in either case, is not otherwise within the definition of an Auction Period.

“Submission Deadline” means 1:00 p.m. New York City time on each Auction Date for a Series of ARS Bonds not in a daily Auction Period, and 11:00 a.m., New York City time, on each Auction Date for such Series of ARS Bonds in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association’s Early Market Close Recommendations for shortened trading days for the bond markets (the “SIFMA Recommendation”) unless the Auction Agent is instructed otherwise in writing by the Trustee or the Authority. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m., New York City time.

“Submitted Bid” has the meaning specified in subsection (b) of Section 2.04 of this Exhibit B.

“Submitted Hold Order” has the meaning specified in subsection (b) of Section 2.04 of this Exhibit B.

“Submitted Order” has the meaning specified in subsection (b) of Section 2.04 of this Exhibit B.

“Submitted Sell Order” has the meaning specified in subsection (b) of Section 2.04 of this Exhibit B.

“Sufficient Clearing Bids” means with respect to a Series of ARS Bonds, an Auction for which the aggregate principal amount of such Series of ARS Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Interest Rate is not less than the aggregate principal amount of such Series of ARS Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Interest Rate.

“Winning Bid Rate” means with respect to a Series of ARS Bonds, the lowest rate specified in any Submitted Bid for such Series of ARS Bonds which if selected by the Auction Agent as the ARS Rate for such Series of ARS Bonds would cause the aggregate principal amount of such Series of ARS Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds.

ARTICLE II

AUCTION PROCEDURES

Section 2.01. Orders by Existing Owners and Potential Owners.

(a) Prior to the Broker-Dealer Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, one or more Orders as to:

(A) the principal amount of the ARS Bonds, if any, held by such Existing Owner, which such Existing Owner commits to continue to hold for the next succeeding Auction Period without regard to the Auction Rate for such Auction Period;

(B) the principal amount of the ARS Bonds, if any, held by such Existing Owner, which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum specified in such Order (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (b)(i)(A) of this Section); and/or

(C) the principal amount of the ARS Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the first Business Day of the next succeeding Auction Period (or on the same day in the case of a daily Auction Period) without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) each Potential Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of ARS Bonds, which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof, an Order containing the information referred to in clause (i)(A) above is herein referred to as a “Hold Order,” an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a “Bid,” and an Order containing the information referred to in clause (i)(C) above is herein referred to as a “Sell Order.”

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Owner or a Potential Owner or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding ARS Bonds. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or a Bid which does not specify a specific interest rate.

(b) (i) A Bid by an Existing Owner shall constitute an offer to sell on the first Business Day of the next succeeding Auction Period (or the same day in the case of a daily Auction Period):

(A) the principal amount of the ARS Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the ARS Bonds to be determined as described in subsection (a)(v) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(C) a lesser principal amount of the ARS Bonds to be determined as described in subsection (b)(iv) of Section 2.05 of this Exhibit B if such specified rate shall be higher than the Maximum Interest Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an offer to sell:

(A) the principal amount of the ARS Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of the ARS Bonds as described in subsection (b)(iv) of Section 2.05 of this Exhibit B if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an offer to purchase:

(A) the principal amount of the ARS Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the ARS Bonds as described in subsection (a)(vi) of Section 2.05 of this Exhibit B if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) If an Order or Orders covering all of the ARS Bonds held by an Existing Owner is not submitted to the Broker-Dealer of record for such Existing Owner prior to the Broker-Dealer Deadline, such Broker-Dealer shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of ARS Bonds held by such Existing Owner and not subject to Orders submitted to such Broker-Dealer; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of ARS Bonds to be converted held by such Existing Owner, such Broker-Dealer shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of ARS Bonds to be converted held by such Existing Owner not subject to Orders submitted to such Broker-Dealer.;

(ii) for purposes of any Auction, any Order by any Existing Owner or Potential Owner shall be revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline, all such Orders shall be irrevocable, except as provided in Sections 2.02(e)(ii) and 2.02(f); and

(iii) for purposes of any Auction other than during a daily Auction Period, any ARS Bonds sold or purchased pursuant to subsection (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; provided that, for purposes of any Auction during a daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

Section 2.02. Submission of Orders by Broker-Dealers to Auction Agent.

(a) Each Broker-Dealer shall submit to the Auction Agent in writing, or by such Electronic Means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date for Bonds of a Series, all Orders with respect to ARS Bonds accepted by such Broker-Dealer in accordance with Section 2.01 above and specifying with respect to each Order or aggregation of Orders pursuant to Section 2.02(b) below:

- (i) the name of the Broker-Dealer;
- (ii) the number of Bidders placing Orders, if requested by the Auction Agent;
- (iii) the aggregate principal amount of the ARS Bonds, if any, that are the subject of such Order;
- (iv) to the extent that such Bidder is an Existing Owner:
 - (A) the principal amount of the ARS Bonds, if any, subject to any Hold Order placed by such Existing Owner;
 - (B) the principal amount of the ARS Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of the ARS Bonds, if any, subject to any Sell Order placed by such Existing Owner.

(v) the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Owner, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Owner submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the principal amount of the ARS Bonds specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Owners with those of other Potential Owners on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders of different Existing Owners with other Existing Owners on whose behalf the Broker-Dealer is submitting Orders; provided, however, Bids may only be aggregated if the interest rates on the Bids are the same.

(c) Neither the Authority, the Trustee nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(d) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the ARS Bonds for its own account.

(e) Until the Submission Deadline, a Broker-Dealer may withdraw or modify any Order previously submitted to the Auction Agent (i) for any reason if the Order was generated by the Auction Desk of the Broker-Dealer for the account of the Broker-Dealer or (ii) to correct a Clerical Error in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.

(f) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:

(i) submit to the Auction Agent an Order received from an Existing Owner, Potential Owner or a Broker-Dealer which is not an Order originated by the Auction Desk, in each case prior to the Broker-Dealer Deadline, or an Order generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline (provided that in each case the Broker-Dealer has a record of such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of (A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or, under the conditions then prevailing, impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

(ii) modify or withdraw an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer (whether generated by the Broker-Dealer's Auction Desk or elsewhere within the Broker-Dealer) for its own account and submitted to the Auction Agent prior to the Submission Deadline or pursuant to clause (i)

above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this Section 2.02(f) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this Section 2.02(f) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that (A) in the case of a newly submitted Order or portion thereof or revised Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Owner or Potential Owner or is an Order received from the Broker-Dealer that was not originated by the Auction Desk, in each case, prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Owner, a Potential Owner or the Broker-Dealer which was not originated by the Auction Desk prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received or generated. The Auction Agent shall be entitled to rely conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

(g) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall communicate such awareness to the Auction Agent prior to 5:00 p.m. New York City time on the Auction Date (or 2:00 pm. New York City time in the case of Bonds in a daily Auction Period). If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m. New York City time on the first day of the Auction Period with respect to which such Auction was conducted, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in Bonds in such Auction of the corrected results.

(h) Nothing contained herein shall preclude the Auction Agent from:

(i) advising a Broker-Dealer prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the ARS Bonds; provided, however, that if the Auction Agent so advises any Broker-Dealer, it shall so advise all Broker-Dealers; or

(ii) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline; provided, however, that if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification.

Section 2.03. Treatment of Orders by the Auction Agent.

(a) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order until one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed, such Broker-Dealer may correct and resubmit to the Auction Agent any such Order that, solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subsections (b), (c) or (d) of this Section 2.03 and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If one or more Orders covering in the aggregate more than the number of Units of Outstanding Bonds of a particular Series are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid in the following order of priority:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record;

(ii) (A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record over the principal amount of ARS Bonds subject to Hold Orders referred to in clause (i) above;

(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record over the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record over the principal amount of ARS Bonds

for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above; and

(D) the principal amount of ARS Bonds subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this clause (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including the principal amount of ARS Bonds equal to the excess of the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record over the sum of the principal amount of ARS Bonds considered to be subject to Hold Orders pursuant to clause (i) above and the principal amount of ARS Bonds considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to clause (ii) above.

(d) If any Order is for other than an integral amount of ARS Bonds in Authorized Denominations, then the Auction Agent shall round the amount down to the nearest number of whole amount of ARS Bonds in Authorized Denominations, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of principal amount of ARS Bonds in Authorized Denominations.

(e) For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Trustee or the Authority that any portion of an Order by a Broker-Dealer relates to a ARS Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.

(f) For purposes of any Auction other than during a daily Auction Period, no portion of a ARS Bond which the Auction Agent has been notified by the Trustee or the Authority has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

(g) If an Order or Orders covering all of the ARS Bonds is not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted by such Broker-Dealer prior to the Submission Deadline covering the principal amount of ARS Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Broker-Dealer covering the principal amount of ARS Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

Section 2.04. Determination of ARS Rate.

(a) If requested by the Trustee or a Broker-Dealer, not later than 10:30 a.m., New York City time (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date for the ARS Bonds, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Trustee, if requested) of the All Hold Rate and the ARS Index. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(b) Promptly after the Submission Deadline for the ARS Bonds on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a “Submitted Hold Order,” a “Submitted Bid” or a “Submitted Sell Order,” as the case may be, and collectively as a “Submitted Order”) and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the ARS Rate for the new Auction Period shall be the ARS Rate for the new Auction Period shall be the same as the ARS Rate for the preceding Auction Period or, (B) if the failure to make such calculation was for any other reason or if the ARS Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the ARS Rate for the period as so extended shall be the same as the ARS Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the ARS Rate for the new Auction Period shall be the Maximum Interest Rate or, (B) if the failure to make such calculation was for any other reason or if the ARS Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the ARS Rate for the period as so extended shall be the same as the ARS Rate for the Auction Period prior to the extension. In the event a new Auction Period is established as set forth in clause (i) (A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate had been determined. In the event an Auction Period is extended as set forth in clause (i) (B) or (ii) (B) above, an Auction shall be held on the last

Business Day of the Auction Period as so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

(d) Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the ARS Rate shall be the Maximum Interest Rate.

(e) In the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the ARS Rate for the next Auction Period shall be the Maximum Interest Rate and the Auction Period shall be a seven-day Auction Period.

(f) If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the ARS Rate shall be the Maximum Interest Rate.

Section 2.05. Allocation of the ARS Bond.

(a) In the event of Sufficient Clearing Bids for a Series of ARS Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for such Series of ARS Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the ARS Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the ARS Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of the ARS Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding ARS Bonds that are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described

in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding ARS Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of the Outstanding ARS Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of such ARS Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the ARS Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of the ARS Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding ARS Bonds that are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding ARS Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Outstanding ARS Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for a Series of ARS Bonds, Submitted Orders, for such Series of ARS Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Interest Rate, shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Interest Rate, shall be accepted, thus requiring each such Potential Owner to purchase the ARS Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Interest Rate, shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of the ARS Bonds obtained by multiplying (A) the aggregate principal amount of the ARS Bonds subject to Submitted Bids described in paragraph (iii) of this subsection

(b) by (B) a fraction the numerator of which shall be the principal amount of Outstanding ARS Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Outstanding ARS Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of the ARS Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Interest Rate shall be rejected.

Section 2.06. Notice of ARS Rate.

(a) On each Auction Date, the Auction Agent shall notify by each Broker-Dealer that participated in the Auction held on such Auction Date by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following with respect to the ARS Bonds for which an Auction was held on such Auction Date:

(i) the ARS Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner whether such Bid or Sell Order was accepted or rejected and the principal amount of the ARS Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of the ARS Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the ARS Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of the ARS Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of the ARS Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) if requested by an Existing Owner or a Potential Owner, advise each Existing Owner or Potential Owner on whose behalf such Broker-

Dealer submitted an Order as to (A) the ARS Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Existing Owner or Potential Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of such ARS Bonds to be purchased pursuant to such Bid (including, with respect to such ARS Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such ARS Bond) against receipt of such ARS Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of such ARS Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) The Auction Agent shall give notice of the Auction Rate to the Authority and Trustee by mutually acceptable Electronic Means and the Trustee shall promptly give notice of such Auction Rate to the Securities Depository.

Section 2.07. ARS Index.

(a) For ARS Bonds in an Auction Period of 35 days or less the ARS Index is LIBOR. The ARS Index with respect to ARS Bonds in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in The Wall Street Journal or such other source as may be mutually agreed upon by Authority and the Broker-Dealer. If either rate is unavailable, the ARS Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Authority. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, i.e. a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

(b) If for any reason on any Auction Date the ARS Index shall not be determined as hereinabove provided, the ARS Index shall be the ARS Index for the Auction Period ending on such Auction Date.

(c) The determination of the ARS Index as provided herein shall be conclusive and binding upon the Authority, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of such Series of ARS Bonds.

Section 2.08. Miscellaneous Provisions Regarding Auctions.

(a) In this Exhibit B, each reference to the purchase, sale or holding of "ARS Bonds" shall refer to beneficial interests in such ARS Bonds, unless the context clearly requires otherwise.

(b) During an ARS Rate Period with respect to a Series of ARS Bonds, the provisions of this Indenture, and the definitions contained therein and described in this Exhibit B, including

without limitation the definitions of Maximum Interest Rate, All Hold Rate, ARS Index, Interest Payment Date, and the ARS Rate, may be amended pursuant to this Indenture, subject to the prior written consent of the Bond Insurer for such Series of Bonds, by obtaining the consent of the Owners of all of the ARS Bonds of such Series then outstanding as follows:

If on the first Auction Date occurring at least twenty (20) days after the date on which notice of such proposed amendment was given by the Trustee to the Owners of the ARS Bonds Outstanding, such notice to be given by mail to each Owner at its address as it appears on the registration books of the Trustee, (i) the ARS Rate which is determined on such date is the Winning Bid Rate or All Hold Rate and (ii) there is delivered to the Trustee a Favorable Opinion of Special Counsel the proposed amendment shall be deemed to have been consented to by the Owners of all of the ARS Bonds outstanding bearing interest at an ARS Rate.

(c) If the Securities Depository notifies the Authority that it is unwilling or unable to continue as registered owner of the ARS Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Authority within ninety (90) days after the Authority receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the Authority shall execute and the Trustee shall authenticate and deliver certificates representing the ARS Bonds. Such ARS Bonds shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Authority and the Trustee.

(d) During an ARS Period, so long as the ownership of ARS Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of an ARS Bonds only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of ARS Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the Owner of such ARS Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the ARS Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Section 2.09. Changes in Auction Period or Auction Date.

(a) Changes in Auction Period. (i) During any ARS Rate Period, the Authority may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of ARS Bonds among daily, seven-days, 28-days, 35-days, three months, six months and a Special Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the ARS Bonds. The Authority shall initiate the change in the length of the Auction Period by giving written notice to the Trustee, the Series 2007 Bonds Insurer, the applicable Auction Agent, the applicable Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are

satisfied and the proposed effective date of the change, such notice to be provided at least ten (10) Business Days prior to the Auction Date for such Auction Period. Any change in the length of an Auction Period to an Auction Period longer than 35 days shall be subject to the prior written consent of the Series 2007 Bond Insurer.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Special Auction Period and shall apply to all ARS Bonds of a Series.

(iii) The change in length of the Auction Period for the ARS Bonds subject to change shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period, except to the extent any Existing Owner submits an Order with respect to such ARS Bonds, each Existing Owner of an ARS Bonds subject to change shall be deemed to have submitted Sell Orders with respect to all ARS Bonds of a Series if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Interest Rate, and the Auction Period shall be a seven-day Auction Period.

(b) Changes in Auction Date. During any ARS Rate Period, the Auction Agent, with the written consent of the Authority, may specify an earlier or later Auction Date for the ARS Bonds (but in no event shall such date be more than five (5) Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the ARS Bonds. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least forty-five (45) days prior to the proposed changed Auction Date to the Trustee, the Authority, the Broker-Dealers and the Securities Depository. In the event the Auction Agent specifies an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Special Auction Period ends and the Interest Payment Date relating to a Special Auction Period shall be adjusted accordingly.

(c) Changes Resulting from Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday.

ARTICLE III

AUCTION AGENT

Section 3.01 Auction Agent.

(a) The Auction Agent for the ARS Bonds shall be appointed by the Trustee, at the written direction of the Authority, and shall perform the functions specified herein. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Authority, the Trustee and each Broker-Dealer, which written instrument may be in the form of an Auction Agreement. Notwithstanding that the Auction Agent may be the agent of the Trustee, the Trustee shall not be liable in any way for any action taken, suffered or omitted, or for any error of judgment made by the Auction Agent, whether in the performance of its duties under the Auction Agreement or otherwise.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in ARS Bonds with the same rights as if such entity were not the Auction Agent.

3.02 Qualifications of Auction Agent; Resignation; Removal.

The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$30,000,000, or (b) a member of NASD having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by this Indenture and a member of, or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least ninety (90) days notice to the Authority, the Trustee, the Insurer and the Broker-Dealers. The Auction Agent may be removed at any time by written notice, delivered by the Trustee, upon the written direction of the Authority, to the Auction Agent and the Series 2007 Bond Insurer. Upon any such resignation or removal, the Trustee, upon the written direction of the Authority, shall appoint a successor Auction Agent approved by the Series 2007 Bond Insurer meeting the requirements of this section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and any ARS Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor has been appointed by the Trustee. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may terminate the Auction Agreement by giving at least thirty (30) days notice to the Authority, the Trustee, the Insurer and the Broker-Dealers, and if it has not received such compensation by the expiration of such thirty (30) days, the Auction Agent may resign even if a successor Auction Agent has not been appointed.

EXHIBIT C

FORM OF REQUISITION - PROJECT FUND

REQUISITION NO.____ - PROJECT FUND

Re: Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007

The City of Modesto (the "City") hereby requests The Bank of New York Trust Company, N.A. (the Trustee"), as trustee under that certain Indenture (the Indenture) between the Modesto Public Financing Authority (the "Authority") and the Trustee, dated as of April 1, 2007 relating to the Authority's Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the Bonds"), to pay to the following persons the following amounts for the following purposes from the Project Fund:

<u>Item No.</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
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The Authority hereby certifies that obligations in the amounts stated above have been incurred by the Authority or the City (as agent of the Authority) and are presently due and payable, and that each item is a proper charge against the indicated fund and has not been previously paid from said fund or from the proceeds of the Bonds.

Dated: _____

CITY OF MODESTO

By: _____
Authorized Representative

MODESTO PUBLIC FINANCING AUTHORITY

By: _____
Authorized Representative

EXHIBIT D

FORM OF REQUISITION - COSTS OF ISSUANCE FUND

REQUISITION NO. ____ - COSTS OF ISSUANCE FUND

TO: The Bank of New York Trust Company, N.A.

RE: Disbursement from the Cost of Issuance Fund pursuant to Section 3.03 of the Indenture, dated as of April 1, 2007 (the "Indenture"), by and between THE BANK OF NEW YORK TRUST COMPANY, N.A., as Trustee (the "Trustee") and MODESTO PUBLIC FINANCING AUTHORITY (the "Authority") relating to Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007

You are here by instructed to pay as Costs of Issuance of the Authority's Lease Revenue Refunding and Capital Improvements Bonds, Series 2007 (the "Series 2007 Bonds") from the Cost of Issuance Fund as provided in Section 3.03 of the Indenture the amounts set forth on Exhibit A hereto, to the persons or entities designated therein as Payee. These Costs of Issuance have been properly incurred, are a proper charge against the Costs of Issuance Fund and have not been the basis of any previous disbursements.

Dated: _____, 200__.

MODESTO PUBLIC FINANCING AUTHORITY

By: _____
Authorized Representative


Schedule A

<u>Item No.</u>	<u>Payee</u>	<u>Amount</u>	<u>Purpose</u>
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3/

Recording requested by
and return to:

CITY OF MODESTO
c/o Sidley Austin LLP
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Attention: Danielle Lan, Esq.

FACILITY LEASE

by and between

MODESTO PUBLIC FINANCING AUTHORITY

and the

CITY OF MODESTO

Dated as of April 1, 2007

THIS TRANSACTION IS EXEMPT FROM FILING FEES PURSUANT TO CALIFORNIA GOVERNMENT CODE SECTION 6103 AND
TRANSFER TAXES PURSUANT TO CALIFORNIA REVENUE AND TAXATION CODE SECTION 11928

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FACILITY LEASE

THIS FACILITY LEASE, dated as of April 1, 2007, by and between MODESTO PUBLIC FINANCING AUTHORITY (the "Authority"), a joint exercise powers authority duly organized and existing under and by virtue of the laws of the State of California, as lessor, and the CITY OF MODESTO (the "City"), a charter city and municipal corporation duly organized and existing under the laws of the State of California, as lessee;

WITNESSETH:

WHEREAS, the Authority previously issued its Lease Revenue Bonds, Series 1997 (John Thurman Field Renovation Project) (the "1997 Bonds") and Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "1998 Bonds") to assist in the financing of certain public capital improvements in the City of Modesto, California (the "City");

WHEREAS, the 1998 Bonds were issued pursuant to a trust indenture, dated as of March 1, 1998 (the "1998 Indenture") by and between the Authority and The Bank of New York Trust Company, N.A., as successor trustee thereunder (the "1998 Trustee");

WHEREAS, the City has determined to refund all of the 1997 Bonds and a portion of the 1998 Bonds and to finance certain additional improvements to John Thurman Field, as set forth in Exhibit C hereto, as the same may be changed from time to time (the "2007 Project");

WHEREAS, the Authority intends to assist the City in financing the 2007 Project by issuing the Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the "Series 2007 Bonds") pursuant to a bond indenture, dated as of April 1, 2007 (the "Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A. (the "Trustee"), as trustee;

WHEREAS, the Authority previously leased certain properties to the City pursuant to a Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002 (as so amended, the "1998 Lease") under which the City is obligated to make lease payments for the lease of properties thereunder (the "Leased Property");

WHEREAS, pursuant to Section 7.2 of the 1998 Lease, the City may sublease the Leased Property or any portions thereof, as provided in the 1998 Lease;

WHEREAS, in consideration of the Authority's assistance in financing the 2007 Project through the issuance of the Series 2007 Bonds and in consideration of the corresponding reduction in lease payments payable by the City under the 1998 Lease as a result of the partial refunding of the 1998 Bonds, the City will sublease to the Authority, pursuant to a sublease, dated as of April 1, 2007 (the "Sublease") by and between the City and the Authority and in accordance with the terms of the 1998 Lease, the Leased Property, as more fully described in Exhibit A hereto;

WHEREAS, the Authority will lease back to the City the Leased Property pursuant to the terms of this Facility Lease and the City will be obligated to make base rental payments to the

Authority for the lease of the Leased Property and such other facilities as may from time to time be leased hereunder;

WHEREAS, pursuant to the terms of the 1998 Lease, the obligation of the City to make lease payments under the 1998 Lease (as reduced to reflect the partial refunding of the 1998 Bonds) will remain the obligations of the City and no portion of the Leased Property subleased to the Authority pursuant to the Sublease will be used for a purpose other than a governmental function authorized under the provisions of the Constitution and laws of the State of California;

WHEREAS, the fair rental value of the Leased Property will be sufficient to support the aggregate annual lease payments payable by the City under the 1998 Lease and under this Facility Lease;

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Facility Lease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Facility Lease;

NOW, THEREFORE, in consideration of the mutual covenants herein, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01. Definitions.

Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Facility Lease, have the meanings herein specified, which meanings shall be equally applicable to both the singular and plural forms of any of the terms herein defined. Capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the Indenture.

Additional Payments

The term “Additional Payments” means all amounts payable to the Authority or the Trustee or any other person from the City as Additional Payments pursuant to Section 3.02 hereof.

Authority

The term “Authority” means (i) Modesto Public Financing Authority, acting as lessor hereunder; (ii) any surviving, resulting or transferee entity; and (iii) except where the context requires otherwise, any assignee of the Authority.

Base Rental Payments

The term “Base Rental Payments” means all amounts payable to the Authority from the City as Base Rental Payments pursuant to Section 3.01 hereof.

Base Rental Payment Schedule

The term “Base Rental Payment Schedule” means the schedule of Base Rental Payments payable to the Authority from the City pursuant to Section 3.01 hereof and attached hereto as Exhibit B, as it may from time to time be supplemented, modified or amended pursuant Section 10.06 hereof.

City

The term “City” means the City of Modesto, California, a charter city and municipal corporation duly organized and existing under the laws of the State of California.

City-County Administration Building

The term “City-County Administration Building” means the one-half interest in the City-County Administration Building constituting a Leased Unit of the Leased Property, as more fully described in Exhibit A hereto.

Communication Dispatch Center

The term “Communication Dispatch Center” means the communication dispatch center constituting a Leased Unit of the Leased Property, as more fully described in Exhibit A hereto.

Deferred Rental

The term “Deferred Rental” shall have the meaning specified in Section 3.04 hereof.

Event of Default

The term “Event of Default” shall have the meaning specified in Section 6.01 hereof.

Facility Lease

The term “Facility Lease” means this Facility Lease, as originally executed and recorded or as it may from time to time be supplemented, modified or amended pursuant to the provisions hereof and of the Indenture.

Indenture

The term “Indenture” means the bond indenture, dated as of April 1, 2007, by and among the Trustee and the Authority and acknowledged by the City, pursuant to which the Trustee will execute and deliver the Series 2007 Bonds, as originally executed or as it may from time to time be supplemented, modified or amended by a Supplemental Indenture entered into pursuant to the provisions of the Indenture.

Leased Unit(s)

The term “Leased Unit(s)” means (i) the Public Parking Garage, (ii) the City-County Administration Building, (iii) the Police Headquarters, (iv) the Communication Dispatch Center, and (v) Miscellaneous Properties, all as more fully set forth and described in Exhibit A hereto, together with any additional real property added or substituted thereto by any supplement or amendment hereto, as provided in Section 2.04 hereof.

Leased Property

The term “Leased Property” means, collectively, all of the Leased Units, each situated in the City of Modesto, State of California, described in Exhibit A attached hereto and made a part hereof, together with any additional real property added or substituted thereto by any supplement or amendment hereto, as provided in Section 2.04 hereof.

Maximum Annual Base Rental Payments

The term “Maximum Annual Base Rental Payments” means the maximum annual amounts (exclusive of Deferred Rental) payable to the Authority from the City as Base Rental Payments, as specified in Exhibit B hereto.

Miscellaneous Properties

The term “Miscellaneous Properties” means the miscellaneous properties, collectively constituting a Leased Unit of the Leased Property, as more fully described in Exhibit A hereto.

1998 Lease

The term “1998 Lease” means the Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002, each by and between the City and the Authority.

Police Headquarters

The term “Police Headquarters” means the police headquarters building constituting a Leased Unit of the Leased Property, as more fully described in Exhibit A hereto.

Public Parking Garage

The term “Public Parking Garage” means the public parking garage constituting a Leased Unit of the Leased Property, as more fully described in Exhibit A hereto.

Related Obligations

The term “Related Obligations” means the obligations of the Authority under any hedge agreement (including without limitation, any Swap), credit agreement, liquidity agreement or

similar agreement or, State vehicle license intercept program, or tax increment reimbursement agreement, entered into in connection with or related to the Bonds or a series thereof.

Rental Payment Period

The term “Rental Payment Period” means the twelve month period commencing August 15 of each year and ending the following August 14, and the initial period commencing on the effective date hereof and ending the following August 14, 2007.

Series 2007 Bonds

The term “Series 2007 Bonds” means the Bonds designated “Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007” issued by the Authority under and pursuant to Section 2.01 of the Indenture.

Sublease

The term “Sublease” means the sublease, dated April 1, 2007, by and between the City and the Authority.

2007 Project

The term “2007 Project” means the refunding of all of the 1997 Bonds and a portion of the 1998 Bonds and the financing of certain improvements to John Thurman Field, and payment of any costs associated with financing of said projects, as set forth in Exhibit C hereto, as the same may be amended from time to time as provided herein.

ARTICLE II

LEASE OF LEASED PROPERTY AND PROJECT; TERM; REMOVAL OR SUBSTITUTION

Section 2.01. Lease of Leased Property. The Authority hereby subleases to the City and the City hereby subleases from the Authority the Leased Property, subject, however, to all easements, encumbrances, and restrictions that exist at the time of the commencement of the term of this Facility Lease. The Leased Property shall consist of the real properties described in Exhibit A, as the same may be amended from time to time, pursuant to Section 2.04 herein.

Section 2.02. Term; Occupancy. The term of this Facility Lease shall commence on the date of recordation of this Facility Lease in the office of the County Recorder of Stanislaus County, State of California, or on April 18, 2007, whichever is earlier, and shall end on September 1, 2033, unless such term is extended or sooner terminated as hereinafter provided. If on such termination date, the Series of Bonds corresponding to the Base Rental Payments attributable to the Leased Property, or if applicable, the related Leased Unit, and all other amounts then due hereunder with respect to such Leased Property or Leased Unit (as the case may be), including any Reserve Facility Costs and amounts due under any Related Obligations, shall not be fully paid, or if the rental payable hereunder with respect to such Leased Property or

Leased Unit (as the case may be) shall have been abated at any time and for any reason, then the term of this Facility Lease with respect to such Leased Property or Leased Unit (as the case may be) shall be extended until all Bonds and Related Obligations of such Series corresponding to the Base Rental Payments attributable to such Leased Property or Leased Unit (as the case may be) and all other amounts then due hereunder with respect to such Leased Property or Leased Unit (as the case may be), including any Reserve Facility Costs and amounts due under any Related Obligations, shall be fully paid, except that the term of this Facility Lease as to such Leased Property or Leased Unit (as the case may be) shall in no event be extended beyond ten (10) years after such date. If prior to such date, all Bonds of a Series corresponding to the Base Rental Payments attributable to the Leased Property, or if applicable, the related Leased Unit and all other amounts then due hereunder with respect to such Leased Property or Leased Unit (as the case may be), including any Reserve Facility Costs and amounts due under any Related Obligations, shall be fully paid, or provision therefor made, the term of this Facility Lease with respect to such Leased Property or Leased Unit (as the case may be) shall end ten (10) days thereafter or upon written notice by the City to the Authority, whichever is earlier.

Section 2.03. [Reserved.]

Section 2.04. Removal or Substitution of Leased Property. Pursuant to Section 6.08 of the Indenture, the City may remove or substitute real property as part of the Leased Property for purposes of the Facility Lease, but only after the City shall have filed with the Authority and the Trustee, with copies to each rating agency then providing a rating for the Bonds, all of the following:

(a) Executed copies of the Facility Lease or amendments thereto containing the amended description of the Leased Property, including the legal description of the Leased Property as modified if necessary;

(b) A Certificate of the City with copies of the Facility Lease or a site lease, if needed, or amendments thereto containing the amended description of the Leased Property stating that such documents have been duly recorded in the official records of the County Recorder of Stanislaus County, State of California;

(c) A Certificate of the City evidencing that the annual fair rental value of the Leased Property which will constitute the Leased Property after such removal or substitution will be at least equal to 100% of the maximum amount of Base Rental Payments for (i) the 1998 Bonds and (ii) all Series of Bonds becoming due in the then current year ending August 14 through and including each year during which any Series of Bonds would be Outstanding or in any subsequent year ending August 15 through and including each year during which any Series of Bonds would be Outstanding;

(d) A Certificate of the City stating that, based upon review of such instruments, certificates or any other matters described in such Certificate of the City, the City has good merchantable title to the Leased Property which will constitute the Leased Property after such substitution. The term “good merchantable title” shall mean such title as is satisfactory and sufficient for the needs and operations of the City;

(e) A Certificate of the City stating that such removal or substitution does not adversely affect the City's use and occupancy of the Leased Property;

(f) An Opinion of Counsel (as such term is defined in the Indenture) stating that such amendment or modification (i) is authorized or permitted by the Constitution and laws of the State and the Indenture; (ii) complies with the terms of the Constitution and laws of the State and of this Indenture; (iii) will, upon the execution and delivery thereof, be valid and binding upon the Authority and the City; and (iv) will not cause the interest on the Bonds to be included in gross income for federal income tax purposes; and

(g) A Certificate of the City stating that all conditions to the release or substitution of such property under the 1998 Lease have been satisfied.

Section 2.05. Subordination to the 1998 Lease. Notwithstanding any provisions of this Facility Lease to the contrary, this Facility Lease and the rights granted to the City hereunder are subordinate to the right of the City and the 1998 Trustee under the 1998 Lease, the 1998 Indenture and the rights granted thereunder.

ARTICLE III

RENTAL PAYMENTS; USE OF PROCEEDS

Section 3.01. Base Rental Payments. The City agrees to pay to the Authority, as Base Rental Payments for the use and occupancy of each Leased Unit of the Leased Property (subject to the provisions of Sections 3.04, 3.06 and 7.01 of this Facility Lease) annual rental payments, in accordance with the Base Rental Payment Schedule attached hereto as Exhibit B and made a part hereof. Base Rental Payments shall be calculated on an annual basis, for the twelve-month periods commencing on August 15 and ending on August 14, except that the first Rental Payment Period shall commence on the date of recordation of this Facility Lease or a memorandum thereof in the office of the County Recorder of the County of Stanislaus, State of California and shall end on August 14, 2007. Base Rental Payments for the two Rental Payment Periods ending August 14, 2007 and August 14, 2008, respectively, shall be made in semi-annual installments, on August 14, 2007, February 14, 2008 and August 14, 2008. Thereafter, Base Rental Payments shall be made in twelve (12) monthly installments, payable on the fifteenth (15th) day of each calendar month (each, together with the prior referenced semi-annual payment dates a "Base Rental Payment Date"). Base Rental Payments for each annual period shall be based upon the Estimated Based Rental Payments as set forth in the Base Rental Payment Schedule in Exhibit B, provided that in the event that the amount required by the Authority to pay the principal of and interest on the Bonds and any Related Obligations varies from such Base Rental Payment Schedule, the City shall be obligated to increase the payment in any Rental Payment Period to an amount equal to the Maximum Annual Base Rental Payment payable in such period as set forth in Exhibit B, plus any Deferred Rental as described in Section 3.04 below; and provided further that to the extent the Authority has received revenues available to pay debt service on the Bonds and any amounts due with respect to the Related Obligations and the Authority has deposited such revenues with the Trustee by the business day preceding the

fifteenth (15th) day of any month in which a Base Rental Payment is due, the City shall receive a credit to the extent of such revenues on the installment of the Base Rental Payment for said month.

Each Base Rental Payment shall be for the use of the Leased Property for the twelve (12) month period commencing on August 15 of the period in which such installments are payable.

For the purpose of calculating the amount of Base Rental Payments relating to additional Series of Bonds and Related Obligations bearing interest at a variable rate, the Authority shall assume an interest rate of twelve percent (12%) per annum or such lower rate as shall be agreed to by the City and Authority and evidenced in a schedule attached hereto. If a Series of Bonds are in the Fixed Rate Mode or are converted to the Fixed Rate Mode, the Base Rental Payments may be made on a semiannual basis pursuant to a schedule prepared by the Authority and agreed to by the City.

Each annual payment of Base Rental Payments (to be payable in installments as aforesaid) shall be for the use of the Leased Property.

If the term of this Facility Lease shall have been extended pursuant to Section 2.02 hereof, Base Rental Payment installments shall continue to be due on the fifteenth (15th) day of each calendar month in each year, and payable prior thereto as hereinabove described, continuing to and including the date of termination of this Facility Lease. Upon such extension of this Facility Lease, the City shall deliver to the Trustee a Certificate setting forth the extended rental payment schedule, which schedule shall establish the Base Rental Payments at Maximum Annual Base Rental Payment or such lesser amount sufficient to pay all unpaid principal and interest on the Bonds and Related Obligations plus interest and to pay any Reserve Facility Costs.

The City and the Authority hereby agree that on each day on which Base Rental Payments are payable during the term of the lease of the Leased Property, there shall be applied as a credit against the Base Rental Payments payable on such date for the Leased Property the amounts by which such Base Rental Payments for the Leased Property when added to the funds held pursuant to the Indenture (other than the Reserve Fund) and available to pay debt service on the Bonds and any Related Obligations exceeds such payment obligations due and payable on or before the fifteenth day of the immediately succeeding month.

Section 3.02. Additional Payments. The City shall also pay such amounts (herein called the “Additional Payments”) as shall be required by the Authority for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of this Facility Lease or any pledge of Base Rental Payments payable hereunder, the Indenture, the Reserve Facility, its interest and the lease of the Leased Property to the City, including but not limited to payment of all fees, costs and expenses and all administrative costs of the Authority related to the Bonds, the Related Obligations, the Leased Property and the Project, including, without limiting the generality of the foregoing, salaries and wages of employees, all expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, auction agents, broker-dealers or attorneys, and fees and expenses payable to any bond insurer, and all other necessary

administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Bonds or of the Indenture; but not including in Additional Payments amounts required to pay the principal of or interest on the Bonds or the portion of the Reserve Facility Costs related thereto or payments on Related Obligations or the payment of any Regular Swap Payments or Extraordinary Swap Payments.

Such Additional Payments shall be billed to the City by the Authority or the Trustee from time to time, together with a statement certifying that the amount billed has been paid by the Authority or by the Trustee on behalf of the Authority, for one or more of the items above described, or that such amount is then payable by the Authority or the Trustee for such items. Amounts so billed shall be paid by the City to the billing party within 30 days after receipt of the bill by the City. The City reserves the right to audit billings for Additional Payments although exercise of such right shall in no way affect the duty of the City to make full and timely payment for all Additional Payments.

The Authority has issued and may in the future issue bonds and has entered into and may in the future enter into leases to finance facilities other than the Leased Property and the Project. The administrative costs of the Authority shall be allocated among said facilities and the Leased Property, as hereinafter in this paragraph provided. The fees of the Trustee under the Indenture, and any other expenses directly attributable to the Leased Property shall be included in the Additional Payments payable hereunder. The fees of any trustee or paying agent under any indenture securing any additional Series of Bonds of the Authority, and any other expenses directly attributable to any facilities other than the Leased Property, shall not be included in the administrative costs of the Leased Property and shall not be paid from the Additional Payments payable hereunder. Any expenses of the Authority not directly attributable to any particular leased property or project of the Authority shall be equitably allocated among all such leased property or projects, including the Project, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Authority to consider the question and render an opinion thereon, shall be a final and conclusive determination as to such allocation. The Trustee may conclusively rely upon the Written Request of the Authority, with the approval of a duly authorized representative of the City, endorsed thereon, in making any determination that costs are payable as Additional Payments hereunder, and shall not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Leased Property.

Section 3.03. Fair Rental Value. The payment of up to the Maximum Annual Base Rental Payments (as shown on Exhibit B) and Additional Payments, together with the lease payments made under the 1998 Lease, for each rental period during the term of this Facility Lease shall constitute the total rental for said rental period and shall be paid by the City in each Rental Payment Period for and in consideration of the right of use and occupancy of, and continued quiet use and enjoyment of, the Leased Property during each such period for which said rental is to be paid. The parties hereto have agreed and determined that such total rental payable for each Rental Payment Period represents the fair rental value of the Leased Property for each such period. In making such determination, consideration has been given to the appraised value of the Leased Property, costs of acquisition, demolition, site preparation, design, construction and financing of the Leased Property, other obligations of the parties under this

Facility Lease, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public.

Section 3.04. Payment Provisions; Deferred Rental. At the request of the City, the Authority is issuing the Series 2007 Bonds as variable rate bonds, and entering into an interest rate swap transaction in an effort to provide a lower cost to the City for the lease of the Leased Property. It is contemplated by the parties hereto that the amount of Base Rental Payments to be payable by the City to the Authority during each Rental Payment Period will be equal to the Estimated Base Rental Payments shown in Exhibit B. In the event that the amount needed in such Rental Payment Period by the Authority to pay the principal of and interest on the Bonds and any Related Obligations is more than the Estimated Base Rental Payments for such Rental Payment Period, the City will be obligated to pay up to the Maximum Annual Base Rental Payment for such Rental Payment Period. Further, the City agrees that if in any year the Maximum Annual Base Rental Payment exceeds the amount needed by the Authority to pay the principal of and interest on the Bonds and any Related Obligations coming due on or before September 1 following the end of such Rental Payment Period, the excess amount may be deferred by the Authority, at its sole option, on such terms and conditions as it shall determine are necessary to protect the interests of the owners of the Bonds and the Providers of any Related Obligations, and thereupon such excess amount (the "Deferred Rental") need not be paid by the City to the Authority at that time, but instead shall be deferred until such subsequent time as the Authority shall have need for such payment; provided that the Deferred Rental shall not cause the Maximum Annual Base Rental Payment in any Rental Payment Period to exceed 150% of the Estimated Base Rental Payment for such Rental Payment Period as shown in Exhibit B.

Each installment of Base Rental Payments and Additional Payments payable hereunder shall be paid in lawful money of the United States of America to or upon the order of the Authority at the corporate trust office of the Trustee, or such other place as the Authority shall designate. Any such installment of rental accruing hereunder which shall not be paid when due and payable under the terms of this Facility Lease shall bear interest at the rate of twelve percent (12%) per annum, or such lesser rate of interest as may be permitted by law, from the date when the same is due hereunder until the same shall be paid. Notwithstanding any dispute between the Authority and the City, the City shall make all Base Rental Payments and Additional Payments when due without deduction or offset of any kind and shall not withhold any Base Rental Payments or Additional Payments pending the final resolution of such dispute. In the event of a determination that the City was not liable for said Base Rental Payments or Additional Payments or any portion thereof, said payments or excess of payments, as the case may be, shall be credited against subsequent Base Rental Payments or Additional Payments due hereunder or refunded at the time of such determination. Amounts required to be deposited by the City with the Trustee pursuant to this Section on any date shall be reduced to the extent of amounts on deposit in the Revenue Fund and available therefor.

All payments received shall be applied first to the Base Rental Payments due hereunder and thereafter to all Additional Payments due hereunder, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default hereunder.

Nothing contained in this Facility Lease shall prevent the City from making from time to time contributions or advances to the Authority for any purpose now or hereafter authorized by law, including the making of repairs to, or the restoration of, the Leased Property in the event of damage to or the destruction of the Leased Property.

Section 3.05. Appropriations Covenant. The City covenants to take such action as may be necessary to include all Estimated Base Rental Payments and Additional Payments due hereunder and all lease payments and additional payments under the 1998 Lease in its annual budgets, and to make necessary annual appropriations for such payments, and for such additional amounts as required below. The City will deliver to the Authority and the Trustee within ninety (90) days of adoption of the City budget copies of the portion of each annual City budget relating to the payment of Estimated Base Rental Payments and Additional Payments hereunder and lease payments and additional payment under the 1998 Lease as so calculated. If in any fiscal year, the amount initially budgeted is insufficient to pay actual Debt Service on the Series 2007 Bonds and payments with respect to Related Obligations, the City shall, by supplemental budget in such fiscal year, appropriate and pay such additional amounts until the total amount appropriated for Base Rental Payments equals Maximum Annual Base Rental Payments for such year as provided in Exhibit B. The covenants on the part of the City herein contained shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in this Facility Lease agreed to be carried out and performed by the City.

The Authority and the City understand and intend that the obligation of the City to pay Base Rental Payments and Additional Payments hereunder shall constitute a current expense of the City and shall not in any way be construed to be a debt of the City in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the City, nor shall anything contained herein constitute a pledge of the general tax revenues, funds or moneys of the City. Base Rental Payments and Additional Payments due hereunder shall be payable only from current funds which are budgeted and appropriated or otherwise legally available for the purpose of paying Base Rental Payments and Additional Payments or other payments due hereunder as consideration for use of the Leased Property. This Facility Lease shall not create an immediate indebtedness for any aggregate payments which may become due hereunder in the event that the term of this Facility Lease is continued. The City has not pledged the full faith and credit of the City, the State of California or any agency or department thereof to the payment of the Base Rental Payments and Additional Payments or any other payments due hereunder.

Section 3.06. Rental Abatement. The Base Rental Payments and Additional Payments shall be abated proportionately during any period in which by reason of any damage or destruction (other than by condemnation, which is hereinafter provided for, or planned demolition as part of the Project) there is substantial interference with the use and occupancy of the Leased Property by the City, in the proportion in which the initial cost of that portion of the Leased Property rendered unusable bears to the initial cost of the whole of the Leased Property. 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, this Facility Lease shall continue in full force and effect and the City waives the benefits of California Civil Code Section 1932(2) and 1933(4) and of Title 11 of the United States Code, Section 365(h) and any and all other rights to terminate this Facility Lease by virtue of any such damage or destruction.

Notwithstanding the foregoing, such abatement shall not result to the extent of moneys held by the Trustee under the Indenture (including, particularly, without limitation, the Reserve Fund, Principal Account and Interest Account), or to the extent such Base Rental Payments are made from proceeds of insurance and rental interruption insurance as provided in Section 5.01 and 5.03 herein.

Section 3.07. Use of Proceeds. The parties hereto agree that the proceeds of the Series 2007 Bonds, together with amounts provided with respect to the Prior Bonds, will be used to finance the 2007 Project, to establish the Reserve Fund with respect to the Series 2007 Bonds, and to pay the costs of issuing the Series 2007 Bonds and incidental and related expenses. The City agrees to act as agent of the Authority and use the proceeds to implement the 2007 Project with due diligence.

ARTICLE IV

MAINTENANCE; ALTERATIONS AND ADDITIONS

Section 4.01. Maintenance and Utilities. During such time as the City is in possession of the Leased Property, all maintenance and repair, both ordinary and extraordinary, of the Leased Property shall be the responsibility of the City, which shall at all times maintain or otherwise arrange for the maintenance of the Leased Property in first class condition, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, and shall pay for or otherwise arrange for payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof or any other cause and shall pay for or otherwise arrange for the payment of all insurance policies required to be maintained with respect to the Leased Property. In exchange for the rental herein provided, the Authority agrees to provide only the Leased Property.

Section 4.02. Changes to the Leased Property. Subject to Section 8.02 hereof and the provisions of the 1998 Lease, the City, at its own expense, shall have the right to remodel the Leased Property or to make additions, modifications and improvements to the Leased Property. All such additions, modifications and improvements shall thereafter comprise part of the Leased Property and be subject to the provisions of this Facility Lease. Such additions, modifications and improvements shall not damage the Leased Property or cause them to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made pursuant to this Section, shall be of a value which is at least equal to the value of the Leased Property immediately prior to the making of such additions, modifications and improvements.

Section 4.03. Installation of City's Equipment. The City and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be

installed other items of equipment or other personal property in or upon the Leased Property. All such items shall remain the sole property of such party, in which neither the Authority nor the Trustee shall have any interest, and may be modified or removed by such party at any time provided that such party shall repair and restore any and all damage to the Leased Property resulting from the installation, modification or removal of any such items. Nothing in this Facility Lease shall prevent the City from purchasing items to be installed pursuant to this Section under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Leased Property.

ARTICLE V

INSURANCE

Section 5.01. Fire and Extended Coverage Insurance. The City shall procure or cause to be procured and maintain or cause to be maintained, throughout the term of this Facility Lease, insurance against loss or damage to any structures constituting any part of the Leased Property by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance and sprinkler system leakage insurance. Said extended coverage insurance 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. Such insurance shall be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Leased Property, excluding the cost of excavations, of grading and filling, and of the land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$500,000 or comparable amount adjusted for inflation), or, in the alternative, shall be in an amount and in a form sufficient (together with moneys held under the Indenture), in the event of total or partial loss, to enable all outstanding Bonds to be redeemed.

In the event of any damage to or destruction of any part of the Leased Property, caused by the perils covered by such insurance, the Authority, except as hereinafter provided, and subject to the terms of the 1998 Lease and the 1998 Indenture, shall cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Property, and the Trustee shall hold said proceeds separate and apart from all other funds, in a special fund to be designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as they were in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Trustee shall permit withdrawals of said proceeds from time to time upon receiving the Written Request of the Authority, stating that the Authority has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred. Any balance of said proceeds not required for such repair, reconstruction or replacement shall be treated by the Trustee as Base Rental Payments and applied in the manner provided by Section 5.02 of the Indenture. Alternatively, the Authority, at its option, with the written consent of the City, and if the proceeds of such insurance together

with any other moneys then available for the purpose are at least sufficient to redeem an aggregate principal amount of outstanding Bonds, equal to the amount of Base Rental Payment attributable to the portion of the Leased Property so destroyed or damaged (determined by reference to the proportion which the cost of such portion of the Leased Property bears to the cost of the Leased Property), may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property and thereupon shall cause said proceeds to be used for the redemption of outstanding Bonds pursuant to Section 4.01 of the Indenture.

As an alternative to providing the insurance required by the first paragraph of this Section, or any portion thereof, the City may provide a self insurance method or plan of protection if and to the extent such self insurance method or plan of protection shall afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the City. So long as such method or plan is being provided to satisfy the requirements of this Facility Lease, there shall be filed annually with the Trustee a statement of an actuary, insurance consultant or other qualified person (which may be the Risk Manager of the City), stating that, in the opinion of the signer, the substitute method or plan of protection is in accordance with the requirements of this Section and, when effective, would afford reasonable coverage for the risks required to be insured against. There shall also be filed a Certificate of the City setting forth the details of such substitute method or plan. In the event of loss covered by any such self insurance method, the liability of the City hereunder shall be limited to the amounts in the self insurance reserve fund or funds created under such method.

Any insurance required by this Section 5.01, to the extent permitted, shall not be a duplication of the insurance maintained under the 1998 Lease.

Section 5.02. Liability Insurance. Except as hereinafter provided, the City shall procure or cause to be procured and maintain or cause to be maintained, throughout the term of this Facility Lease, a standard comprehensive general liability insurance policy or policies in protection of the Authority and the City and their respective members, directors, officers, agents and employees, and the Trustee, indemnifying said parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the operation of the Leased Property, with minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$500,000 for damage to property resulting from each accident or event. 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 carried by the City.

As an alternative to providing the insurance required by the first paragraph of this Section, or any portion thereof, the City may provide a self insurance method or plan of protection if and to the extent such self insurance method or plan of protection shall afford reasonable protection to the Authority and the City and their respective members, directors, officers, agents and employees, and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public

entities in the State of California other than the City. So long as such method or plan is being provided to satisfy the requirements of this Facility Lease, there shall be filed annually with the Trustee a statement of an actuary, independent insurance consultant or other qualified person (which may be the Risk Manager of the City), stating that, in the opinion of the signer, the substitute method or plan of protection is in accordance with the requirements of this Section and, when effective, would afford reasonable protection to the Authority and the City and their respective members, directors, officers, agents and employees, and the Trustee against loss and damage from the hazards and risks covered thereby. There shall also be filed a Certificate of the City setting forth the details of such substitute method or plan.

Any insurance required by this Section 5.02, to the extent permitted, shall not be a duplication of the insurance maintained under the 1998 Lease.

Section 5.03. Rental Interruption or Use and Occupancy Insurance. The City shall procure or cause to be procured and maintain or cause to be maintained, rental interruption or use and occupancy insurance to cover loss, total or partial, of the rental income from or the use of the Leased Property as the result of any of the hazards covered by the insurance required by Section 5.01 hereof, in an amount sufficient to pay the part of the total rent hereunder attributable to the portion of the Leased Property rendered unusable (determined by reference to the proportion which the cost of such portion bears to the cost of the Leased Property) for a period of at least two years, except that such insurance may be subject to a deductible clause of not to exceed two hundred fifty thousand dollars (\$250,000) or a comparable amount adjusted for inflation. Any proceeds of such insurance shall be used by the Trustee to reimburse to the City any rental theretofore paid by the City under this Facility Lease attributable to such structure for a period of time during which the payment of rental under this Facility Lease is abated, and any proceeds of such insurance not so used shall be applied as provided in Section 3.01 (to the extent required for the payment of Base Rental Payments) and in Section 3.02 (to the extent required for the payment of Additional Payments) and any remainder shall be treated as Revenue under the Indenture.

Section 5.04. Worker's Compensation. The City shall also maintain worker's compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure its employees against liability for compensation under the Worker's Compensation Insurance and Safety Act now in force in California, or any act hereafter enacted as an amendment or supplement thereto. As an alternative, such insurance may be maintained as part of or in conjunction with any other insurance carried by the City. Such insurance may be maintained by the City in the form of self-insurance.

Section 5.05. Title Insurance. The City shall obtain, for the benefit of the Authority and the Trustee, upon the execution and delivery of this Facility Lease, title insurance on the Leased Property in an amount not less than \$61,430,000, subject only to Permitted Encumbrances. Any title insurance held under the 1998 Lease shall satisfy, on a dollar to dollar basis, the requirements of this Section 5.05, so long as the Trustee is named as an additional insured, it being understood that the rights of the Trustee shall be subject to the prior rights of the 1998 Trustee.

Section 5.06. Insurance Proceeds; Form of Policies. All policies of insurance required by Sections 5.01 and 5.03 hereof shall name the City, the Authority and the Trustee as insured and shall contain a lender's loss payable endorsement in favor of the Trustee. Any such policies may also name the 1998 Trustee as an insured if the policies are intended to satisfy both the requirements of this Facility Lease and the 1998 Lease. The Trustee shall, to the extent practicable, collect, adjust and receive all moneys which may become due and payable under any such policies, may compromise any and all claims thereunder and shall apply the proceeds of such insurance as provided in Sections 5.01 and 5.03. All policies of insurance required by this Facility Lease shall provide that the Trustee shall be given thirty (30) days notice of each expiration thereof or any intended cancellation thereof or reduction of the coverage provided thereby. The Trustee shall not be responsible for the sufficiency of any insurance herein required and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the City. The City shall pay when due the premiums for all insurance policies required by this Facility Lease, and shall promptly furnish evidence of such payments to the Authority.

The City shall deliver to the Authority and the Trustee on an annual basis a written Certificate of an officer of the City stating whether such policies satisfy the requirements of this Facility Lease, setting forth the insurance policies then in force pursuant to this Article, the names of the insurers which have issued the policies, the amounts thereof and the property and risks covered thereby, and, if any self-insurance program is being provided, the annual report of an actuary, independent insurance consultant or other qualified person containing the information required for such self-insurance program and described in Sections 5.01, 5.02 and 5.04. Delivery to the Trustee of the certificate, under the provisions of this Section shall not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies. If so requested in writing by the Trustee, the City shall also deliver to the Trustee certificates or duplicate originals or certified copies of each insurance policy described in such schedule.

ARTICLE VI

DEFAULTS AND REMEDIES

Section 6.01. Defaults and Remedies.

(a) If the City shall fail to pay any Base Rental Payments or Additional Payments payable hereunder when the same becomes due, time being expressly declared to be of the essence of this Facility Lease, or the City shall fail to keep, observe or perform any other term, covenant or condition contained herein to be kept or performed by the City for a period of sixty (60) days after notice of the same has been given to the City by the Authority or the Trustee or for such additional time as is reasonably required, in the sole discretion of the Authority, to correct the same, or upon the happening of any of the events specified in subsection (b) of this Section (any such case above being an "Event of Default"), the City shall be deemed to be in default hereunder and it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to this Facility Lease. Upon any such default, the Authority, in addition to all other rights and remedies it may have at law, shall have the option, without terminating this Facility Lease, but subject to the terms of the 1998 Lease (i) to collect

each installment of rent as it becomes due and enforce any other terms or provision hereof to be kept or performed by the City, regardless of whether or not the City has abandoned the Leased Property, or (ii) to exercise any and all rights of entry and re-entry upon the Leased Property. So long as this Facility Lease is not terminated the City shall remain liable and agrees to keep or perform all covenants and conditions herein contained to be kept or performed by the City and, if the Leased Property is not re-let, to pay the full amount of the rent to the end of the term of this Facility Lease or, in the event that the Leased Property is re-let, to pay any deficiency in rent that results therefrom; and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as hereinabove provided for the payment of rent hereunder (without acceleration), notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental herein specified, and notwithstanding any entry or re-entry by the Authority or suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such entry or re-entry or obtaining possession of the Leased Property. Should the Authority elect to enter or re-enter as herein provided, the City hereby irrevocably appoints the Authority as the agent and attorney-in-fact of the City to re-let the Leased Property, or any part thereof, from time to time, either in the Authority's name or otherwise, upon such terms and conditions and for such use and period as the Authority may deem advisable, and to remove all persons in possession thereof and all personal property whatsoever situated upon the Leased Property and to place such personal property in storage in any warehouse or other suitable place located in the City of Modesto, California, for (to the extent permitted by law) the account of and at the expense of the City, and the City (to the extent permitted by law) hereby exempts and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Leased Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions herein contained. The City agrees that the terms of this Facility Lease constitute full and sufficient notice of the right of the Authority to re-let the Leased Property and to do all other acts to maintain or preserve the Leased Property as the Authority deems necessary or desirable in the event of such re-entry without effecting a surrender of this Facility Lease, and further agrees that no acts of the Authority in effecting such re-letting shall constitute a surrender or termination of this Facility Lease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise. The City further waives the right to any rental obtained by the Authority in excess of the rental herein specified and hereby conveys and releases such excess to the Authority as compensation to the Authority for its services in re-letting the Leased Property or any part thereof. The City further agrees to the extent permitted by law to pay the Authority the reasonable cost of any alterations or additions to the Leased Property necessary to place the Leased Property in condition for re-letting immediately upon notice to the City of the completion and installation of such additions or alterations.

The City hereby waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Leased Property as herein provided and all claims for damages that may result from the destruction of or injury to the Leased Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be in or upon the Leased Property.

(b) If (1) the City's interest in this Facility Lease or any part thereof is assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of

the Authority, as hereinafter provided for, or (2) the City or any assignee shall file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the City's debts or obligations, or offers to the City's creditors to effect a composition or extension of time to pay the City's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the City's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the City, or if a receiver of the business or of the property or assets of the City shall be appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the City shall make a general or any assignment for the benefit of the City's creditors, or if (3) the City shall abandon or vacate the Leased Property, then the City shall be deemed to be in default hereunder.

(c) The Authority shall in no event be in default in the performance of any of its obligations hereunder or imposed by any statute or rule of law unless and until the Authority shall have failed to perform such obligations within sixty (60) days or such additional time as is reasonably required to correct any such default after notice by the City to the Authority properly specifying wherein the Authority has failed to perform any such obligation. In the event of default by the Authority, the City shall be entitled to pursue any remedy provided by law.

(d) In addition to the other remedies set forth in this Section, upon the occurrence of an event of default as described in this Section, the Authority shall be entitled to proceed to protect and enforce the rights vested in the Authority by this Facility Lease or by law. The provisions of this Facility Lease and the duties of the City and of its trustees, officers or employees shall be enforceable by the Authority by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority shall have the right to bring the following actions:

(1) Accounting. By action or suit in equity to require the City and its trustees, officers and employees and its assigns to account as the trustee of an express trust.

(2) Injunction. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority.

(3) Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce the Authority's rights against the City (and its board, officers and employees) and to compel the City to perform and carry out its duties and obligations under the law and its covenants and agreements with the City as provided herein.

The exercise of any rights or remedies under this Facility Lease shall not permit acceleration of Base Rental Payments.

Each and all of the remedies given to the Authority hereunder or by any law now or hereafter enacted are cumulative and the single or partial exercise of any right, power or privilege hereunder shall not impair the right of the Authority to other or further exercise thereof

or the exercise of any or all other rights, powers or privileges. The term “re-let” or “re-letting” as used in this Section shall include, but not be limited to, re-letting by means of the operation by the Authority of the Leased Property. If any statute or rule of law validly shall limit the remedies given to the Authority hereunder, the Authority nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

In the event the Authority shall prevail in any action brought to enforce any of the terms and provisions of this Facility Lease, the City agrees to pay a reasonable amount as and for attorney’s fees incurred by the Authority in attempting to enforce any of the remedies available to the Authority hereunder, whether or not a lawsuit has been filed and whether or not any lawsuit culminates in a judgment.

Section 6.02. Waiver. Failure of the Authority to take action on any default on the part of the City shall not be, or be construed as, a waiver thereof, nor shall any custom or practice which may grow up between the parties in the course of administering this instrument be construed to waive or to lessen the right of the Authority to insist upon performance by the City of any term, covenant or condition hereof, or to exercise any rights given the Authority on account of such default. A waiver of a particular default shall not be deemed to be a waiver of the same or any subsequent default. The acceptance of rent hereunder shall not be, or be construed to be, a waiver of any term, covenant or condition of this Facility Lease.

ARTICLE VII

EMINENT DOMAIN; PREPAYMENT

Section 7.01. Eminent Domain. If the whole of the Leased Property or so much thereof as to render the remainder unusable for the purposes for which it was used by the City shall be taken under the power of eminent domain, the term of this Facility Lease shall cease as of the day that possession shall be so taken. If less than the whole of the Leased Property shall be taken under the power of eminent domain and the remainder of the Leased Units is usable for the purposes for which it was used by the City at the time of such taking, then this Facility Lease shall continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there shall be a partial abatement of the Base Rental Payments due hereunder in an amount equivalent to the amount by which the annual payments of principal and interest on the Outstanding Bonds will be reduced by the application of the award in eminent domain to the redemption of outstanding Bonds. So long as any of the Bonds shall be outstanding, any award made in eminent domain proceedings for taking the Leased Property or any of the Leased Units thereof shall be paid to the Trustee and applied to the prepayment of the Base Rental Payments as provided in Section 7.02, but subject to the terms of the 1998 Lease. Any such award made after all of the Base Rental Payments and Additional Payments have been fully paid, or provision therefor made, shall be paid to the to the City.

Section 7.02. Prepayment.

(a) Subject to the terms of the 1998 Lease, the City shall prepay on any date from insurance (including proceeds of title insurance) and eminent domain proceeds, to the extent

provided in Sections 5.01 and 7.01 hereof (provided, however, that in the event of partial damage to or destruction of the Leased Property caused by perils covered by insurance, if in the judgment of the Authority the insurance proceeds are sufficient to repair, reconstruct or replace the damaged or destroyed Leased Unit of the Leased Property, such proceeds shall be held by the Trustee and used to repair, reconstruct or replace the damaged or destroyed Leased Unit of the Leased Property, pursuant to the procedure set forth in Section 5.01 for proceeds of insurance), all or any part of Base Rental Payments then unpaid so that the aggregate annual amounts of Base Rental Payments which shall be payable after such prepayment date shall be as nearly proportional as practicable to the aggregate annual amounts of Base Rental Payments unpaid prior to the prepayment date (taking into account the reduction in Base Rental Payments allocable to future interest on the Bonds that are redeemed), at a prepayment amount equal to the redemption payment of the maximum amount of Bonds, including the principal thereof and the interest thereon to the date of redemption, plus any applicable premium redeemable from such proceeds.

(b) The City may prepay, from any source of available funds, all or any portion of Base Rental Payments by depositing with the Trustee moneys or securities as provided in Article X of the Indenture sufficient to defease or redeem all or a portion of a Series of Bonds corresponding to such Base Rental Payments when due; provided that the City furnishes the Trustee with an Opinion of Counsel that such deposit will not cause interest on such Series of Bonds to be includable in gross income for federal income tax purposes. The City agrees that if following such prepayment the Leased Property are damaged or destroyed or taken by eminent domain, it is not entitled to, and by such prepayment waives the right of, abatement of such prepaid Base Rental Payments and shall not be entitled to any reimbursement of such Base Rental Payments.

(c) Before making any prepayment pursuant to this Section, the City shall, within five (5) days following the event creating such right or obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment will be made, which date shall be not less than forty-five (45) days from the date such notice is given.

(d) When (1) there shall have been deposited with the Trustee at or prior to the due dates of the Base Rental Payments or the date when the City may exercise its option to purchase the Leased Property or any of the Leased Unit thereof, in trust for the benefit of the Owners of the Bonds and irrevocably appropriated and set aside to the payment of the Base Rental Payments or option price, sufficient moneys and Permitted Investments described in subsection (1) of the definition thereof in the Indenture, not redeemable prior to maturity, the principal of and interest on which when due will provide money sufficient to pay all principal, premium, if any, and interest on the Bonds to the due date of the Bonds or date when the City may exercise its option to purchase the Leased Property, as the case may be; (2) all requirements of Section 10.01 of the Indenture have been satisfied; and (3) an agreement shall have been entered into with the Trustee for the payment of its fees and expenses so long as any of the Bonds shall remain unpaid, then and in that event the right, title and interest of the Authority herein and the obligations of the City hereunder shall thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Authority and the obligation of the City to have such moneys and such Permitted Investments applied to the

payment of the Base Rental Payments or option price) and the Authority's interest in and title to the Project or applicable portion or item thereof shall be transferred and conveyed to the City. In such event, the Authority shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the Authority and evidence such discharge and satisfaction, and the Authority shall pay over to the City as an overpayment of Base Rental Payments all such moneys or Permitted Investments held by it pursuant hereto other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Base Rental Payments or the option price and the fees and expenses of the Trustee, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of Base Rental Payments or the option price and the fees and expenses of the Trustee, and shall be applied by the Authority to the payment of the Base Rental Payments or the option price and the fees and expenses of the Trustee.

ARTICLE VIII

COVENANTS

Section 8.01. Right of Entry. The Authority and its assignees shall have the right to enter upon and to examine and inspect the Leased Property during reasonable business hours (and in emergencies at all times) (a) to inspect the same, (b) for any purpose connected with the Authority's or the City's rights or obligations under this Facility Lease, and (c) for all other lawful purposes.

Section 8.02. Liens. In the event the City shall at any time during the term of this Facility Lease cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Leased Property, the City shall pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon or about the Leased Property and shall keep the Leased Property free of any and all mechanics' or materialmen's liens or other liens against the Leased Property or the Authority's interest therein. In the event any such lien attaches to or is filed against the Leased Property or the Authority's interest therein, the City shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the City desires to contest any such lien it may do so in good faith. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the City shall forthwith pay and discharge said judgment. The City agrees to and shall, to the maximum extent permitted by law, indemnify and hold the Authority and the Trustee and their respective members, directors, agents, successors and assigns, harmless from and against, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorney's fees) as a result of any such lien or claim of lien against the Leased Property or the Authority's interest therein.

Section 8.03. Quiet Enjoyment. The parties hereto mutually covenant that the City, by keeping and performing the covenants and agreements herein contained and not in default

hereunder, shall at all times during the term of this Facility Lease peaceably and quietly have, hold and enjoy the Leased Property without suit, trouble or hindrance from the Authority.

Section 8.04. Authority Not Liable. The Authority and its members, directors, officers, agents and employees shall not be liable to the City or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Leased Property. The City, to the extent permitted by law, shall indemnify and hold the Authority and its members, directors, officers, agents and employees, harmless from, and defend each of them against, any and all claims, liens and judgments arising from the construction or operation of the Leased Property, including, without limitation, death of or injury to any person or damage to property whatsoever occurring in, on or about the Leased Property regardless of responsibility for negligence, but excepting the active negligence of the person or entity seeking indemnity.

Section 8.05. Assignment and Subleasing. Neither this Facility Lease nor any interest of the City hereunder shall be mortgaged, pledged, assigned, sublet or transferred by the City by voluntary act or by operation of law or otherwise, except with the prior written consent of the Authority, which, in the case of subletting, shall not be unreasonably withheld; provided such subletting shall not affect the tax-exempt status of the interest on the Bonds. No such mortgage, pledge, assignment, sublease or transfer shall in any event affect or reduce the obligation of the City to make the Base Rental Payments and Additional Payments required hereunder.

Section 8.06. Title to Leased Property; No Merger of Interests. During the term of this Facility Lease, the Authority shall hold a leasehold estate to the Leased Property and any and all additions which comprise fixtures, repairs, replacement or modifications thereof, except for those fixtures, repairs, replacements or modifications which are added thereto by the City and which may be removed without damaging the Leased Property, and except for any items added to the Leased Property by the City pursuant to Section 4.02 hereof. This provision shall not operate to the benefit of any insurance company if there is a rental interruption covered by insurance pursuant to Section 5.03 hereof.

The leasing by the Authority to the City of the Leased Property pursuant to the 1998 Lease, the leasing by the City to the Authority of the Leased Property pursuant to the Sublease and the leasing by the Authority to the City of such Leased Property pursuant hereto shall not effect or result in a merger of the City's leasehold estate pursuant to this Facility Lease, and the Authority shall continue to have and hold a leasehold estate in the Leased Property pursuant to the Sublease throughout the term thereof. As to the Leased Property, this Facility Lease shall be deemed and constitute a sub-sublease.

Section 8.07. Tax Covenants. The City and the Authority will not make any use of the proceeds of the obligations provided herein or any other funds of the City or the Authority which will cause such obligations to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Code. The City and the Authority will not make any use of the proceeds of the obligations provided herein or any other funds of the City or the Authority which will cause such obligations to be "federally guaranteed" and subject to inclusion in gross income for federal income tax purposes by reason of Section 149(b) of the Code. To that end, so long as any rental payments are unpaid, the City and the Authority, with respect to such proceeds and such other

funds, will comply with all requirements of such Sections 148 and 149(b) and all regulations of the United States Department of the Treasury issued thereunder to the extent that such requirements are, at the time, applicable and in effect.

The City further covenants that it will not use or permit the use of the facilities financed or refinanced by the proceeds of the Bonds by any person not an “exempt person” within the meaning of Section 141(a) of the Code or by an “exempt person” (including the City) in an “unrelated trade or business,” in such manner or to such extent as would result in the inclusion of interest received hereunder in gross income for federal income tax purposes under Section 103 of the Code.

If at any time the City is of the opinion that for purposes of this Section it is necessary to restrict or limit the yield on or change in any way the investment of any moneys held by the Trustee or the City or the Authority under this Facility Lease or the Indenture, the City shall so instruct the Trustee or the appropriate officials of the City in writing, and the Trustee or the appropriate officials of the City, as the case may be, shall take such actions as may be necessary in accordance with such instructions.

In furtherance of the covenants of the City set forth above, the City will comply with the Tax Certificate and will instruct the Trustee in writing as necessary to comply with the Tax Certificate. The Trustee and the Authority may conclusively rely on any such written instructions, and the City hereby agrees to hold harmless the Trustee and the Authority for any loss, claim, damage, liability or expense incurred by the Authority for any actions taken by the Authority in accordance with such instructions.

The City and the Authority shall at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the interest on the Bonds will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being excluded from gross income for federal income tax purposes.

Section 8.08. Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Facility Lease, failure of the City to comply with the Continuing Disclosure Agreement shall not be considered an event of default hereunder; however, the Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least 25% aggregate principal amount of Series 2007 Bonds Outstanding and provided satisfactory indemnification is provided to the Trustee, shall) or any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to compel the City to comply with its obligations under this Section 8.08.

Section 8.09. Taxes. The City shall pay or cause to be paid all taxes and assessments of any type or nature charged to the Authority or affecting the Leased Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the term of this Facility Lease as and when the same become due.

The City shall also pay directly such amounts, if any, in each year as shall be required by the Authority for the payment of all license and registration fees and all taxes (including, without limitation, income, excise, license, franchise, capital stock, recording, sales, use, value-added, property, occupational, excess profits and stamp taxes), levies, imposts, duties, charges, withholdings, assessments and governmental charges of any nature whatsoever, together with any additions to tax, penalties, fines or interest thereon, including, without limitation, penalties, fines or interest arising out of any delay or failure by the City to pay any of the foregoing or failure to file or furnish to the Authority or the Trustee for filing in a timely manner any returns, hereinafter levied or imposed against the Authority or the Leased Property, the rentals and other payments required hereunder or any parts thereof or interests of the City or the Authority or the Trustee therein by any governmental authority.

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments 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 or the Trustee shall notify the City that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Authority in the Leased Property will be materially endangered or the Leased Property, or any part thereof, will be 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, in form satisfactory to the Authority and the Trustee.

Section 8.10. Authority's Purpose. The Authority covenants that, prior to the discharge of this Facility Lease, it will not engage in any activities inconsistent with the purposes for which the Authority is organized.

Section 8.11. Purpose of Facility Lease. The City covenants that during the term of this Facility Lease, except as hereinafter provided, (a) it will use, or cause the use of, the Leased Property for public purposes and for the purposes for which the Leased Property are customarily used, (b) it will not vacate or abandon the Leased Property or any part thereof, and (c) it will not make any use of the Leased Property which would jeopardize in any way the insurance coverage required to be maintained pursuant to Article V hereof.

Section 8.12. Compliance with 1998 Lease; Covenant Not to Terminate or Amend the 1998 Lease. The City agrees to comply with the terms of the 1998 Lease and make all payments due thereunder, as provided therein. The City and the Authority covenant not to terminate or amend the 1998 Lease so long as the Series 2007 Bonds are outstanding, unless such a termination or amendment of the 1998 Lease would not have a material adverse effect on the holders of the Series 2007 Bonds.

ARTICLE IX

DISCLAIMER OF WARRANTIES; VENDOR'S WARRANTIES; USE OF THE FACILITIES

Section 9.01. Disclaimer of Warranties. THE AUTHORITY MAKES NO AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY, FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE FACILITIES OR THE PROJECT, OR WARRANTY WITH RESPECT THERETO. THE CITY ACKNOWLEDGES THAT THE AUTHORITY IS NOT A MANUFACTURER OF THE FACILITIES OR THE PROJECT OR A DEALER THEREIN, THAT THE CITY LEASES THE FACILITIES AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE CITY. In no event shall the Authority be liable for any incidental, indirect, special or consequential damage in connection with or arising out of this Facility Lease or the existence, furnishing, functioning or the City's use of any item or products or services provided for in this Facility Lease.

Section 9.02. Vendor's Warranties. The Authority hereby irrevocably appoints the City its agent and attorney-in-fact during the term of this Facility Lease, so long as the City shall not be in default hereunder, to assert from time to time whatever claims and rights, including warranties of the Leased Property or the Project, which the Authority may have against the manufacturers, vendors and contractors of the Leased Property or the Project. The City's sole remedy for the breach of such warranty, indemnification or representation shall be against the manufacturer or vendor or contractor of the Leased Property or of the Project, and not against the Authority, nor shall such matter have any effect whatsoever on the rights and obligations of the Authority with respect to this Facility Lease, including the right to receive full and timely payments hereunder. The City expressly acknowledges that the Authority makes, and has made, no representation or warranties whatsoever as to the existence or availability of such warranties of the manufacturer, vendor or contractor.

Section 9.03. Use of the Leased Property. The City will not install, use, operate or maintain the Leased Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by this Facility Lease. The City shall provide all permits and licenses, if any, necessary for the installation and operation of the Leased Property. In addition, the City agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of the Leased Property) with all laws of the jurisdictions in which its operations may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Leased Property; provided, however, that the City may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Authority, adversely affect the estate of the Authority in and to the Leased Property or its interest or rights under this Facility Lease.

ARTICLE X

MISCELLANEOUS

Section 10.01. Law Governing. This Facility Lease shall be governed exclusively by the provisions hereof and by the laws of the State of California as the same from time to time exist.

Section 10.02. Notices. All notices, statements, demands, consents, approvals, authorizations, offers, designations, requests, agreements or promises or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States registered mail, return receipt requested, postage prepaid:

If to the City: City of Modesto
1010 Tenth Street, Suite 5200
Modesto, CA 95353
Attention: Finance Director
Telephone No.: (209) 577-5371
Facsimile No.: (209) 571-5880

If to the Authority: Modesto Public Financing Authority
c/o City of Modesto
City Hall
1010 Tenth Street, Suite 5200
Modesto, CA 95353
Attention: Auditor and Treasurer
Telephone No.: (209) 577-5371
Facsimile No.: (209) 571-5880

If to the Trustee: The Bank of New York Trust Company, N.A.
550 Kearny Street, Suite 600
San Francisco, CA 94108-2527
Facsimile No.: (415) 399-1647

or to such other addresses as the respective parties may from time to time designate by notice in writing. A copy of any such notice or other document herein referred to shall also be delivered to the Trustee.

Section 10.03. Validity and Severability. If for any reason this Facility Lease shall be held by a court of competent jurisdiction to be void, voidable, or unenforceable by the Authority or by the City, or if for any reason it is held by such a court that any of the covenants and conditions of the City hereunder, including the covenant to pay rentals hereunder, is unenforceable for the full term hereof, then and in such event this Facility Lease is and shall be deemed to be a lease under which the rentals are to be paid by the City annually in consideration of the right of the City to possess, occupy and use the Leased Property, and all of the rental and other terms, provisions and conditions of this Facility Lease, except to the extent that such terms,

provisions and conditions are contrary to or inconsistent with such holding, shall remain in full force and effect.

Section 10.04. Net-Net-Net Lease. This Facility Lease shall be deemed and construed to be a “net-net-net lease” and the City hereby agrees that the rentals provided for herein shall be an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever.

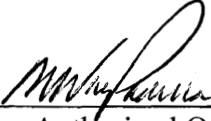
Section 10.05. Section Headings. All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision of this Facility Lease.

Section 10.06. Amendment or Termination. The Authority and the City may at any time amend, modify or terminate this Facility Lease in accordance with the terms hereof and of the Indenture, or provide for the amendment of this Facility Lease to remove or substitute the Leased Property pursuant to Section 2.04 hereof, or to provide for the issuance of Additional Bonds pursuant to Section 3.07 of the Indenture.

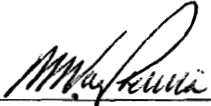
Section 10.07. Execution. This Facility Lease may be executed in any number of counterparts, each of which shall be deemed to be an original, but all together shall constitute but one and the same Lease. It is also agreed that separate counterparts of this Facility Lease may separately be executed by the Authority and the City, all with the same force and effect as though the same counterpart had been executed by both the Authority and the City.

IN WITNESS WHEREOF, the Authority and the City have caused this Facility Lease to be executed by their respective officers thereunto duly authorized, all as of the day and year first above written.


MODESTO PUBLIC FINANCING AUTHORITY,
as Lessor

By: 
Authorized Officer
M. WAYNE PADILLA

CITY OF MODESTO,
as Lessee

By: 
Authorized Officer
M/ WAYNE PADILLA

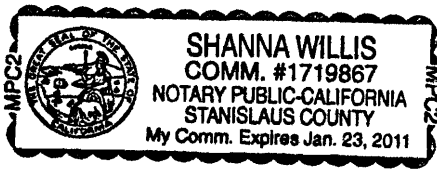
Approved as to Form:

By: 
City Attorney
Susana Alcalá Wood

STATE OF CALIFORNIA)
)
) SS.
COUNTY OF STANISLAUS)

On April 11, 2007, before me, Shanna Willis, Notary Public, personally appeared M. Wayne Padilla, personally known to me ~~(or proved to me on the basis of satisfactory evidence)~~ to be the person(s) whose name(s) ~~is/are~~ subscribed to the within instrument and acknowledged to me that he/~~she/they~~ executed the same in his/~~her/their~~ authorized capacity~~(ies)~~, and that by his/~~her/their~~ signature~~(s)~~ on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

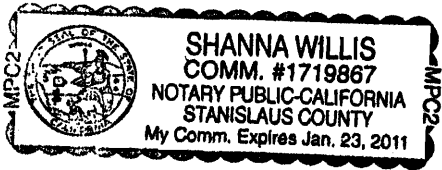


Shanna Willis
Notary's Signature

STATE OF CALIFORNIA)
) SS.
COUNTY OF STANISLAUS)

On April 11, 2007, before me, Shanna Willis _____, Notary Public, personally appeared Susana Alcala Wood _____, personally known to me (~~or proved to me on the basis of satisfactory evidence~~) to be the person(s) whose name(s) is/~~are~~ subscribed to the within instrument and acknowledged to me that ~~he~~/~~she~~/~~they~~ executed the same in ~~his~~/~~her~~/~~their~~ authorized capacity(~~ies~~), and that by ~~his~~/~~her~~/~~their~~ signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.



Shanna Willis
Notary's Signature

EXHIBIT A

DESCRIPTION OF THE LEASED PROPERTY

All that certain real property situated in the City of Modesto, State of California, described as follows:

Legal Description of the Sites

Parcel No. 1 -- Graceda Park

All of Blocks 531, 532 and 533 as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 2 -- Floyd Park

Parcels A and B as per Parcel Map filed October 9, 1969 in Volume 7 of Parcel Maps, Page 68, Stanislaus County Records.

Parcel No. 3 -- Communication Facility

An undivided one-half interest in the following:
Parcel 2 as per Parcel Map filed September 24, 1979 in Volume 29 of Parcel Maps, Page 100, Stanislaus County Records.

Parcel No. 4 -- Police Facility

Lots 1 thru 32, inclusive, in Block 71 of the CITY OF MODESTO, as per map recorded December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

TOGETHER WITH

All that real property in the State of California, County of Stanislaus, City of Modesto, being a portion of the Northeast quarter of Section 32, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, described as follows:

That portion of the 20-foot alley in Block 71 as delineated on the Official Map of the City of Modesto, as per map filed December 21, 1942, in Volume 15 of Maps, Stanislaus County Records, described as follows:

Beginning at the most Southerly corner of Lot 16 in said Block 71, said point being on the Northeastern line of said 20.00 foot alley in Block 71; thence along said Northeastern line of said alley, North 43° 29' 30" West, 150.00 feet, to the most Southerly corner of Lot 10 in Block 71; thence South 46° 30' 30" West, 20.00 feet, to the most Northerly corner of Lot 22 in Block 71, said point being on the Southwestern line of the 20.00 foot alley in Block 71; thence along said Southwestern line of said alley, South 43° 29' 30" East, 150.00 feet, to the most Easterly corner of Lot 17 in Block 71, said point being on the Northwestern line of 80.00 foot "F" Street; thence along said Northwestern line of "F" Street, North 46° 30' 30" East, 20.00 feet, to the point of beginning.

All that portion of Block 67 of the City of Modesto, as per the official map thereof, filed in Book 15 of Maps, together with the abandoned alley therein, lying in the south half of Section 29, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, City of Modesto, County of Stanislaus, State of California, described as follows:

BEGINNING at the north corner of said Block 67, said point being the intersection of the southwesterly line of 80.00 feet wide Eleventh Street with the southeasterly line of 80.00 feet wide K Street; thence on said Southeasterly line, South 46°48'48" West 253.06 feet; thence South 43°09'48" East 167.50 feet; thence North 46°50'12" East 23.24 feet; thence South 43°09'48" East 17.52 feet; thence North 46°50'12" East 16.00 feet; thence South 43°09'48" East 16.00 feet; thence South 46°50'12" West 16.00 feet; thence South 43°09'48" East 12.97 feet; thence South 46°48'48" West 54.07 feet; thence North 88°11'12" West 30.10 feet to the northeasterly line of 70.00 feet wide 10th Street; thence on said northeasterly line, South 43°10'10" East 207.48 feet to the northwesterly line of 80.00 feet wide J Street; thence on said northwesterly line, North 46°47'30" East 305.16 feet to the southwesterly line of 80.00 feet wide 11th Street; thence on said southwesterly line, North 43°09'48" west 400.08 feet to the point of beginning.

Containing 2.522 acres, more or less.

Parcel no. 7 -- Wesson Park

Parcel No. 1 as per Parcel Map filed January 28, 1980 in Volume 30 of Parcel Maps, Page 13, Stanislaus County Records.

Parcel No. 8 -- Hollywood Park

Lot 1 in Block 13158 of Hollywood Park No. 2 as per Map filed February 28, 1978 in Book 27 of Maps, Page 44, Stanislaus County Records.

Parcel No. 9-- Riverside Park

Parcel A:

Parcels 1 and 1-A as per Parcel Map recorded May 16, 1966 in Book 1 of Parcel Maps, Page 134, Stanislaus County Records.

Excepting Therefrom Parcels B-1 and B-2 as per Parcel Map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

Parcel B:

Parcel No. A as per map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

Parcel No. 10 -- Sipherd Park

Parcel B as per map recorded August 14, 1974 in Book 19 of Parcel Maps, Page 75, Stanislaus County Records.

Parcel No. 12 -- McHenry Mansion

Lots 17 through 24 in Block 122 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 14 -- Senior Citizens Center

Lots 18 through 31 in Block 590 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 15 -- Parking Structure

Lot 5 through 12 in Block 68 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 17 -- Parking Lot # 25

Lots 28 through 32 in Block 55 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 18 -- Fire Station # 1

Lots 17 through 26 in Block 81 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 19 -- Fire Station # 3

Lots 1 and 2 in Block 2283 of Dry Creek Estates No. 1 as per Map filed December 13, 1966 in Volume 21 of Maps, Page 55, Stanislaus County Records.

Parcel No. 20 -- Fire Station # 6

Parcel No. C as per Parcel Map filed August 17, 1977 in Book 25 of Parcel Maps, Page 83, Stanislaus County Records.

Parcel No. 21 -- Fire Station # 7

Parcel A as per Parcel Map filed June 27, 1974 in Volume 19 of Maps, Page 51, Stanislaus County Records.

Parcel No. 22 -- Fire Station #. 5

PARCEL 1:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at a point on the east line of said Lot 2 located on the centerline of a 50 foot public road designated as Oakdale Road on said map, which point is located North 0° 30' West 396 feet from the southeast corner of said Lot 2; thence from said point of beginning parallel to the south line of said Lot 2, North 88° 30' West 660 feet to a point on the west line of said Lot 2; thence North 0° 30' West along said west line of said Lot 2 a distance of 153.73 feet; thence east parallel with the south line of said Lot 2, a distance of 660 feet to a point on the east line of said Lot 2, located on the center line of said Oakdale Road; thence along the east line of said Lot 2 and the centerline of said Oakdale Road, South 0° 30' East 174.24 feet to the point of beginning.

ALSO EXCEPTING THEREFROM all that portion thereof lying northerly of the north line of Burchell Court (formerly Northern Boulevard) extending westerly to the west line of Lot 2.

ALSO EXCEPTING THEREFROM all that portion thereof lying within Briggsmore Avenue, Burchell Court and McHenry Avenue.

ALSO EXCEPTING THEREFROM all that certain property described in Deed to Chester D. Chambers, recorded March 10, 1964 in Book 1929 at Page 641, and in Deed to S.W.A.P., a Joint Venture, recorded July 10, 1962 in Book 1780 at Page 145, Stanislaus County Records.

PARCEL 2:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, Section 17, Township 3 South, Range 9 East, M.D.B. & M., described as follows:

COMMENCING at a point on the southerly line of the property conveyed to Chester D. Chambers by Deed recorded May 7, 1959 in Volume 1545 of Official Records at Page 321, as Instrument No. 13137, Stanislaus County Records, said point being the northeastern corner of Parcel "E" on the western line of Timothy Avenue as shown on the map entitled "Survey of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6, Record of Surveys, page 53, Stanislaus County Records; thence along a line at right angles to the western line of Timothy Avenue, North 89° 30' East, 30.00 feet to a point on the northerly extension of the centerline of Timothy Avenue; thence along said northerly extension, North 00° 30' West, 46.90 feet to the true point of beginning; thence North 7° 52' 29" East, 84.51 feet to a point on the northern line of said Chambers property, which is also the southern line of the property conveyed to the City of Modesto by Deed recorded October 11, 1957, as Instrument No. 26217, Stanislaus County Records, said line also being the southern line of Parcel "A" as per map of Record of Survey filed July 6, 1962 in Volume 9 of

Surveys, Page 25, Stanislaus County Records;

(continued)

Order No.: 904378 A

Legal Description - Continued

thence along said line, South 88° 32' 30" East, 142.76 feet to a 3/4 inch iron pipe at the southeastern corner of said Parcel "A", said corner being the northeast corner of said Chambers property which is also a point on the western line of a 20 foot alley conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, at Page 695, as Instrument No. 29947, Stanislaus County Records; thence along said western line, South 00° 30' East, 60.58 feet; thence South 82° 47' 55" West, 155.59 feet to the point of beginning.

PARCEL 3:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at the northeast corner of Parcel A, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed July 6, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the north line of Parcel "A", South 89° 46' 50" West 135.63 feet to the true point of beginning; thence continuing along said north line South 89° 46' 50" West 120.54 feet; thence South 37° 57' 43" East 166.35 feet to the southwest corner of property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence along the west line of the City of Modesto property as conveyed by Deed above referred to and the northerly extension of said westerly line North 7° 52' 29" East 132.90 feet, more or less, to the true point of beginning.

PARCEL 4:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at the northeast corner of Parcel D, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence North 83° 31' 30" West along the north line of said Parcel D and its westerly extension, a distance of 155.02 feet, more or less, to the centerline of Timothy Avenue, as shown on the Record of Survey above referred to; thence North 0° 30' West, along the northerly extension of said centerline of Timothy Avenue to the southwest corner of the property conveyed to the City of Modesto by Deed recorded March 10, 1964, in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence North 82° 47' 55" East along the south line of the City of Modesto property, as conveyed by Deed above referred to, to the southeast corner thereof, said point being on the west line of the property conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, Page 695, as Instrument No. 29947, Stanislaus County Records; thence south along the west line of the City of Modesto property as conveyed by Deed last above referred to, 71.83 feet, more or less, to the point of beginning.

PARCEL 5:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

COMMENCING at the 3/4 inch iron pipe set for the northeastern corner of Parcel "A", as per map of Record of Survey filed July 26, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the northern line of said Parcel "A", South 89° 46' 50" West, 135.63 feet to the northeastern corner of the property conveyed to Chester D. Chambers by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 641, as Instrument No. 9844, Stanislaus County Records; thence along the eastern line of the Chambers property and the western line of the property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records, South 07° 52' 29" West, 132.90 feet to the southwestern corner of the City property as conveyed by Deed above referred to, and the true point of beginning; thence South 00° 30' 00" East, 48.44 feet, more or less, to a point on the southern line of property conveyed to Chester D. Chambers by Deed recorded May 7, 1959, as Instrument No. 13137, Stanislaus County Records, said point being on the centerline of the 60.00 foot Timothy Avenue, as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence along said southern line of the property conveyed to Chambers by Deed last above referred to and the north line of Timothy Avenue as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records, North 88° 30' West, 30.02 feet to a point on the western line of Timothy Avenue, as shown on said Record of Surveys; thence along said western line, North 00° 30' 00" West, 0.52 feet; thence along a tangent curve concave to the southwest having a radius of 15.00 feet, a central angle of 46° 11' 13" and an arc length of 12.09 feet to a point of reverse curvature from which a radial line bears North 43° 18' 47" East; thence along said reverse curve concave to the east, having a radius of 50.00 feet, a central angle of 98° 43' 30" and an arc length of 86.15 feet; thence along a radial line, South 37° 57' 43" East, 50.00 feet to the southwest corner of the property conveyed to the City of Modesto by the Deed referred to and the true point of beginning.

EXHIBIT B

BASE RENTAL PAYMENT SCHEDULE

Period Ending	Estimated Base Rental Payments	Maximum Annual Base Rental Payments*
Closing Date to and including August 14, 2007	\$659,250.07	\$758,137.58
August 15, 2007 to and including February 14, 2008	2,153,839.58	2,476,915.52
February 15, 2008 to and including August 14, 2008	3,408,839.11	3,920,164.98
August 14, 2009	3,106,727.96	3,572,737.15
August 14, 2010	3,194,146.97	3,673,269.02
August 14, 2011	3,252,875.66	3,740,807.01
August 14, 2012	3,332,161.05	3,831,985.21
August 14, 2013	3,406,927.62	3,917,966.76
August 14, 2014	3,453,003.87	3,970,954.45
August 14, 2015	3,543,808.19	4,075,379.42
August 14, 2016	3,629,189.95	4,173,568.44
August 14, 2017	3,419,090.62	3,931,954.21
August 14, 2018	3,504,472.50	4,030,143.38
August 14, 2019	3,560,260.34	4,094,299.39
August 14, 2020	3,635,700.94	4,181,056.08
August 14, 2021	3,754,062.27	4,317,171.61
August 14, 2022	3,841,021.91	4,417,175.20
August 14, 2023	3,921,655.37	4,509,903.68
August 14, 2024	3,995,962.45	4,595,356.82
August 14, 2025	4,112,286.64	4,729,129.64
August 14, 2026	4,196,305.32	4,825,751.12
August 14, 2027	4,297,265.68	4,941,855.53
August 14, 2028	4,220,891.31	4,854,025.01
August 14, 2029	4,215,224.04	4,847,507.65
August 14, 2030	4,229,209.74	4,863,591.20
August 14, 2031	4,237,772.79	4,873,438.71
August 14, 2032	4,240,913.49	4,877,050.51
August 14, 2033	4,262,803.13	4,902,223.60

* Exclusive of Deferred Rental.

EXHIBIT C

DESCRIPTION OF THE 2007 PROJECT

The 2007 Project consists of the acquisition, construction and improvement to John Thurman Field, located in the City of Modesto.

34



Recording requested by
and return to:

Stanislaus, County Recorder
Lee Lundrigan Co Recorder Office
DOC- 2007-0048574-00

CITY OF MODESTO
c/o Sidley Austin LLP
555 California Street, Suite 2000
San Francisco, California 94104

Acct 502-Fidelity National Title
Tuesday, APR 17, 2007 08:00:00
Ttl Pd \$0.00 Nbr-0002311874
OJM/R3/1-16

Attention: Danielle Lan, Esq.

SUBLEASE

by and between the

CITY OF MODESTO

and the

MODESTO PUBLIC FINANCING AUTHORITY

Dated as of April 1, 2007

THIS TRANSACTION IS EXEMPT FROM FILING FEES PURSUANT TO CALIFORNIA GOVERNMENT CODE SECTION 6103 AND
TRANSFER TAXES PURSUANT TO CALIFORNIA REVENUE AND TAXATION CODE SECTION 11928

ACCOMMODATION ONLY
THIS INSTRUMENT FILED FOR RECORD BY FIDELITY
TITLE COMPANY IS AN ACCOMMODATION ONLY.
IT HAS NOT BEEN EXAMINED AS TO ITS EXECU-
TION, OR AS TO ITS EFFECTS UPON TITLE.

16
J

This SUBLEASE (the "Sublease"), executed and entered into as of April 1, 2007, by and between the CITY OF MODESTO, a charter city and a municipal corporation duly organized and existing under the laws of the State of California, as lessor (the "City"), and the MODESTO PUBLIC FINANCING AUTHORITY, a joint powers agency duly organized and existing under the laws of the State of California, as lessee (the "Authority");

WITNESSETH:

WHEREAS, the Authority previously issued its Lease Revenue Bonds, Series 1997 (John Thurman Field Renovation Project) (the "1997 Bonds") and Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "1998 Bonds") to assist in the financing of certain public capital improvements in the City;

WHEREAS, the 1998 Bonds was issued pursuant to a trust indenture, dated as of March 1, 1998 (the "1998 Indenture") by and between the Authority and The Bank of New York Trust Company, N.A., as successor trustee thereunder (the "1998 Trustee");

WHEREAS, the Authority has determined to refund all of the 1997 Bonds and a portion of the 1998 Bonds and to finance certain additional improvements to John Thurman Field, as the same may be changed from time to time (the "2007 Project");

WHEREAS, the Authority intends to assist the City in financing the 2007 Project by issuing the Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the "Series 2007 Bonds") pursuant to a bond indenture, dated as of April 1, 2007 (the "Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A. (the "Trustee"), as trustee;

WHEREAS, CIFG Assurance North America, Inc. (the "Insurer") is the bond insurer with respect to the Series 2007 Bonds.

WHEREAS, the Authority previously leased certain properties to the City pursuant to a Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002 (as so amended, the "1998 Lease") under which the City is obligated to make lease payments for the lease of properties thereunder (the "Leased Property");

WHEREAS, pursuant to Section 7.2 of the 1998 Lease, the City may sublease the Leased Property or any portions thereof, as provided in the 1998 Lease;

WHEREAS, in consideration of the Authority's assistance in financing the 2007 Project through the issuance of the Series 2007 Bonds and in consideration of the corresponding reduction in lease payments payable by the City under the 1998 Lease as a result of the partial refunding of the 1998 Bonds, the City will sublease to the Authority, pursuant to this Sublease and in accordance with the terms of the 1998 Lease, the Leased Property, as more fully described in Exhibit A hereto;

WHEREAS, the Authority intends to lease back to the City the Leased Property pursuant to the terms of a Facility Lease, dated as of April 1, 2007 (the "Facility Lease") by and between

the Authority and the City, pursuant to which the City will be obligated to make base rental payments to the Authority for the lease of the Leased Property thereunder;

WHEREAS, the fair rental value of the Leased Property is sufficient to support the aggregate annual lease payments payable by the City under the 1998 Lease and under the Facility Lease;

WHEREAS, pursuant to the terms of the 1998 Lease, the obligation of the City to make lease payments under the 1998 Lease will remain the obligations of the City and no portion of the Leased Property subleased to the Authority pursuant to this Sublease will be used for a purpose other than a governmental function authorized under the provisions of the Constitution and laws of the State of California;

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Sublease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Sublease;

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

SECTION 1. Subleased Premises.

The City hereby subleases to the Authority (without option to purchase) and the Authority hereby subleases from the City, on the terms and conditions hereinafter set forth, the Leased Property, as more fully described in Exhibit A hereto.

SECTION 2. Term.

The term hereof shall commence as of the date hereof and shall remain in effect until the term of the Facility Lease expires as provided by Section 2.02 thereof, provided, however, that if Base Rental Payments (as defined therein) due under the Facility Lease remain unpaid at the expiration of the Lease term, then this Sublease shall not terminate until the earlier of (i) September 1, 2033, (ii) the date on which the Series 2007 Bonds have been paid in full, (iii) the termination of the term of the Facility Lease pursuant to Section 10.06 of the Facility Lease, or (iv) the termination of the term of the 1998 Lease.

SECTION 3. Rental.

The Authority shall pay to the City as and for rental hereunder the sum of One Dollar (\$1.00) on the date of initial issuance of the Series 2007 Bonds.

SECTION 4. Purpose.

The Authority shall use the Leased Property solely for the purpose of leasing the Leased Property to the City pursuant to the Facility Lease; provided that in the event of default by the City under the Facility Lease the Authority may exercise the remedies provided in the Facility Lease.

SECTION 5. Right to Sublease.

The City covenants that it has a leasehold interest in the Leased Property and has the right, pursuant to Section 7.2 of the 1998 Lease to sublease the Leased Property to the Authority.

SECTION 6. Assignments and Subleases.

Unless the City shall be in default under the Facility Lease, the Authority may not, without the written consent of the City, assign its rights hereunder or sublet the Leased Property, except to the Trustee, the proceeds of which shall be used to pay costs of the 2007 Project.

SECTION 7. Right of Entry.

The City reserves the right for any of its duly authorized representatives to enter upon the Leased Property at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof, which right is exercisable only so long as the City is not in default under the Facility Lease.

SECTION 8. Termination.

The Authority agrees, upon the termination hereof, to quit and surrender the Leased Property in the same good order and condition as the same was in at the time of commencement of the term hereunder (with such modifications and improvements as are contemplated by the Facility Lease), and with reasonable wear and tear excepted.

SECTION 9. Default.

In the event the Authority shall be in default in the performance of any obligation on its part to be performed under the terms of this Sublease, which default continues for 30 days following written notice to and demand for correction thereof by the City, the City may exercise any and all remedies granted by law which do not adversely affect the interests of the owners of the Series 2007 Bonds, with the consent of the Trustee; provided that the City may not terminate this Sublease and shall exercise only remedies providing for specific performance hereunder.

SECTION 10. Quiet Enjoyment.

The Authority at all times during the term hereof shall peaceably and quietly have, hold and enjoy all of the Leased Property.

SECTION 11. Waiver of Personal Liability.

All liabilities hereunder on the part of the Authority shall be solely liabilities of the Authority as a separate legal entity, and the City hereby releases each and every member, officer

and employee of the Authority of and from any personal or individual liability under this Sublease. No member, officer or employee of the Authority shall at any time or under any circumstances be individually or personally liable hereunder for anything done or omitted to be done by the Authority hereunder.

SECTION 12. Taxes.

The City hereby agrees and covenants to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Leased Property.

SECTION 13. Eminent Domain.

In the event the whole or any part of the Leased Property is taken by eminent domain proceedings, the interest of the Authority shall be recognized and is hereby determined to be the amount of the then unpaid or outstanding Series 2007 Bonds and all other amounts due under the Indenture and the Facility Lease attributable to such part of the Leased Property and any award in eminent domain proceedings shall be paid to the Trustee and the Trustee shall apply such award as provided in Section 7.02 of the Facility Lease, subject to the prior rights of the 1998 Trustee.

SECTION 14. Partial Invalidity.

If any one or more of the agreements, conditions, covenants or terms hereof shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining agreements, conditions, covenants or terms hereof shall be affected thereby, and each provision of the Sublease shall be valid and enforceable to the fullest extent permitted by law.

SECTION 15. Notices.

All notices, statements, demands, consents, approvals, authorizations, offers, designations, requests or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States registered or certified mail, return receipt requested, postage prepaid, and, if to the City, addressed to the City at 1010 Tenth Street, Suite 5200, Modesto, CA 95353, attention: Finance Director, or if to the Authority, addressed to Modesto Public Financing Authority in the care of City of Modesto, City Hall, 1010 Tenth Street, Suite 5200, Modesto, CA 95353, attention: Auditor and Treasurer, in all cases with a copy to the Trustee, or to such other addresses as the respective parties may from time to time designate by notice in writing.

SECTION 16. No Merger of Interests.

The leasing by the Authority to the City of the Leased Property pursuant to the 1998 Lease, the subleasing by the City to the Authority of the Leased Property pursuant to this Sublease and the sub-subleasing by the Authority to the City of such Leased Property pursuant to the Facility Lease shall not effect or result in a merger of the Authority's leasehold estate pursuant to this Sublease.

SECTION 17. Amendment.

The Authority and the City may at any time agree to the amendment of this Sublease, with the prior written consent of the Insurer; provided, however, that the Authority and the City agree and recognize that this Sublease is entered into as contemplated by the terms of the Indenture, and accordingly, that any such amendment shall only be made or effected in accordance with and subject to the terms of the Indenture.

SECTION 18. Compliance with 1998 Lease; Covenant Not to Terminate or Amend the 1998 Lease.

The City agrees to comply with the terms of the 1998 Lease and make all payments due thereunder, as provided therein. The City and the Authority covenant not to terminate or amend the 1998 Lease so long as the Series 2007 Bonds are outstanding, unless such a termination or amendment of the 1998 Lease would not have a material adverse effect on the holders of the Series 2007 Bonds.

SECTION 19. Subordination to the 1998 Lease.

The City and the Authority hereby acknowledge that this Sublease and the rights granted hereunder are subordinate to the right of the City and the 1998 Trustee under the 1998 Lease, the 1998 Indenture and the rights granted thereunder.

SECTION 20. Section Headings.

All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision hereof.

SECTION 21. Execution.

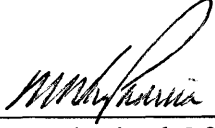
This Sublease may be executed and entered into in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

SECTION 22. Governing Law.

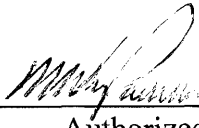
This Sublease shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the parties hereto have executed and entered into the Sublease by their officers thereunto duly authorized as of the day and year first above written.


MODESTO PUBLIC FINANCING AUTHORITY,
Lessee

By: 
Authorized Officer
M. Wayne Padilla

CITY OF MODESTO,
as Lessor

By: 
Authorized Officer
M. Wayne Padilla

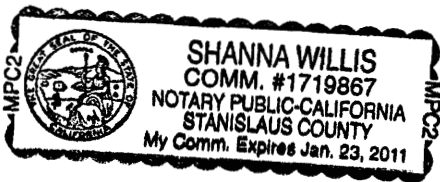
Approved as to Form:

By: 
City Attorney
Susana Alcala Wood

STATE OF CALIFORNIA)
) SS.
COUNTY OF STANISLAUS)

On April 11, 2007, before me, Shanna Willis, Notary Public, personally appeared M. Wayne Padilla, personally known to me (~~or proved to me on the basis of satisfactory evidence~~) to be the person(s) whose name(s) is/~~are~~ subscribed to the within instrument and acknowledged to me that he/~~she/they~~ executed the same in his/~~her/their~~ authorized capacity(ies), and that by his/~~her/their~~ signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

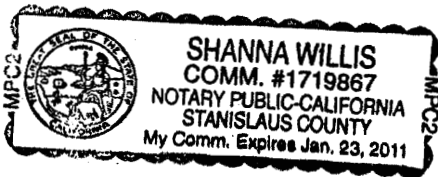


Shanna Willis
Notary's Signature

STATE OF CALIFORNIA)
) SS.
COUNTY OF STANISLAUS)

On April 11, 2007, before me, Shanna Willis, Notary Public, personally appeared Susana Alcalá Wood, personally known to me (~~or proved to me on the basis of satisfactory evidence~~) to be the person(s) whose name(s) is/~~are~~ subscribed to the within instrument and acknowledged to me that ~~he/she/they~~ executed the same in ~~his/her/their~~ authorized capacity(~~ies~~), and that by ~~his/her/their~~ signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal,



Shanna Willis
Notary's Signature

EXHIBIT A
Legal Description of the Sites

Legal Description of the Sites

Parcel No. 1 -- Graceda Park

All of Blocks 531, 532 and 533 as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 2 -- Floyd Park

Parcels A and B as per Parcel Map filed October 9, 1969 in Volume 7 of Parcel Maps, Page 68, Stanislaus County Records.

Parcel No. 3 -- Communication Facility

An undivided one-half interest in the following:
Parcel 2 as per Parcel Map filed September 24, 1979 in Volume 29 of Parcel Maps, Page 100, Stanislaus County Records.

Parcel No. 4 -- Police Facility

Lots 1 thru 32, inclusive, in Block 71 of the CITY OF MODESTO, as per map recorded December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

TOGETHER WITH

All that real property in the State of California, County of Stanislaus, City of Modesto, being a portion of the Northeast quarter of Section 32, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, described as follows:

That portion of the 20-foot alley in Block 71 as delineated on the Official Map of the City of Modesto, as per map filed December 21, 1942, in Volume 15 of Maps, Stanislaus County Records, described as follows:

Beginning at the most Southerly corner of Lot 16 in said Block 71, said point being on the Northeastern line of said 20.00 foot alley in Block 71; thence along said Northeastern line of said alley, North 43° 29' 30" West, 150.00 feet, to the most Southerly corner of Lot 10 in Block 71; thence South 46° 30' 30" West, 20.00 feet, to the most Northerly corner of Lot 22 in Block 71, said point being on the Southwestern line of the 20.00 foot alley in Block 71; thence along said Southwestern line of said alley, South 43° 29' 30" East, 150.00 feet, to the most Easterly corner of Lot 17 in Block 71, said point being on the Northwestern line of 80.00 foot "F" Street; thence along said Northwestern line of "F" Street, North 46° 30' 30" East, 20.00 feet, to the point of beginning.

All that portion of Block 67 of the City of Modesto, as per the official map thereof, filed in Book 15 of Maps, together with the abandoned alley therein, lying in the south half of Section 29, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, City of Modesto, County of Stanislaus, State of California, described as follows:

BEGINNING at the north corner of said Block 67, said point being the intersection of the southwesterly line of 80.00 feet wide Eleventh Street with the southeasterly line of 80.00 feet wide K Street; thence on said Southeasterly line, South 46°48'48" West 253.06 feet; thence South 43°09'48" East 167.50 feet; thence North 46°50'12" East 23.24 feet; thence South 43°09'48" East 17.52 feet; thence North 46°50'12" East 16.00 feet; thence South 43°09'48" East 16.00 feet; thence South 46°50'12" West 16.00 feet; thence South 43°09'48" East 12.97 feet; thence South 46°48'48" West 54.07 feet; thence North 88°11'12" West 30.10 feet to the northeasterly line of 70.00 feet wide 10th Street; thence on said northeasterly line, South 43°10'10" East 207.48 feet to the northwesterly line of 80.00 feet wide J Street; thence on said northwesterly line, North 46°47'30" East 305.16 feet to the southwesterly line of 80.00 feet wide 11th Street; thence on said southwesterly line, North 43°09'48" west 400.08 feet to the point of beginning.

Containing 2.522 acres, more or less.

Parcel no. 7 -- Wesson Park

Parcel No. 1 as per Parcel Map filed January 28, 1980 in Volume 30 of Parcel Maps, Page 13, Stanislaus County Records.

Parcel No. 8 -- Hollywood Park

Lot 1 in Block 13158 of Hollywood Park No. 2 as per Map filed February 28, 1978 in Book 27 of Maps, Page 44, Stanislaus County Records.

Parcel No. 9-- Riverside Park

Parcel A:

Parcels 1 and 1-A as per Parcel Map recorded May 16, 1966 in Book 1 of Parcel Maps, Page 134, Stanislaus County Records.

Excepting Therefrom Parcels B-1 and B-2 as per Parcel Map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

Parcel B:

Parcel No. A as per map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

Parcel No. 10 -- Sipherd Park

Parcel B as per map recorded August 14, 1974 in Book 19 of Parcel Maps, Page 75, Stanislaus County Records.

Parcel No. 12 -- McHenry Mansion

Lots 17 through 24 in Block 122 of the City of Modesto as per Map file December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 14 -- Senior Citizens Center

Lots 18 through 31 in Block 590 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 15 -- Parking Structure

Lot 5 through 12 in Block 68 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 17 -- Parking Lot # 25

Lots 28 through 32 in Block 55 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 18 -- Fire Station # 1

Lots 17 through 26 in Block 81 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 19 -- Fire Station # 3

Lots 1 and 2 in Block 2283 of Dry Creek Estates No. 1 as per Map filed December 13, 1966 In Volume 21 of Maps, Page 55, Stanislaus County Records.

Parcel No. 20 -- Fire Station # 6

Parcel No. C as per Parcel Map filed August 17, 1977 in Book 25 of Parcel Maps, Page 83, Stanislaus County Records.

Parcel No. 21 -- Fire Station # 7

Parcel A as per Parcel Map filed June 27, 1974 in Volume 19 of Maps, Page 51, Stanislaus County Records.

Parcel No. 22 -- Fire Station #. 5

PARCEL 1:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at a point on the east line of said Lot 2 located on the centerline of a 50 foot public road designated as Oakdale Road on said map, which point is located North 0° 30' West 396 feet from the southeast corner of said Lot 2; thence from said point of beginning parallel to the south line of said Lot 2, North 88° 30' West 660 feet to a point on the west line of said Lot 2; thence North 0° 30' West along said west line of said Lot 2 a distance of 153.73 feet; thence east parallel with the south line of said Lot 2, a distance of 660 feet to a point on the east line of said Lot 2, located on the center line of said Oakdale Road; thence along the east line of said Lot 2 and the centerline of said Oakdale Road, South 0° 30' East 174.24 feet to the point of beginning.

ALSO EXCEPTING THEREFROM all that portion thereof lying northerly of the north line of Burchell Court (formerly Northern Boulevard) extending westerly to the west line of Lot 2.

ALSO EXCEPTING THEREFROM all that portion thereof lying within Briggsmore Avenue, Burchell Court and McHenry Avenue.

ALSO EXCEPTING THEREFROM all that certain property described in Deed to Chester D. Chambers, recorded March 10, 1964 in Book 1929 at Page 641, and in Deed to S.W.A.P., a Joint Venture, recorded July 10, 1962 in Book 1780 at Page 145, Stanislaus County Records.

PARCEL 2:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, Section 17, Township 3 South, Range 9 East, M.D.B. & M., described as follows:

COMMENCING at a point on the southerly line of the property conveyed to Chester D. Chambers by Deed recorded May 7, 1959 in Volume 1545 of Official Records at Page 321, as Instrument No. 13137, Stanislaus County Records, said point being the northeastern corner of Parcel "E" on the western line of Timothy Avenue as shown on the map entitled "Survey of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6, Record of Surveys, page 53, Stanislaus County Records; thence along a line at right angles to the western line of Timothy Avenue, North 89° 30' East, 30.00 feet to a point on the northerly extension of the centerline of Timothy Avenue; thence along said northerly extension, North 00° 30' West, 46.90 feet to the true point of beginning; thence North 7° 52' 29" East, 84.51 feet to a point on the northern line of said Chambers property, which is also the southern line of the property conveyed to the City of Modesto by Deed recorded October 11, 1957, as Instrument No. 26217, Stanislaus County Records, said line also being the southern line of Parcel "A" as per map of Record of Survey filed July 6, 1962 in Volume 9 of

Surveys, Page 25, Stanislaus County Records;

(continued)

Order No.: 904378 A

Legal Description - Continued

thence along said line, South 88° 32' 30" East, 142.76 feet to a 3/4 inch iron pipe at the southeastern corner of said Parcel "A", said corner being the northeast corner of said Chambers property which is also a point on the western line of a 20 foot alley conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, at Page 695, as Instrument No. 29947, Stanislaus County Records; thence along said western line, South 00° 30' East, 60.58 feet; thence South 82° 47' 55" West, 155.59 feet to the point of beginning.

PARCEL 3:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at the northeast corner of Parcel A, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed July 6, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the north line of Parcel "A", South 89° 46' 50" West 135.63 feet to the true point of beginning; thence continuing along said north line South 89° 46' 50" West 120.54 feet; thence South 37° 57' 43" East 166.35 feet to the southwest corner of property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence along the west line of the City of Modesto property as conveyed by Deed above referred to and the northerly extension of said westerly line North 7° 52' 29" East 132.90 feet, more or less, to the true point of beginning.

PARCEL 4:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at the northeast corner of Parcel D, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence North 83° 31' 30" West along the north line of said Parcel D and its westerly extension, a distance of 155.02 feet, more or less, to the centerline of Timothy Avenue, as shown on the Record of Survey above referred to; thence North 0° 30' West, along the northerly extension of said centerline of Timothy Avenue to the southwest corner of the property conveyed to the City of Modesto by Deed recorded March 10, 1964, in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence North 82° 47' 55" East along the south line of the City of Modesto property, as conveyed by Deed above referred to, to the southeast corner thereof, said point being on the west line of the property conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, Page 695, as Instrument No. 29947, Stanislaus County Records; thence south along the west line of the City of Modesto property as conveyed by Deed last above referred to, 71.83 feet, more or less, to the point of beginning.

PARCEL 5:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

COMMENCING at the 3/4 inch iron pipe set for the northeastern corner of Parcel "A", as per map of Record of Survey filed July 26, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the northern line of said Parcel "A", South 89° 46' 50" West, 135.63 feet to the northeastern corner of the property conveyed to Chester D. Chambers by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 641, as Instrument No. 9844, Stanislaus County Records; thence along the eastern line of the Chambers property and the western line of the property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records, South 07° 52' 29" West, 132.90 feet to the southwestern corner of the City property as conveyed by Deed above referred to, and the true point of beginning; thence South 00° 30' 00" East, 48.44 feet, more or less, to a point on the southern line of property conveyed to Chester D. Chambers by Deed recorded May 7, 1959, as Instrument No. 13137, Stanislaus County Records, said point being on the centerline of the 60.00 foot Timothy Avenue, as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence along said southern line of the property conveyed to Chambers by Deed last above referred to and the north line of Timothy Avenue as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records, North 88° 30' West, 30.02 feet to a point on the western line of Timothy Avenue, as shown on said Record of Surveys; thence along said western line, North 00° 30' 00" West, 0.52 feet; thence along a tangent curve concave to the southwest having a radius of 15.00 feet, a central angle of 46° 11' 13" and an arc length of 12.09 feet to a point of reverse curvature from which a radial line bears North 43° 18' 47" East; thence along said reverse curve concave to the east, having a radius of 50.00 feet, a central angle of 98° 43' 30" and an arc length of 86.15 feet; thence along a radial line, South 37° 57' 43" East, 50.00 feet to the southwest corner of the property conveyed to the City of Modesto by the Deed referred to and the true point of beginning.

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CERTIFICATE REGARDING LEASE/PURCHASE
AGREEMENT, SITE LEASES AND FACILITIES LEASES

I, Jean Morris, hereby certify that I am the Secretary of the Commission of the Modesto Public Financing Authority (the "Authority"), a joint exercise of powers authority organized under the laws of the State of California, and that as such I am authorized to execute this Certificate on behalf of the Authority.

I hereby further certify that there is attached hereto full, true and correct copies of the following documents:

1. Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002 (as so amended, the "1998 Lease"), each by and between the Authority and the City.
2. Site Lease (Parks Project, Police Headquarters Building and Miscellaneous Public Properties), dated as of March 1, 1998, as amended by Amendment No. 1 to Site Lease, dated October 15, 2002 (as so amended, the "Miscellaneous Site Lease"), each by and between the Authority and the City.
3. Site Lease (Parking Garage), dated as of March 1, 1998, as amended by Amendment No. 1 to Site Lease, dated June 15, 2000 (as so amended, the "Parking Garage Site Lease"), each by and between the Authority and the Redevelopment Agency of the City of Modesto.
4. Facilities Lease (Communications Dispatch Center), dated as of March 1, 1998 (the "Dispatch Lease") by and between the Authority and the City.
5. Facilities Lease (City-County Administration Building), dated as of March 1, 1998 (the "Administration Building Lease") by and between the Authority and the City-County Capital Improvements and Financing Agency.

I hereby further certify that the 1998 Lease, the Miscellaneous Site Lease, the Parking Garage Site Lease, the Dispatch Lease and the Administration Building Lease have not been amended, rescinded or modified, and are now in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand as of the date set forth herein.

Dated: April 18, 2007

MODESTO PUBLIC FINANCING AUTHORITY

By: Jean Morris
Jean Morris
Secretary

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904373 MG

Stanislaus, County Recorder
Karen Mathews Co Recorder Office

Recording Requested By:
City of Modesto, California

DOC - 98-0022319-00
Acct 502-Fidelity National Title
Wednesday, MAR 11, 1998 08:00:00
FRE \$0.00||
Ttl Pd \$0.00 Nbr-0000178238
ACK/R1/1-53

When Recorded Mail To:
Brown & Wood LLP)
555 California Street)
50th Floor)
San Francisco, California 94104)
Attn: Eric D. Tashman, Esq.)

This document is recorded for the benefit of the City of Modesto, California and recording is fee-exempt under § 27383 of the Government Code.

LEASE/PURCHASE AGREEMENT

Dated as of March 1, 1998

between the

MODESTO PUBLIC FINANCING AUTHORITY
as Lessor

and the

CITY OF MODESTO
as Lessee

RECORDER'S MEMO:
POOR RECORD IS DUE TO
QUALITY OF ORIGINAL DOCUMENT

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LEASE/PURCHASE AGREEMENT

THIS LEASE/PURCHASE AGREEMENT, dated as of March 1, 1998, by and between the MODESTO PUBLIC FINANCING AUTHORITY, a joint powers agency duly organized and existing under the laws of the State of California, as lessor (the "Lessor"), and the CITY OF MODESTO, California, a charter city and a municipal corporation duly organized and existing under the laws of the State of California, as lessee (the "Lessee");

W I T N E S S E T H :

WHEREAS, the Lessor is authorized to issue its obligation pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the California Government Code, as amended (the "Act"), for its purposes, including providing funds under a program to finance or refinance the "Cost" of various "Public Capital Improvements" (within the respective meanings of such terms in Sections 6585(d) and (g) of the Act); and

WHEREAS, the Lessee is a "local agency" (within the meaning of such term in Section 6585(f) of the Act, a "Local Agency") and intends to undertake, in conjunction with the City-County Capital Improvements and Financing Agency (the "Financing Agency"), and the Redevelopment Agency of the City of Modesto (the "Redevelopment Agency"), the acquisition, construction and/or installation of certain public capital improvements, all as more fully described in Exhibit D hereto (each a Component of the Project and together with other improvements, the "Project") which facilities are Public Capital Improvements under the Act; and

WHEREAS, in conjunction with the financing of the Project, the Lessee has determined to advance refund its Certificates of Participation (Capital Improvements Projects), which are currently outstanding in the aggregate principal amount of \$3,250,000 (the "1986 Certificates"); and

WHEREAS, in furtherance of the Project and the advance refunding of the 1986 Certificates, the Lessee and the Redevelopment Agency have entered into Site Leases (recorded concurrently herewith), each dated the date hereof, with the Lessor (collectively, the "Site Leases") wherein the Lessee and the Redevelopment Agency, respectively, will lease to the Lessor certain real property (individually a "Site" and collectively, the "Sites"); and

WHEREAS, in furtherance of the Project, the Financing Agency will lease to the Lessor rights of the Lessee consisting of the exclusive use and possession of certain air space, together with the use of common areas, in the administrative facilities to be constructed on the City County Administration Building Site pursuant to a Facility Lease, dated the date hereof, by and between the Lessor the Financing Agency; and

WHEREAS, the Lessee will lease to the Lessor its one-half undivided interest in the Communications Dispatch Center, together with rights and interests of the Lessee to the use of common areas, pursuant to a Facility Lease (collectively, such facility leases are referred to herein as the "Facility Leases"), dated the date hereof, by and between the Lessee and the Lessor; and

WHEREAS, the Lessor proposes to lease the Sites, together with the Components of the Project to be constructed and/or installed on the Sites, to the Lessee (collectively, the "Leased Property") and the Lessee proposes to lease the Leased Property from the Lessor, pursuant to and in accordance with the terms of this Lease; and

WHEREAS, in order to provide funds to finance the costs of the acquisition and construction of Components of the Project, together with the advance refunding of the 1986 Certificates, the Lessor has authorized the issuance of its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) in an aggregate principal amount not to exceed \$61,430,000; and

WHEREAS, the Bonds will be issued and secured under a Trust Indenture (the "Indenture"), dated as of March 1, 1998, between the Lessor and Harris Trust Company of California, as trustee (the "Trustee"); and

WHEREAS, pursuant to the Reimbursement Agreement, the Redevelopment Agency is obligated to pay to the Lessee the costs of the Component of the Project constituting the public parking garage, together with related improvements, as more fully described on Exhibit D hereto; and

WHEREAS, the Lessee has found and determined that the Leased Property as of the dated date hereof has fair value sufficient to make certain Lease Payments (as hereinafter defined) as set forth in Section 4.3 hereof; and

WHEREAS, the Lessor has assigned all of its rights, title and interest under this Lease to the Trustee under the Indenture as security for the Bonds;

NOW, THEREFORE, in consideration of the above premises and of the mutual covenants hereinafter contained and for other good and valuable consideration, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS AND EXHIBITS

SECTION 1.1 Definitions and Rules of Construction. Unless defined herein, or the context otherwise requires, the capitalized terms used herein shall for all purposes of this Lease have the meanings specified in the Indenture. Unless the context otherwise indicates, words importing the singular number shall include the plural number and vice versa. The terms

"hereby", "hereof", "hereto", "herein", "hereunder" and any similar terms, as used in this Lease, refer to this Lease as a whole.

"Authorized Representative of the Lessee" means the City Manager or the Finance Director or any other person designated by the Governing Body of the Lessee to act on behalf of the Lessee under or with respect to this Lease, or with respect to the construction of the City-County Administration Building or the Communications Dispatch Center, the Project Administrator (as such term is defined in the Master Agreement), or designee thereof, as such person has been appointed by the Financing Agency.

"Bond Insurer" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

"Certificate of Completion" means, with respect to each Component of the Project, a certificate of the Authorized Representative of the Lessee certifying that such component of Project has been acquired, constructed, rehabilitated, remodeled, installed and accepted by the Lessee, and that all Project Costs therefor have been paid.

"Components of the Project" means the Components of the Project as set forth on Exhibit D hereto.

"Contractors" means the contractors or vendors from whom the Lessee has ordered or caused to be ordered or with whom the Lessee has contracted or caused to be contracted for the acquisition, construction, rehabilitation, remodeling and installation of the Project.

"Costs" means the price paid or to be paid for the acquisition, construction, rehabilitation, remodeling or installation of each Component of the Project and related equipment, in accordance with the purchase order or contract therefor. Costs include the costs of site preparation necessary for the installation of each Component of the Project, as well as the administrative, engineering, legal, financial and other costs incurred by the Lessee (or entities performing such work for or on behalf of the Lessee), the Lessor (on behalf of the Lessee) and the Contractors in connection with the acquisition, construction, delivery, installation and financing of each Component of the Project.

"County" means the County of Stanislaus, California, a political subdivision organized and existing by virtue of the laws of the State of California.

"Dated Date" means March 1, 1998.

"Facility Leases" means the (i) Facility Lease (City-County Building), dated the date hereof, by and between the Financing Agency and the Lessor, relating to the lease of the Lessee's interest in the City-County Administration Building, together with its interests in the use of common areas, and (ii) Facility Lease (Communications Dispatch Center), dated the date hereof, by and between the Lessee and the Lessor, relating to the lease of the Lessee's undivided one-half interest in use of the Communications Dispatch Center, including the Lessee's undivided one-half

"Motor Vehicle License Fee Revenues" means those amounts allocated to the Lessee by the State Controller pursuant to California Revenue and Taxation Code Section 11001, et seq.

"Net Proceeds" means any insurance or condemnation proceeds, paid with respect to any Leased Unit of the Project, or component thereof, remaining after payment therefrom of all expenses incurred in the collection thereof.

"Permitted Encumbrances" means, as of any particular time (i) with respect to each Site, the exceptions shown in the Title Report, dated March 11, 1998, to be issued by Fidelity National Title Insurance Company, (ii) the Reciprocal Easement, Access, Operations and Maintenance Agreement, among the Redevelopment Agency, and the Financing Agency; (iii) Memorandum of Understanding by and among the Lessee, the County of Stanislaus, the Redevelopment Agency and the Financing Agency; (iv) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the Lessee may, pursuant to provisions of Article V hereof, permit to remain unpaid; (v) this Lease, as it may be amended from time to time; (vi) the Site Leases; (vii) the Facility Leases; (viii) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (ix) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Dated Date (or as of the date of execution of an amendment to this Lease in the event of additional Leased Units of the Project) and which Lessee certifies in writing will not materially impair the use of the Leased Property by the Lessee; and (x) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of this Lease and to which the Lessor and the Lessee consent in writing.

"Project" means the Project described in Exhibit D hereto.

"Project Fund" means the Project Fund established under the Indenture.

"Public Parks Sites" means all of the land constituting the sites of the Public Parks Sites as described on Exhibits B and C hereto, together with all other improvements, facilities and property thereon.

"Redevelopment Agency" means the Redevelopment Agency of the City of Modesto.

"Reimbursement Agreement" means the Reimbursement Agreement, dated the date hereof, by and between the Lessee and the Redevelopment Agency.

"State" means the State of California.

"Sites" means (i) City-County Administration Building Site (Parcel No. 6 as described on Exhibit C hereto), (ii) the Police Headquarters Building Site (Parcel No. 4 as described on Exhibit C hereto), (iii) the Communications Building Site (Parcel No. 3 as described on Exhibit C hereto), (iv) the Public Parking Garage Site (Parcel No. 5 as described on Exhibit C hereto), (v) the Public Park Sites (Parcels Nos. 1, 2, 7, 8, 9 and 10 as described on Exhibit C hereto), and

(vi) the Miscellaneous Public Properties (Parcels Nos. 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21 and 22 as described on Exhibit C hereto).

"Site Leases" means, collectively, (i) the Site Lease, dated as of the date hereof, by and between the Redevelopment Agency of the City of Modesto and the Lessor, relating to the lease of the site relating to the public parking garage (as further described on Exhibit B hereto), (ii) the Site Lease, dated the date hereof, by and between the City of Modesto and the Lessor, relating to the Public Parking Projects (as further described on Exhibit B hereto).

"Term of this Lease" or "Term" means the time during which this Lease is in effect, as provided for in Section 1.5 of this Lease.

"Termination Date" is defined in Section 4.2 hereof.

"Trustee" means the Trustee appointed under the terms of the Indenture.

"Underwriter" means, collectively, Stone & Youngberg LLC and Artemis Capital, as the original purchasers of the Bonds.

SECTION 1.2 Exhibits. The following Exhibits are attached to, and by reference made a part of, this Lease:

Exhibit A: Description of Lease Payments to be paid by the Lessee to the Trustee, as assignee of the Lessor.

Exhibit B: General Description of the Leased Property.

Exhibit C: Legal description of the Sites.

Exhibit D: Components of the Project.

Exhibit E: Addresses for Notices.

SECTION 1.3 Agreement to Lease. The Lessor hereby leases the Leased Property to the Lessee, and the Lessee hereby leases the Leased Property from the Lessor, upon the terms and conditions as herein provided.

SECTION 1.4 Lease Payments. As rental hereunder, the Lessee agrees to pay to the Lessor or its assigns, as the same may be subject to abatement as required by Section 4.7 and 5.10 hereof, the Lease Payments with respect to the Leased Units of the Project constituting the Leased Property hereunder as described in Section 4.3 and Exhibit A thereto.

SECTION 1.5 Term of Lease. The term of this Lease shall commence as of the Dated Date and shall end on the Termination Date.

ARTICLE II

REPRESENTATIONS, COVENANTS AND WARRANTIES

SECTION 2.1 Representations, Covenants and Warranties of the Lessee. The Lessee represents, covenants and warrants to the Lessor as follows:

(a) Due Organization and Existence. The Lessee is a charter city and municipal corporation, duly organized and existing under the Constitution and laws of the State, and is a Local Agency with the meaning of Section 6585(f) of the Act.

(b) Authorization; Enforceability. The Constitution and laws of the State, including the Charter of the Lessee, authorize the Lessee to enter into this Lease and to enter into the transactions contemplated by and to carry out its obligations hereunder, and the Lessee has duly authorized and executed this Lease. This Lease constitutes the legal, valid and binding obligations of the Lessee enforceable in accordance with its terms, except to the extent limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles affecting the rights of creditors generally.

(c) No Conflicts or Default; No Liens or Encumbrances. Neither the execution and delivery of this Lease nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Lessee is now a party or by which the Lessee is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the Lessee, or upon the Leased Property except for the pledges contained in the Indenture and except for Permitted Encumbrances.

(d) Essential Governmental Function. The Lessee hereby certifies that the lease by the Lessee of the Leased Property pursuant to this Agreement serves an essential governmental function of the Lessee, and shall be used for the benefit of the general public.

(e) Execution and Delivery. The Lessee has duly authorized and executed this Lease in accordance with its Charter and the Constitution and laws of the State.

(f) Project a Public Capital Improvement. The Project constitutes one or more Public Capital Improvements, and all disbursements from the Project Fund for the Project or to satisfy the obligations of the Lessee under this Lease will be for a Cost of the Project.

(g) No Default. The Lessee is not in default under any provisions of the laws of the State which would adversely affect its existence or its powers referred to in subsection (b) of this Section 2.1.

(h) No Litigation. There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or, to the best of its knowledge, threatened against the Lessee in any way contesting or affecting the validity or enforceability of this Lease or contesting the powers of the Lessee to execute and deliver this Lease or to consummate the transactions contemplated hereby or thereby.

(i) General Tax and Arbitrage Covenant. The Lessee hereby covenants that, notwithstanding any other provision of this Lease, it will make no use of the proceeds of the Bonds or of any other amounts or property regardless of the source or take any action or refrain from taking any action that may cause the Bonds to be "arbitrage bonds" subject to federal income taxation within the meaning of Section 148 of the Code.

The Lessee covenants that it will not make any use of the proceeds of the Bonds or any other funds of the Lessee or take or omit to take any other action that would cause the Bonds to be "private activity bonds" within the meaning of Section 141 of the Code, or "federally guaranteed" within the meaning of Section 149(b) of the Code. To that end, so long as any Lease Payment is unpaid, the Lessee, with respect to such proceeds and such other funds, will comply with all requirements of such Sections and all regulations of the United States Department of the Treasury to the extent that such requirements are, at the time, applicable and in effect.

In addition, the Lessee hereby covenants that, notwithstanding any other provision of this Lease, it will make no use of the proceeds of the Bonds or any other funds of the Lessee or take or omit to take any other action that would adversely affect the exclusion of interest evidenced and represented by the Certificates of Participation (Government Center Project) 1998 Series A (the "Certificates") of the County from gross income for Federal income tax purposes and the exemption of interest evidenced and represented by the Certificates of the County from State of California personal income taxes.

SECTION 2.2 Representations, Covenants and Warranties of the Lessor. The Lessor represents, covenants and warrants to the Lessee as follows:

(a) Due Organization and Existence; Enforceability. The Lessor is a joint powers agency duly organized, existing and in good standing under and by virtue of the laws of the State, including, particularly, without limitation, Chapter 5, Division 7, Title 1 (commencing with Section 6500) of the California Government Code, as amended, has the power to enter into this Lease and the Site Leases, is possessed of full power to own and hold real and personal property, and to lease and sell the same; and has duly authorized the execution and delivery of this Lease and the Site Leases. This Lease and the Site Leases constitute legal, valid and binding obligations of the Lessor enforceable in accordance with their respective terms, except to the extent limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles affecting the rights of creditors generally.

(b) No Conflicts or Defaults; No Liens or Encumbrances. Neither the execution and delivery of this Lease and the Site Leases, nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of the agreement pursuant to which the Lessor was formed or any restriction or any agreement or instrument to which the Lessor is now a party or by which the Lessor is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the Lessor, or upon the Leased Property except by the pledge contained in the Indenture and except for Permitted Encumbrances.

(c) No Litigation. There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or, to the best of its knowledge, threatened against the Lessor in any way contesting or affecting the validity or enforceability of this Lease or the Site Leases or contesting the powers of the Lessor to execute and deliver this Lease or the Site Leases or to consummate the transactions contemplated hereby or thereby.

(d) Permitted Encumbrances. The Lessor covenants that the Permitted Encumbrances do not and will not interfere with the right of the use and possession of, and the continued quiet use and enjoyment of, the Leased Property during each such period for which said Leased Property is to be leased by the Lessee.

(e) Execution and Delivery. The Lessor has duly authorized and executed this Lease and the Site Leases in accordance with the Constitution and laws of the State.

(f) General Tax and Arbitrage Covenant. The Lessor covenants that, notwithstanding any other provision of this Lease, it will make no use of the proceeds of the Bonds or of any other amounts or property regardless of the source or take any action or refrain from taking any action that may cause the Bonds to be "arbitrage bonds" subject to Federal income taxation within the meaning of Section 148 of the Code.

In addition, the Lessor covenants that it will not make any use of the proceeds of the Bonds or any other funds of the Lessee or take or omit to take any other action that would cause the Bonds to be "private activity bonds" within the meaning of Section 141 of the Code, or "federally guaranteed" within the meaning of Section 149(b) of the Code. To that end, so long as any Lease Payment is unpaid, the Lessor with respect to such proceeds and such other funds, will comply with all requirements of such Sections and all regulations of the United States Department of the Treasury to the extent that such requirements are, at the time, applicable and in effect.

ARTICLE III

FUNDING FOR THE PROJECT; ACQUISITION, CONSTRUCTION AND INSTALLATION OF THE COMPONENTS OF THE PROJECT

SECTION 3.1 Availability of Monies. The Lessor hereby agrees to pay, or cause to be paid, the Costs of each Component of the Project as provided herein and in the Indenture. The Lessor has caused an amount at least equal to the Costs of each Component of the Project to be transferred to the Project Fund and deposited in a subaccount established for such Component of the Project in accordance with the Indenture. The Lessor hereby agrees to cause the Lessee to disburse or to cause the disbursement of funds from the Project Fund to pay, or to reimburse the payment of, certain Costs of the Project (which costs include amounts necessary for the construction and equipping of the Components of the Project) as provided in the Indenture.

SECTION 3.2 Acquisition, Construction and Installation of the Project. The Lessee, on behalf of the Lessor, will enter into purchase orders and contracts, and will supervise and provide for, or cause to be supervised and provided for, the acquisition, construction, equipping and installation of each Component of the Project. The Lessee agrees that it will cause the work under said purchase orders and contracts to be diligently performed and that each Component of the Project, will be acquired, constructed, equipped and installed in accordance with the specifications approved by the Lessee and the Lessor on or prior to (i) with respect to the Parking Garage, December 1, 1998, (ii) with respect to the Communications Dispatch Center, March 1, 1999, (iii) with respect to the City-County Administration Building and the Police Headquarters Building, March 1, 2000. The Lessee may change the specifications of any Component of the Project so long as such change does not (i) substantially alter the nature of the Component of the Project as a project financeable pursuant to the Act, (ii) substantially increase the cost of the Component of the Project, unless the Lessee has available monies to cover such increase, (iii) substantially lower the value of the Component of the Project or the fair rental value of the Component of the Project, (iv) materially lengthen the estimated time to completion of the Component of the Project, or (v) adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes and the exemption of interest on the Bonds from State of California personal income taxes.

SECTION 3.3 Payment of Project Costs. Payment to the Contractors of the cost of acquiring, constructing, equipping and installing each Component of the Project shall be made from the monies deposited in the Project Fund as provided in Section 4.02 of the Indenture upon completion of a Requisition therefor.

SECTION 3.4 Completion Certification. Upon completion of the construction, acquisition and equipping of each component of the Project, satisfactory to the Lessee, the Lessee shall deliver or cause to be delivered to the Trustee a Certificate of Completion with respect thereto. On the date of filing each Certificate of Completion, as indicated therein, all excess

moneys remaining in the Project Fund relating to such Component of the Project shall be transferred by the Lessee as provided in Section 4.02 of the Indenture.

ARTICLE IV

AGREEMENT TO LEASE; TERM OF LEASE; LEASE PAYMENTS; TITLE TO THE LEASED PROPERTY

SECTION 4.1 Agreement to Lease. The lease of each Leased Unit of the Project (collectively, the Leased Property) by the Lessor to the Lessee is made expressly subject to the terms and conditions set forth herein.

SECTION 4.2 Term of Lease. The Term of this Lease will commence on the date of recordation hereof and will terminate on September 1, 2033, unless extended pursuant to this Section 4.2 or unless terminated prior thereto upon the earliest of any of the following events (each a "Termination Date"):

- (a) the payment or prepayment by the Lessee of all Lease Payments due during the Term of this Lease and all other amounts due and payable by the Lessee under the Indenture;
- (b) the occurrence of an event of default under this Lease and the termination of this Lease by the Lessor or its assignee pursuant to Section 8.2(b) hereof;
- (c) the Leased Property is taken in whole pursuant to the power of condemnation or lost due to a defect in title and termination of this Lease pursuant to Section 5.12 of this Lease.

If on September 1, 2033, the Lease Payments shall not be fully paid, then the Term shall be extended until all Lease Payments shall be fully paid, except that the Term shall in no event be extended for a period of more than ten (10) years after such date. On each Lease Payment Date during the extended Term, the Lessee shall provide the Trustee with a schedule of payments showing the portion representing principal and the portion representing interest.

SECTION 4.3 Lease Payments. Subject to Section 3.2 hereof (regarding the completion of construction of each Component of the Project, as applicable) the Lessee agrees to pay to the Lessor or its successors and assigns, as rental for the use and possession of each Leased Unit of the Project, the Lease Payments with respect thereto fifteen days prior to the date, and in the amounts set forth and in accordance with the schedules set forth on Exhibit A hereto, provided that the Lessee shall receive credits toward such Lease Payments as provided in the Indenture and provided further that (except as otherwise provided hereunder) Lease Payments are subject to abatement to the extent provided in Section 4.7. To the extent permitted by law, the Lessee

further agrees to make additional Lease Payments pursuant to Section 4.07(e) of the Indenture. Notwithstanding the foregoing, there shall be no abatement of Lease Payments payable hereunder to the extent that such Lease Payments are allocable to the Leased Unit of the Project constituting the public parking facility, so long as such allocable Lease Payments are paid by the Redevelopment Agency to the Lessee under the Reimbursement Agreement.

Lease Payments for each annual rental period during the Term of this Lease shall constitute the total rental for said rental period and shall be paid by the Lessee in each rental period for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, each Leased Unit of the Project during each such period for which said rental is to be paid. The parties hereto have agreed and determined that such total rental represents the fair rental value of the Leased Property. In making such determination, consideration has been given to the fair market value of each Leased Unit of the Project, other obligations of the parties under this Lease, the uses and purposes which may be served by the each Leased Unit of the Project and the benefits therefrom which will accrue to the Lessee and the general public.

Each Lease Payment shall be paid in lawful money of the United States of America to or upon the order of the Lessor at the Principal Office of the Trustee. Any such installment of rental accruing under this Lease which shall not be paid when due shall, subject to applicable law, bear interest at a rate equal to the lower of (i) three percent (3%) per annum in excess of the interest rate per annum then borne by the Bonds and (ii) the highest rate allowable by law, from the date when the same is due under this Lease until the same shall be paid.

The Lease Payments shall be paid from any source of legally available funds of the Lessee, and so long as the Leased Property is available for the Lessee's use, the Lessee covenants to take such action as may be necessary to include all Lease Payments due under this Lease (after giving credit for amounts required to be paid by the Redevelopment Agency under the Reimbursement Agreement) in its budgets and to maintain such items to the extent unpaid for that fiscal year in its budgets, and to make the necessary appropriations and supplemental appropriations to the extent necessary, for all such Lease Payments; which covenants of the Lessee shall be deemed to be, and shall be, ministerial duties imposed by law, and it shall be the duty of each and every public official of the Lessee to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the Lessee to carry out and perform the covenants made by the Lessee in this Lease. In furtherance of the foregoing, the Lessee hereby covenants to take such action and to do such things as to cause the Redevelopment Agency to timely pay to the Lessee amounts payable by the Redevelopment Agency under the Reimbursement Agreement.

In the event that any appropriation made by the Lessee in its annual budget is insufficient to pay all such Lease Payments, the Lessee further agrees and covenants to make a supplemental appropriation during the fiscal year of any such deficiency in an amount sufficient to make up any such deficiency.

Section 4.4. Motor Vehicle License Intercept Program. The Lessee hereby elects pursuant to Section 37351.5 of the California Government Code to guarantee the payments payable hereunder by an apportionment of Motor Vehicle License Fee Revenues as provided in said Government Code Section. The Lessee shall provide notice to the State Controller of such election, a copy of which shall be provided to the Trustee, which notice shall include a copy of the Lease Payment Schedule contained in Exhibit A hereto and shall indicate that the Trustee has been appointed as trustee with respect to the Bonds.

In the event that, for any reason, the funds otherwise available to the Lessee (excluding funds on deposit in the Debt Service Reserve Fund) will not be sufficient to make any payment due hereunder (including any Lease Payment) at the time that such payment is required, the Lessee shall so notify the Trustee in order that the Trustee may notify the State Controller as required pursuant to the Indenture. Notwithstanding the foregoing, in the event the Trustee shall not have received any Lease Payment due from the Lessee at the time required pursuant to Exhibit A hereto, the Trustee shall automatically and without notice to or from the Lessee notify the State Controller as required pursuant to the Indenture.

The Lessee hereby covenants that so long as any Bonds remain Outstanding, the Lessee shall not issue or incur any obligation (other than this Lease) the payment of which is guaranteed by an apportionment of Motor Vehicle License Fee Revenues unless the ratio of (i) the least amount of Motor Vehicle License Fee Revenues received by the Lessee in any fiscal year during the five fiscal years preceding the proposed date of issuance of such obligation to (ii) the maximum annual debt service in any fiscal year scheduled to be paid with respect to the obligations secured by this Lease and the Bonds and such obligation proposed to be secured by an apportionment of Motor Vehicle License Fee Revenues, is greater than or equal to 2.5.

SECTION 4.5 Possession and Enjoyment. During the Term of this Lease, the Lessor shall provide the Lessee with quiet use and enjoyment of the Leased Property, and the Lessee shall, during such Term, peaceably and quietly have and hold and enjoy the Leased Property, without suit, trouble or hindrance from the Lessor, except as expressly set forth in this Lease. The Lessor will, at the request of the Lessee and at the Lessee's cost, join in any legal action in which the Lessee asserts its right to such possession and enjoyment to the extent the Lessor may lawfully do so. Notwithstanding the foregoing, the Lessor shall have the right to inspect the Leased Property as provided in Section 6.3 hereof.

SECTION 4.6 Title to the Leased Property. During the Term of this Lease, the Lessor shall hold a leasehold interest in the Leased Property and any and all additions, replacements or modifications, except as provided below and except for those modifications which are added to the Leased Property by the Lessee and which may be removed without damaging the Leased Property.

If the Lessee has paid all Lease Payments during the Term of this Lease and the Bonds are no longer Outstanding under the Indenture, or upon deposit of the security deposit as provided in Section 4.7 hereof, all right, title and interest of the Lessor in and to the Leased Property shall be transferred to and vest in the Lessee. Additionally, if necessary, the Lessor shall authorize,

execute and deliver to the Lessee any and all documents required to release any and all liens created under the provisions of this Lease and the Indenture, and any other documents required to terminate this Lease and consummate such release of liens. The Lessor agrees to defend and eliminate any claims adverse to the title to the Leased Property, and to save and hold the Lessee harmless therefrom; provided that the Lessor's obligations under this sentence shall not extend to claims arising out of actions by the Lessee or persons asserting claims under it; provided that the Lessee shall reimburse the Lessor for any costs incurred by the Lessor in defending or eliminating such claims, including reasonable attorneys' fees.

SECTION 4.7 Security Deposit. Notwithstanding any other provision of this Lease, the Lessee may, on any date, secure the payment of Lease Payments by a deposit with the Trustee of: (a) an amount which, together with amounts on deposit under the Indenture which are to be credited to the Lessee's obligations hereunder to make Lease Payments, is sufficient to pay all unpaid Lease Payments as set forth on Exhibit A hereto (or with respect to any Leased Unit), when due or (b) United States Government Obligations, together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon, be fully sufficient to pay all unpaid Lease Payments as set forth on Exhibit A hereto (or with respect to any Leased Unit), when due. Such deposit shall then be used to redeem or defease Bonds pursuant to the Indenture. Such deposit may not be made unless, prior to such deposit, the Lessee delivers to the Lessor and the Trustee an opinion of Bond Counsel that such deposit will not adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes and the exemption of interest on the Bonds from State of California personal income taxes. In the event of a deposit pursuant to this Section, all obligations of the Lessee under this Lease and all security provided by this Lease for said obligations (or obligations with respect to any Leased Unit), shall cease and terminate, excepting only the obligation of the Lessee to make, or cause to be made, Lease Payments as set forth on Exhibit A hereto, from the deposit made by the Lessee pursuant to this Section and the obligation of the Lessee to make any other payments required by this Lease. All Lessor's right, title and interest to the Leased Property shall vest in the Lessee on the date of said deposit automatically and without further action by the Lessee or the Lessor, provided that such right, title and interest shall be subject to the subsequent payment of Lease Payments as set forth on Exhibit A hereto, from said deposit and the payment of the payments in accordance with the provisions of this Lease. Said deposit shall be deemed to be and shall constitute a special fund for the payment of Lease Payments in accordance with the provisions of this Lease.

SECTION 4.8 Abatement of Rental in the Event of Failure to Have Use and Possession of the Leased Property. Except as provided in this Section 4.8, the Lease Payments shall be abated in whole or in part during any period during which by reason of damage or destruction (other than by condemnation which is provided for in Section 5.12 of this Lease) there is substantial interference with the use and possession of any Leased Unit of the Project by the Lessee. The extent of any abatement shall be determined by the Lessee (taking into account the allocable portion of the total Lease Payments that such Leased Unit of the Project represents to the aggregate Principal Components of Lease Payments hereto) such that the resulting Lease Payments represent fair rental value for use and possession of the portion of the Leased Property not damaged or destroyed; provided, however, that in the event such damage or destruction

results in redemption of Bonds pursuant to Section 6.01 of the Indenture, the remaining Lease Payments (including credits to be applied thereto as provided in the Indenture) will be sufficient to pay all of the principal and interest on the remaining Outstanding Bonds. Such abatement shall not result to the extent of moneys received by the Lessee from the Redevelopment Agency pursuant to the Reimbursement Agreement and payable with respect to the Leased Unit of the Project constituting the public parking garage, and to the extent of moneys held by the Trustee under the Indenture which are to be credited toward the Lessee's Lease Payments under the terms of the Indenture (including, particularly, without limitation, the Debt Service Reserve Fund, Principal Payment Account and Interest Payment Account), or to the extent such Lease Payments are made from the Net Proceeds of insurance and rental interruption insurance, it being hereby declared that such moneys and Net Proceeds constitute special funds for the payment of the Lessee's Lease Payments. Subject to the preceding sentence, such abatement or adjustment, if any, shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction, if any. In the event of any such damage or destruction, this Lease shall continue in full force and effect and the Lessee waives any right to terminate this Lease by virtue of any such damage and destruction.

SECTION 4.8 No Withholding. Notwithstanding any dispute between the Lessor and the Lessee, including a dispute as to the failure of any portion of the Leased Property in use by or possession of the Lessee to perform the task for which it is leased, the Lessee shall make all Lease Payments when due and shall not withhold any Lease Payments pending the final resolution of such dispute.

ARTICLE V

MAINTENANCE, TAXES, INSURANCE; AND OTHER MATTERS

SECTION 5.1 Maintenance and Taxes. Throughout the Term of this Lease, as part of the consideration for the rental of the Leased Property, all improvement, repair and maintenance of the Leased Property shall be the responsibility of the Lessee, and the Lessee shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the Lessee thereof. The Lessee shall comply with, or cause the compliance with, any manufacturer's and vendor's requirements with respect to proper maintenance of the Leased Property, if any. In exchange for the Lease Payments herein provided, the Lessor agrees to provide only the Leased Property, as hereinbefore more specifically set forth. The Lessee waives the benefits of subsections 1 and 2 of Section 1932 of the California Civil Code, but such waiver shall not limit any rights of the Lessee under the terms of this Lease.

The Lessee shall also pay or cause to be paid to the Lessor all taxes of any type or nature charged to the Lessor or affecting the Leased Property or the respective interests or estates therein, including any sales and property taxes, or affecting the amount available to the Trustee from Lease Payments received under this Lease for the payment of the Bonds (including taxes or assessments assessed or levied by any governmental agency or district having power to levy

taxes or assessments); provided, that with respect to governmental charges that may lawfully be paid in installments over a period of years, the Lessee shall be obligated to pay, or cause to be paid, only such installments as are required to be paid during the Term of this Lease as and when the same shall become due.

The Lessee, at the Lessee's expense and in its name, may in good faith contest any such taxes and other charges and, in the event of any such contest, may permit the taxes or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Lessor shall notify the Lessee that, in the opinion of Counsel retained by the Lessee, by nonpayment of any such items, the interest of the Lessor in the Leased Property will be materially endangered or the Leased Property or any part thereof will be subject to loss or forfeiture, in which event the Lessee shall promptly pay such taxes or charges or provide the Lessor with full security against any loss which may result from nonpayment, in form satisfactory to the Lessor.

SECTION 5.2 Modification of Leased Property. The Lessee shall, at its own expense, have the right to modify the Leased Property (or any portion thereof) or to make additions and improvements thereto. All such additions and modifications shall thereafter comprise part of the Leased Property and be subject to the provisions of this Lease. Such additions and modifications shall not adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes and the exemption of interest on the Bonds from State of California personal income taxes and shall not in any way damage the Leased Property, substantially alter its nature or cause it to be used for purposes other than those authorized under the provisions of State and federal law, and the Leased Property, upon completion of any additions and modifications made pursuant to this Section, shall be of a value which is not substantially less than the value of the Leased Property immediately prior to the making of such additions or modifications and will not result in a decrease in the amount of Lease Payments payable hereunder.

The Lessee will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, repairs, renewals or replacements made by the Lessee pursuant to this Section, provided that if any such lien is established and the Lessee shall first notify the Lessor of the Lessee's intention to do so, the Lessee may, in good faith, contest any lien filed or established against the Leased Property and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom, and shall provide the Lessor with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Lessor. The Lessor will cooperate fully in any such contest, upon the request and at the expense of the Lessee.

SECTION 5.3 Removal or Substitution of Leased Property. The Lessee may amend or change any Leased Property or any portion thereof at any time by delivering an amended Exhibit B to the Trustee and the Lessor. The Lessee reserves the right at any time to remove all or any portion of any Leased Units or to substitute public facilities, equipment and/or real property owned by the Lessee for all or any portion of the Leased Property provided that:

(a) the Lessee obtains the written consent of the Lessor and provides written notice thereto to the Rating Agency, with a copy of such notice to the Bond Insurer, and receives written evidence from such Rating Agency that such substitution will not result in a lowering or withdrawal of its rating on the Bonds;

(b) based upon findings of an independent MAI real estate appraiser selected by the Lessee, the Lessee finds (and delivers a certificate to the Lessor and the Trustee setting forth its findings) that (i) the portion of the Leased Property remaining, or (ii) the substituted public facility, equipment and/or real property, as the case may be, has a fair market value such that the Lease Payments being made by the Lessee pursuant to this Lease will not be reduced;

(c) the Lessee certifies to the Trustee and the Lessor that the remaining portion of the Leased Property or the substituted public facility, equipment and/or real property, as the case may be, has a useful life not less than the remaining term of this Lease;

(d) in the event the substituted Leased Property consists of real property, the Lessee obtains or causes to be obtained a title insurance policy with endorsement or an endorsement to any existing title insurance policy so as to be payable to the Trustee for the benefit of the Owners. Such policy or endorsement shall be in form satisfactory to the Trustee, shall be in the amount equal to the principal component of Lease Payments attributable to the remaining portion of the Leased Property or the substituted facility and/or real property, as the case may be, and shall insure the leasehold interest of the Lessor to the remaining portion of the Leased Property or the substituted facility and/or real property; and

(e) the Lessee provides the Lessor and the Trustee with an opinion of Bond Counsel that such removal or substitution, as the case may be, is authorized and in compliance with the Act and the Indenture and does not adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes and the exemption of interest on the Bonds from State of California personal income taxes.

Notwithstanding anything in the Indenture or this Lease to the contrary, the Lessee is permitted to remove and release unimproved real property from that constituting the Leased Property, provided the Lessee shall have satisfied the requirements of (b), (c) and (d) above and shall have certified to the Trustee that such release will not adversely affect the Lessee's use and occupancy of the Leased Property and the remaining portion of the Sites. In addition, without satisfying the requirements of subsection (a) and (b) of this Section but satisfying the requirements of (c) and (d), the City shall also be permitted to release (i) the real property and improvements constituting the Miscellaneous Public Properties as described on Exhibit C hereto upon the completion of the construction of the Police Headquarters Building and the delivery to the Trustee of a Certificate of Completion related thereto (provided such release occurs on or before March 1, 2000) and (ii) not more than approximately 15,000 square feet of the property constituting the Site upon which the Parking Garage will be located in order to effectuate the provisions of Master Agreement, so long as in each case the City shall certify to the Trustee, with a copy of such certification being delivered to the Bond Insurer, that such release shall not adversely affect the Lessee's ability to make Lease Payments hereunder in any respect.

Upon the removal or substitution of any real property and improvements thereon for all or a portion of the Leased Property then existing, the Lessee, the Lessor and the Trustee shall execute and record with the Office of the County Recorder, County of Stanislaus, California, any document necessary to reconvey to the Lessee the real property and/or improvements being removed or substituted and to include the remaining or substituted real property and/or improvements thereon as all or a portion of the Leased Property.

SECTION 5.4 Public Liability and Leased Property Damage Insurance. The Lessee shall procure and maintain, or cause to be procured and maintained, throughout the Term of this Lease, a standard comprehensive general insurance policy or policies in protection of the Lessor, the Lessee, the Trustee and their board members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or operation of the Leased Property. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event (subject to a deductible clause of not to exceed \$500,000) and \$500,000 for damage to property resulting from each accident or event.

SECTION 5.5 Fire and Extended Coverage. The Lessee shall procure and maintain, or cause to be procured and maintained, throughout the Term of this Lease, insurance against loss or damage to any part of the Leased Property by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke, sprinkler damage, boiler explosion and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to 100% of the replacement cost of such building and structure, or any interest in which is or will be leased, in whole or in part, including any interest held as tenants in common, or otherwise, or the aggregate principal amount of the Bonds then Outstanding, whichever is greater (subject to a deductible clause of not to exceed 10% of such amount).

SECTION 5.6 Rental Interruption Insurance. The Lessee shall procure and maintain, or cause to be procured and maintained, throughout the Term of this Lease, rental interruption insurance to cover loss, total or partial, of the use of any part of the Leased Property as the result of any of the hazards covered in the insurance required by Section 5.7 hereof and the resulting loss of rental income to the Trustee, as assignee of the Lessor and the Issuer, in an amount sufficient to pay the maximum remaining principal and interest portions of Lease Payments due under this Lease during a period of 24 months. The Net Proceeds of such insurance shall be paid to the Trustee for deposit in the Debt Service Fund and shall be credited towards the payment of the Lease Payments of the Lessee in the order in which such Lease Payments become due and payable. The Lessee may not provide self-insurance in lieu of the insurance required by this Section 5.6.

SECTION 5.7 Self-Insurance. The Lessee may elect to self insure pursuant to Section 5.4 hereof if and to the extent such self-insurance method or plan of protection shall

afford reasonable protection to the Lessor and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by cities in the State of California other than the Lessee. If the Lessee chooses to self-insure, it must on at least an annual basis provide to the Trustee and the Lessor a certificate of an Insurance Consultant to the effect that the Lessee's general insurance reserves are adequate to provide the required amount of coverage.

SECTION 5.8 Insurance of the Project. Notwithstanding the foregoing provisions of this Article V, the Lessee shall maintain, or cause each Contractor with respect to any Component of the Project to maintain, in force during the entire acquisition, construction and improvement of any Component of the Project, property damage insurance in an amount not less than the full value of all work done and materials, and equipment provided or delivered by each such Contractor, comprehensive liability insurance, worker's compensation insurance and other insurance required by law or customarily maintained with respect to similar projects. In the event the Lessee receives any damage or other moneys from any Contractor or its surety from any insurance policy or surety bond contract maintained pursuant to this Section 5.8, and such moneys are allocable to the Lessee's interest in such Component of the Project, all such moneys shall, unless applied as provided in Section 5.13(b) hereof, be retained in the Insurance and Condemnation Fund to the extent necessary to complete the acquisition, construction and installation of any Component of the Project.

SECTION 5.9 Net Proceeds of Insurance; Form of Policies; Retaining of Insurance Consultant. (a) The policies of insurance required by Sections 5.5, 5.6 and 5.7 of this Lease shall provide that all proceeds thereunder, to the extent of the Lessee's interest thereunder, shall be payable to the Trustee pursuant to a lender's loss payable endorsement. The Net Proceeds of policies of insurance under Section 5.5 hereof shall be paid to the Trustee to be applied as provided in Section 5.13 hereof. All policies of insurance required by this Lease and any statements of self-insurance, shall be in form satisfactory to the Lessor. The Lessee shall pay or cause to be paid when due the premiums for all insurance policies required by this Lease and shall promptly furnish or cause to be furnished evidence of such payments to the Lessor. All such policies shall provide that the Lessor and the Trustee shall be given thirty (30) days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby; provided that if the Lessee shall have delivered to the Trustee a written report of an Insurance Consultant stating that the cost of obtaining an insurance policy or policies containing such 30-day notice provision is prohibitively expensive or that such policy may not be obtained, failure of the Lessee to comply with this covenant shall not constitute a default hereunder. The Lessee shall deliver or cause to be delivered to the Trustee on or before each anniversary of the Dated Date a certificate of the Authorized Representative of the Lessee that all insurance required under Article V of this Lease is in full force and effect. In the event that the Lessee obtains insurance through a pooled insurance program of governmental entities, an annual statement of memorandum of coverage delivered to the Trustee will satisfy the requirements of this Section 5.9.

(b) The Trustee and the Lessor shall not be responsible for the sufficiency of any insurance herein required or payment of premium and shall be fully protected in accepting

payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Lessee.

SECTION 5.10 Advances. If the Lessee shall fail to perform any of its obligations under this Article, the Lessor may, but shall not be obligated to, take such action as may be necessary to cure such failure, including the advancement of money on behalf of the Lessee, and the Lessee shall be obligated to repay all such advances as soon as possible, with interest at the rate of twelve percent (12%) per annum from the date of the advance to the date of repayment, but in no event shall such rate exceed the maximum legal rate of interest.

SECTION 5.11 Liens. The Lessee shall not, directly or indirectly, create, incur, assume or suffer to exist any pledge, lien, charge, encumbrance or claim on or with respect to the Leased Property, other than the respective rights of the Lessor, the Trustee and the Lessee as provided herein and in the Indenture and Permitted Encumbrances. Except as expressly provided in this Article, the Lessee shall promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim for which it is responsible, if the same shall arise at any time. The Lessee shall reimburse the Lessor for any expense incurred by it in order to discharge or remove any such pledge, lien, charge, encumbrance or claim.

SECTION 5.12 Condemnation Awards; Title Insurance Proceeds. If all or part of the Leased Property is taken under the power of condemnation or lost due to a defect in title, the Net Proceeds from any award or insurance proceeds resulting therefrom shall be deposited with the Trustee pursuant to Section 5.13(b) hereof. If the Leased Property is taken or lost in whole pursuant to such condemnation proceedings or defect in title or is taken in part to such extent that the remaining portion of the Leased Property is no longer useful for the purposes originally intended, the remaining Lease Payment obligations of the Lessee will be abated (as provided in Section 4.8 hereof) and this Lease shall thereupon be terminated (except as provided herein). Otherwise, (a) this Lease shall continue in full force and effect and shall not be terminated by virtue of such taking or loss and the parties waive the benefit of any law to the contrary, and (b) there shall be a proportionate abatement (as provided in Section 4.8 hereof) of Lease Payments such that the resulting Lease Payments will be sufficient to pay all of the principal and interest with respect to the Outstanding Bonds, except to the extent payable from amounts received under the Reimbursement Agreement. If this Lease is terminated pursuant to the second sentence of this Section 5.12 and the amount of the related condemnation award would not be sufficient to cause a termination of the Lease pursuant to Section 4.2(a) hereof, the Lessee shall appeal the award pursuant to the applicable administrative and legal procedures and the obligation to pay any amount hereunder shall survive the termination of this Lease. Proceeds of any title insurance policy shall be applied as set forth in Section 5.13(b) hereof.

SECTION 5.13 Application of Net Proceeds.

(a) From Insurance Award. The Net Proceeds of any insurance award resulting from any damage to or destruction of any portion of the Leased Property by fire or other casualty shall be deposited in the Insurance and Condemnation Fund to be held and applied by the Trustee

pursuant to Section 4.12 of the Indenture. Upon such deposit, the Authorized Representative of the Lessee shall file a certificate with the Trustee as provided in such Section and the Lessee shall repair and rebuild as provided in such Section and such Net Proceeds shall be applied by the Trustee as provided in such Section.

(b) From Condemnation or Eminent Domain Award or Title Insurance Policy Proceeds. The Net Proceeds of any condemnation or eminent domain award or insurance proceeds resulting from any event described in Section 5.12 of this Lease shall be deposited in the Insurance and Condemnation Fund to be held and applied by the Trustee pursuant to Section 4.12 of the Indenture. Upon such deposit, the Authorized Representative of the Lessee shall file a certificate with the Trustee as provided in such Section and such Net Proceeds shall be applied by the Trustee as provided in such Certificate.

SECTION 5.14 Title Insurance. The Lessee shall obtain and, throughout the term hereof, maintain or cause to be maintained title insurance on the Leased Property, in the form of an ALTA or CLTA leasehold title policy or policies, in an amount equal to the Principal Component of the Bonds. Such policy or policies of title insurance shall include an endorsement making amounts payable under the policy or policies payable to the Trustee for the benefit of the Bondholders and applied as set forth in Section 5.13(b) hereof.

SECTION 5.15 Books and Records. The Lessee will at all times during the Term of this Lease keep proper books of record and account in which full, true and correct entries in conformity with applicable law shall be made of all dealings and transactions in relation to its activities. The Lessee will permit the Lessor, any authorized representatives of the Lessor and the Lessor's successors and assigns at reasonable times and intervals upon prior written notice to examine and make abstracts, subject to proprietary and confidentiality policies and agreements of or binding upon the Lessee, from the Lessee's books and records and to discuss the Lessee's affairs, finances and accounts with the Lessee's officers and independent accountants.

SECTION 5.16 Continuing Disclosure. The Lessee hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Lease, failure of the Lessee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, subject to satisfactory indemnity, as provided in Section 9.06 of the Indenture, the Trustee may (and, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall) or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Trustee or the Lessee to comply with its obligations under this Section 5.16. For purposes of this Section 5.16, (a) "Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes; (b) "Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the Lessee and the Trustee dated the date of issuance and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof; and

(c) "Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

ARTICLE VI

DISCLAIMER OF WARRANTIES; ACCESS

SECTION 6.1 Disclaimer of Warranties. THE LESSOR MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE LESSEE OF THE LEASED PROPERTY OR ANY ITEM THEREOF OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE LEASED PROPERTY OR ANY ITEM THEREOF. IN NO EVENT SHALL THE LESSOR OR THE TRUSTEE BE LIABLE FOR INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES IN CONNECTION WITH OR ARISING OUT OF THIS LEASE OR FOR THE EXISTENCE, FURNISHING, FUNCTIONING OR THE LESSEE'S USE OF THE LEASED PROPERTY.

SECTION 6.2 Lessee's Right to Enforce Warranties. The Lessee shall have all rights with respect to the warranties of the Contractors with respect to the Leased Property, and the right to enforce such warranties against the Contractors. If the Lessor is ever required or requested by the Lessee to enforce any warranty with respect to the Leased Property on behalf of the Lessee, the Lessee shall reimburse the Lessor for any costs incurred by the Lessor in the enforcement of such warranty, including reasonable attorneys' fees.

SECTION 6.3 Lessor Access to the Leased Property and the Project. The Lessee agrees that the Lessor, any authorized representative of the Lessor and the Lessor's successors or assigns, shall have the right at all reasonable times to examine and inspect the Leased Property and any Component of the Project. The Lessee further agrees that the Lessor, any such representative, and the Lessor's successors or assigns shall have such rights of access to the Leased Property as may be reasonably necessary to cause the proper maintenance of the Leased Property in the event of failure by the Lessee to perform its obligations under this Lease.

ARTICLE VII

ASSIGNMENT, SUBLEASING AND INDEMNIFICATION

SECTION 7.1 Assignment by Lessor. The Lessee and the Lessor acknowledge that this Lease, including the rights to receive the Lease Payments hereunder, and the rights of the Lessee to receive payments from the Agency under the Reimbursement Agreement and the rights to enforce the covenants, agreements, representations and warranties of the Lessee hereunder and all other rights and remedies of the Lessor hereunder (except the rights to expenses, fees and indemnification of the Lessor provided herein), have been pledged and assigned by the Lessor

to the Trustee under the Indenture as security for the repayment of the Bonds. Lease Payments, including payments made by the Redevelopment Agency to the Lessee under the Reimbursement Agreement, shall be paid directly to the Trustee. The Trustee may exercise any of the rights and remedies assigned to it hereunder directly against the Lessee. It is expressly agreed that, notwithstanding such pledge and assignment, the Lessor shall retain all duties and obligations of the Lessor hereunder.

SECTION 7.2 Assignment and Subleasing by the Lessee. This Lease may be assigned or the Leased Property or any Leased Unit of the Project or portion thereof may be subleased by the Lessee, provided, that any such assignment or sublease shall be subject to all of the following conditions:

(a) This Lease and the obligation of the Lessee to make Lease Payments under this Lease shall remain obligations of the Lessee; and

(b) The sublessee or assignee shall become primarily liable on the obligations of the Lessee under this Lease to the extent of the interest subleased or assigned; and

(c) The Lessee shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Lessor and the Trustee a true and complete copy of such sublease or assignment; and

(d) No such sublease or assignment by the Lessee shall cause the Leased Property to be used for a purpose other than a governmental function authorized under the provisions of the Constitution and laws of the State; and

(e) The Lessee shall have delivered to the Trustee an opinion of Bond Counsel to the effect that such sublease or assignment shall not adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes and the exemption of interest on the Bonds from State of California personal income taxes.

SECTION 7.3 Release and Indemnification Covenants. The Lessee shall and hereby agrees to the extent permitted by law to indemnify and save the Lessor, the members of the Lessor, and the Trustee and the members, officers and employees of each of the foregoing harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Leased Property or any Component of the Project by the Lessee or at its direction or request, (b) any breach or default on the part of the Lessee in the performance of any of its obligations under this Lease, (c) any act or negligence of the Lessee or of any of its agents, contractors, servants, employees or licensees with respect to the Leased Property or any Component of the Project, (d) any act or negligence of any assignee or sublessee of the Lessee, or of any agents, contractors, servants, employees or licensees of any assignee or sublessee of the Lessee with respect to the Leased Property or any Component of the Project, (e) the acquisition, construction and installation of any Component of the Project or the authorization of payment of the Project Costs by the Lessee or authorization of payment of costs of repairs to the Leased

Property or any Component of the Project, (f) the Trustee's acceptance or administration of the trust, or performance of its duties under the Indenture, (g) the sale of any Bonds and the carrying out of any of the transactions contemplated by the Bonds, or (h) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other disclosure document utilized in connection with the sale of the Bonds. No indemnification to the Lessor or the Trustee is required to be made by the Lessee under this Section 7.3 or elsewhere in this Lease for willful misconduct or negligence under this Lease by the Lessor, the Trustee, their officers, agents, employees, successors or assigns.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

SECTION 8.1 Events of Default Defined. The following shall be "events of default" under this Lease and the terms "events of default" and "default" shall mean, whenever they are used in this Lease, any one or more of the following events:

(a) Failure by the Lessee to pay any Lease Payment at the time specified herein.

(b) Failure by the Lessee to observe and perform any covenant, condition or agreement on its part to be observed or performed herein or in the Site Lease, other than as referred to in clause (a) of this Section, for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the Lessee by the Lessor, the Trustee or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then outstanding; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Lessor, the Trustee and such Owners will not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Lessee within the applicable period and diligently pursued until the default is corrected.

(c) The filing by the Lessee of a voluntary petition in bankruptcy, or failure by the Lessee promptly to lift any execution, garnishment or attachment, or the filing of an involuntary petition in bankruptcy against the Lessee which petition shall not have been withdrawn within sixty (60) days, or assignment by the Lessee for the benefit of creditors, or the entry by the Lessee into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Lessee in any proceedings instituted under the provisions of the federal bankruptcy law or under any similar acts which may hereafter be enacted.

SECTION 8.2 Remedies on Default. Whenever any event of default referred to in Section 8.1 hereof shall have happened and be continuing, it shall be lawful for the Lessor to

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exercise any and all remedies available pursuant to law or granted pursuant to this Lease; provided, however, that notwithstanding anything herein or in the Indenture 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. Subject to the receipt of the opinions set forth in subparagraph (c) below, after the occurrence of an event of default hereunder, the Lessee will surrender possession of the Leased Property to the Lessor, if requested to do so by the Lessor, or by the Trustee or the Owners in accordance with the provisions of the Indenture.

(a) No Termination: Repossession and Re-Lease on Behalf of Lessee. In the event the Lessor does not elect to terminate this Lease in the manner hereinafter provided for in subparagraph (b) hereof, the Lessor, to the extent permitted by law (subject to the receipt of the opinions set forth in subparagraph (c) below) may, with the consent of the Lessee, which consent is hereby irrevocably given, repossess the Leased Property and re-lease it for the account of the Lessee, in which event the Lessee's obligation will accrue from year to year in accordance with this Lease and the Lessee will continue to receive the value of the use of the Leased Property from year to year in the form of credits against its obligation to pay Lease Payments. The obligations of the Lessee shall remain the same as prior to such default, to pay Lease Payments whether the Lessor re-enters or not. The Lessee agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions contained herein and shall reimburse the Lessor for any deficiency arising out of the re-leasing of the Leased Property, or, in the event the Lessor is unable to re-lease the Leased Property, then for the full amount of all Lease Payments to the end of the Term of this Lease, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as provided above for the payment of Lease Payments hereunder, notwithstanding such repossession by the Lessor or any suit, brought by the Lessor for the purpose of effecting such repossession of the Leased Property or the exercise of any other remedy by the Lessor.

The Lessee hereby irrevocably appoints the Lessor as the agent and attorney-in-fact of the Lessee to repossess and re-lease the Leased Property, subject to the receipt of the opinions set forth in subparagraph (c) below, in the event of default by the Lessee in the performance of any covenants contained herein to be performed by the Lessee and to remove all personal property whatsoever situated upon the Leased Property, to place such property in storage or other suitable place in the County in which the Lessee is located, for the account of and at the expense of the Lessee, and the Lessee hereby exempts and agrees to save harmless the Lessor from any costs, loss or damage whatsoever arising or occasioned by any such repossession and re-leasing of the Leased Property. The Lessee hereby waives any and all claims for damage caused or which may be caused by the Lessor in repossessing the Leased Property as provided herein and all claims for damages that may result from the destruction of or the injury to the Leased Property and all claims for damages to or loss of any property belonging to the Lessee that may be in or upon the Leased Property.

The Lessee agrees that the terms of this Lease constitute full and sufficient notice of the right of the Lessor to re-lease the Leased Property in the event of such repossession without effecting a surrender of this Lease (subject in such event to the receipt by the Lessor of the opinions set forth in subparagraph (c) below), and further agrees that no acts of the Lessor in effecting such re-leasing shall constitute a surrender or termination of this Lease irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the Lessee the right to terminate this Lease shall vest in the Lessor to be effected in the sole and exclusive manner provided for in subparagraph (b) below. The Lessee further waives the right to any rental obtained by the Lessor in excess of the Lease Payments and, to the extent permitted by law, hereby conveys and releases such excess to the Lessor as compensation to the Lessor for its services in re-leasing the Leased Property.

(b) Termination: Repossession and Re-Lease. In the event of the termination of this Lease by the Lessor at its option and in the manner hereinafter provided on account of default by the Lessee (and notwithstanding any repossession of the Leased Property by the Lessor in any manner whatsoever or the re-leasing of the Leased Property in accordance with the terms hereof), the Lessee nevertheless agrees to pay to the Lessor all costs, losses or damages howsoever arising or occurring payable at the same time and in the same manner as is provided herein in the case of payment of Lease Payments. Any proceeds of the re-lease or other disposition of the Leased Property by the Lessor shall be delivered to the Trustee for deposit first into the Interest Payment Account, and to the extent such account is funded to the extent then required under the Indenture, in the Principal Payment Account and shall be applied in accordance with the provisions of Article IV of the Indenture. Neither notice to pay rent or to deliver up possession of the Leased Property given pursuant to law nor any proceeding taken by the Lessor to recover possession of the Leased Property shall of itself operate to terminate this Lease, and no termination of this Lease on account of default by the Lessee shall be or become effective by operation of law, or otherwise, unless and until the Lessor shall have obtained the opinions set forth in subparagraph (c) below and given written notice to the Lessee of the election on the part of the Lessor to terminate this Lease. The Lessee covenants and agrees that no surrender of the Leased Property for the remainder of the Term hereof or any termination of this Lease shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Lessor by such written notice. No such termination shall be effected either by operation of law or act of the parties hereto, except only in the manner herein expressly provided.

The Lessor and Lessee hereby agree that Section 1951.2 of the California Civil Code shall apply to this Lease and that upon such termination, the Lessor may recover, in addition to all other damages available by contract or at law, from the Lessee: (i) the worth at the time of award of the unpaid rental which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rental which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided;

(iii) the worth at the time of award of the amount by which the unpaid rental for the balance of the term after the time of the award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; and (iv) any other amount necessary to compensate the Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom. The "worth at the time of award" of the amounts referred to in clauses (i), (ii) and (iii) above is computed by allowing interest at the legal rate of interest per annum at which judgments for money in the State of California bear interest.

(c) Exceptions: City-County Administration Building, Parking Garage and Communications Center. Notwithstanding the foregoing, the Lessor, or the Trustee acting on behalf of the Lessor, shall have no right to repossess or reenter the Leased Unit of the Project comprising the City-County Administration Building until the Lessor, or the Trustee acting on behalf of the Lessor, has first offered to the County in writing notice that the County is entitled to assume the Lessee's obligations hereunder with respect to the City-County Administration Building, including but not limited to the obligation of the Lessee to pay Lease Payments with respect thereto. The County shall respond in writing to the Lessor, or the Trustee, as applicable, no later than 30 days following the receipt of such notice. In the event the County determines not to assume Lessee's obligations hereunder with respect to the City-County Administration Building, the Lessor or the Trustee, as applicable, may thereupon proceed to repossess or reenter such facility or pursue any other remedy provided herein. The parties hereto acknowledge that the provisions set forth this paragraph are intended to permit the County to protect its interests in and to the City-County Administration Building and as such the parties hereto acknowledge that the County is a third-party beneficiary of this Agreement insofar as the County would be entitled to assume the Lessee's obligations with respect to the City-County Administration Building.

Notwithstanding the foregoing, in accordance with Section 6.7 of the Master Agreement the Financing Agency shall be entitled, upon the occurrence of an Event of Default hereunder and a decision by the Trustee to terminate this Lease in accordance with Section 8.2(b) above, to exercise its "right of first refusal" with respect to the purchase of the Parking Garage, and the Lessor, or the Trustee acting on behalf of the Lessor, shall cause to be delivered to the Financing Agency notice of the occurrence of an Event of Default hereunder. The purchase price for the Parking Garage shall be the principal amount of the Lease Payments due and owing with respect to the Parking Garage, together with interest due on said principal amounts to the date such purchase is exercised. The Financing Agency shall within 30 days of the receipt of said notice respond to the Lessor, or the Trustee acting on behalf of the Lessor, whether the Financing Agency intends to purchase the Parking Garage. In the event the Financing Agency determines not to exercise its right to purchase the Parking Garage, the Lessor or the Trustee, as applicable, may thereupon proceed to exercise its remedies as provided herein. The parties hereto acknowledge that the provisions set forth in this paragraph are intended to permit the Financing Agency to protect its interests in and to the Parking

Garage and as such the parties hereto acknowledge that the Financing Agency is a third-party beneficiary of this Agreement insofar as the Financing Agency would be entitled to exercise the "right of first refusal" with respect to the purchase of the Parking Garage from the Lessor, or the Trustee acting on behalf of the Lessor.

In the event the County or the Financing Agency, as the case may be, determines to exercise their respective rights as set forth above, the Bond Insurer shall be immediately notified; provided however, that no action by the County or the Financing Agency to exercise any rights hereunder shall limit the rights and remedies of the Bond Insurer under this Agreement.

In addition, the Lessor, or the Trustee acting on behalf of the Lessor, shall have no right to repossess or reenter Communications Dispatch Center, the sole remedy of the Lessor or the Trustee, as applicable, being to seek payment of Lease Payments therefor as and when the same become due.

(d) Opinion of Bond Counsel. The repossession and/or re-leasing of the Leased Property, or the termination of this Lease as provided in subparagraph (b) above, shall be subject to the written consent of the Lessor (which consent shall not be unreasonably withheld) and the opinion of Bond Counsel addressed to the Lessor that such repossession and/or re-leasing, or termination of the Lease, as applicable, will not adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes and the exemption of interest on the Bonds from State of California personal income taxes; provided however, the Trustee shall not be required to obtain such opinions provided it has received the consent of a majority in aggregate principal amounts of Bonds outstanding.

SECTION 8.3 No Remedy Exclusive. No remedy conferred herein upon or reserved to the Lessor is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Lease or now or hereafter existing at law or in equity. Without limiting the generality of the foregoing, the Lessor may bring an action or suit in equity (i) to require the Lessee and its trustees, officers and employees to account as trustee of an express trust, (ii) to enjoin any acts or things which may be unlawful or in violation of the rights of the Lessor, or (iii) by mandamus to enforce the Lessor's rights against the Lessee (and its officers and employees) and to compel the Lessee to perform and carry out its duties and obligations under the law and its covenants and agreements with the Lessor as provided herein. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Lessor to exercise any remedy reserved to it in this Article it shall not be necessary to give any notice, other than such notice as may be required in this Article or by law.

SECTION 8.4 Agreement to Pay Attorneys' Fees and Expenses. In the event either party to this Lease should default under any of the provisions hereof and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement

of performance or observance of any obligation or agreement on the part of the defaulting party contained herein, the defaulting party agrees that it will pay on demand to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party.

SECTION 8.5 No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Lease should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

SECTION 8.6 Application of the Proceeds from the Re-Lease of the Leased Property. All amounts received by the Lessor under this Article VIII shall be credited towards the Lease Payments in order of Lease Payment Date.

SECTION 8.7 Trustee and Owners to Exercise Rights. Such rights and remedies as are given to the Lessor under this Article VIII have been assigned by the Lessor to the Trustee under the Indenture, to which assignment the Lessee hereby consents. Such rights and remedies shall be exercised by the Trustee and the Owners as provided in the Indenture. The Trustee's rights to immunities and protection from liability under Section 7.3 and its rights to payment of its fees and expenses hereto shall survive its resignation or removal and the final payment or the defeasance of the Bonds (or the discharge of the Bonds or the defeasance of the lien of the Indenture).

ARTICLE IX

OPTION TO PREPAY

SECTION 9.1 Option to Prepay. Subject to the terms and conditions of this Section, the Lessor hereby grants an option to the Lessee to prepay in whole or in part (and if in part, in integral multiples of \$5,000), the Principal Components related to this Lease, or Principal Components related to any Leased Unit of the Project, in accordance with Section 12.01 of the Indenture.

The Lessee and the Lessor hereby agree that such prepayment in part shall be credited towards the Lessee's obligations hereunder (and with respect to any Leased Unit of the Project, as specified by the Lessee) at the option of the Lessee either in inverse order of such obligations or pro rata (with respect to Principal Components) among Principal Payment Dates. A prepayment made pursuant to this Section 9.1 shall not cause a defeasance of Bonds unless the requirements of Section 4.6 hereof and Article XII of the Indenture are satisfied.

SECTION 9.2 Credit for Amounts on Deposit. In the event of prepayment of the Principal Component related to this Lease in full under this Article IX, such that this Lease shall be terminated by its terms as provided in Section 4.2(a) hereof, all amounts then on deposit under

the Indenture which are to be credited to the Lessee's obligations to make Lease Payments shall be credited towards the amounts then required to be so prepaid.

ARTICLE X

MISCELLANEOUS

SECTION 10.1 Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed to have been received 48 hours after deposit in the United States mail in registered or certified form with postage fully prepaid when sent to the addresses shown on Exhibit E hereto.

The Trustee, the Lessor, the Lessee, the Financing Agency and the Bond Insurer by notice given hereunder, may designate different addresses to which subsequent notices, certificates or other communications will be sent.

SECTION 10.2 Binding Effect. This Lease shall inure to the benefit of and shall be binding upon the Lessor and the Lessee and their respective successors and assigns, and the Trustee shall be deemed a third party beneficiary of this Lease.

SECTION 10.3 Severability. In the event any provision of this Lease shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

SECTION 10.4 Amendments, Changes and Modifications. This Lease may be amended or any of its terms modified with the written consent of the Lessee and the Lessor; provided, that no such amendment shall become effective unless approved in writing by the Trustee and provided further that all such amendments must comply with Section 11.03 of the Indenture.

SECTION 10.5 Net-net-net Lease. This Lease shall be deemed and construed to be a "net-net-net lease," and the Lessee hereby agrees that the Lease Payments shall be an absolute net return to the Lessor or its successors or assigns, free and clear of any expenses, charges or set-offs whatsoever.

SECTION 10.6 Further Assurances and Corrective Instruments. The Lessor and the Lessee agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Leased Property (or any portion thereof) hereby leased or intended so to be or for carrying out the expressed intention of this Lease.

SECTION 10.7 Execution in Counterparts. This Lease may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

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SECTION 10.8 Applicable Law. This Lease shall be governed by and construed in accordance with the laws of the State of California.

SECTION 10.9 Lessor and Lessee Representatives. Whenever under the provisions of this Lease the approval of the Lessor or the Lessee is required, or the Lessor or the Lessee is required to take some action at the request of the other, such approval or such request shall be given for the Lessor by an authorized representative of the Lessor and for the Lessee by an Authorized Representative of the Lessee, and any party hereto shall be authorized to rely upon any such approval or request.

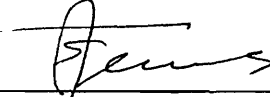
SECTION 10.10 Captions. The captions or headings in this Lease are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Section of this Lease.

IN WITNESS WHEREOF, the Lessor has caused this Lease to be executed in its name by its duly authorized representative; and the Lessee has caused this Lease to be executed in its name by its duly authorized officer, all as of the Dated Date.

MODESTO PUBLIC FINANCING AUTHORITY,
as Lessor

By: 
Chairperson

CITY OF MODESTO, as Lessee

By: 
City Manager

APPROVED AS TO FORM

Michael D. Allich, City Attorney

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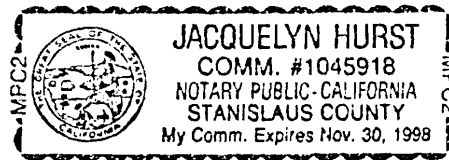
State of California)
) SS
County of Stanislaus)

On March 6, 1998 before me, Jacquelyn Hurst, personally appeared Richard A. Lang, personally known to me, or proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Jacquelyn Hurst

[Seal]



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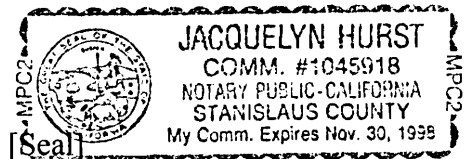
State of California)
) SS
County of Stanislaus)

On March 6, 1998 before me, Jacquelyn Hurst ^{Notary} personally appeared J. Edward Tewes, personally known to me, or proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature

Jacquelyn Hurst



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State of California)
) ss.
County of Stanislaus)

On March 9, 1998, before me, Rosemarie Havener, Notary Public,
Notary Public
personally appeared Michael D. Milich
Name(s) of Signer(s)

personally known to me -OR- proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.



WITNESS my hand and official seal.

Rosemarie Havener
Signature of Notary Public

OPTIONAL

Capacity Claimed by Signer

- Individual
- Corporate Officer
Title(s): _____
- Partner -- Limited General
- Attorney-in-fact
- Trustee
- Guardian/Conservator
- Other: _____

Signer is Representing: _____
Name of Persons(s) or Entity(ies)

Attention Notary: Although the information requested below is OPTIONAL, it could prevent fraudulent attachment of this certificate to an unauthorized document.

**THIS CERTIFICATE
MUST BE ATTACHED
TO THE DOCUMENT
DESCRIBED AT RIGHT:**

Title or Type of Document _____
Number of Pages _____ Date of Document _____
Signer(s) Other than Named Above _____

Exhibit A

<u>Year</u>	<u>City-County Administration Building Annual Lease Payments</u>	<u>Parking Garage Semi-Annual Lease Payments</u>	<u>Communications Dispatch Center Semi-Annual Lease Payment</u>	<u>Police Headquarters Building Semi-Annual Lease Payments</u>	<u>Public Parks Sites/Public Capital Improvements Semi-Annual Lease Payments</u>	<u>Total Annual Lease Payments</u>
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See Attachment 2 Hereto

Exhibit B

GENERAL DESCRIPTION OF THE LEASED PROPERTY

1. The Lessee's one-half undivided interest in and to portions of the City-County Administrative building, including the Lessee's one-half undivided interest in the Site upon which such facility will be constructed, together with the Lessee's rights and interests in the use of common areas, but excluding that certain airspace subdivision on the first floor of the City-County Administrative building.
2. The public parking garage containing approximately 700 spaces to be used by the general public, including the Site upon which such facility is located.
3. The Public Park Improvements, consisting of (i) the Floyd Neighborhood Park, (ii) the Riverside Neighborhood Park, (iii) the Sipherd Neighborhood Park (iv) the Wesson Ranch Neighborhood Park, and (v) the Park Graceada, including in each instance, all other improvements, facilities to be exclusively occupied or administered by the City.
4. The Lessee's undivided fifty percent (50%) interest in and to the use of facilities constituting the Communications Dispatch Center, including its undivided fifty percent (50%) interest in and to the Site, and interests in the use of common areas.
5. The Police Headquarters building, including the Site upon which such facility is located.
6. The Miscellaneous Public Properties, such properties being located within the City and more commonly referred to as (i) Fire Station No. 1; (ii) Fire Station No. 3; (iii) Fire Station No. 5; (iv) Fire Station No. 6; (v) Fire Station No. 7; (vi) the McHenry Museum; (vii) the McHenry Mansion; (viii) the Community Center; (ix) the Senior Citizen Center; (x) Parking Lot No. 25; (xi) Parking Lot No. 3 and (xi) the Parking Structure.

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Exhibit C

LEGAL DESCRIPTION OF THE SITES

See Attachment 1 hereto

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Exhibit D

COMPONENTS OF THE PROJECT

The Project is a mixed use development proposed for downtown Modesto (referred to herein as the "10th Street Place Project"), together with other capital improvements as more fully described below. The Components of the Project include the following:

A joint administrative office building for the City of Modesto and the County of Stanislaus. The total square footage of the building is approximately 248,000, of which approximately 220,000 will be office space for use by the City and County. Approximately 28,000 square will be used for retail space. The retail space will be located on the ground floor of the office building. The building is seven stories high, six stories of which are above grade and one below grade.

A public parking garage of approximately 700 spaces. The garage will be five stories, four of which are above grade and one below grade. This Component includes a retail pad of approximately 12,000 square feet located adjacent to the public parking garage.

The rehabilitation of an approximately 18,700 square foot Communications Dispatch Center jointly owned by the City and the County. The Communications Dispatch Center will be located on the Communications Dispatch Center Site.

An approximately 40,000 square foot Police Headquarters building will be constructed on the Police Site to provide administration, support and investigative activities for the City's police department.

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Exhibit E

ADDRESSES FOR NOTICES

If to the Lessee: City of Modesto
1012 "I" Street, 2nd Floor
Modesto, California 95353
Attention: Director of Finance

If to the Lessor: Modesto Public Financing Authority
c/o City of Modesto
1012 "I" Street, 2nd Floor
Modesto, California 95353
Attention: President

If to the Financing Agency: City-County Capital Improvements and Financing Agency
(c/o Stanislaus County CEO's Office)
1100 H Street, 2nd Floor
Modesto, California 95354
Attention: Project Administrator

If to the County County of Stanislaus
801 11th Street
Modesto, California 96354
Attention: Chief Executive Officer

If to the Bond Insurer: Ambac Assurance Corporation
One State Street Plaza
New York, New York 10004
Attention: Surveillance

If to the Trustee: Harris Trust Company of California
601 South Figueroa Avenue, 49th Floor
Los Angeles, California 90017
Attention: Corporate Trust Department

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ATTACHMENT 1

Parcel No. 1 -- Graceda Park

All of Blocks 531, 532 and 533 as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 2 -- Floyd Park

Parcels A and B as per Parcel Map filed October 9, 1969 in Volume 7 of Parcel Maps, Page 68, Stanislaus County Records.

Parcel No. 3 -- Comunication Facility

An undivided one-half interest in the following:

Parcel 2 as per Parcel Map filed September 24, 1979 in Volume 29 of Parcel Maps, Page 100, Stanislaus County Records.

Parcel No. 4 -- Police Facility

Lots 1 thru 32, inclusive, in Block 71 of the CITY OF MODESTO, as per map recorded December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

TOGETHER WITH

All that real property in the State of California, County of Stanislaus, City of Modesto, being a portion of the Northeast quarter of Section 32, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, described as follows:

That portion of the 20-foot alley in Block 71 as delineated on the Official Map of the City of Modesto, as per map filed December 21, 1942, in Volume 15 of Maps, Stanislaus County Records, described as follows:

Beginning at the most Southerly corner of Lot 16 in said Block 71, said point being on the Northeastern line of said 20.00 foot alley in Block 71; thence along said Northeastern line of said alley, North 43° 29' 30" West, 150.00 feet, to the most Southerly corner of Lot 10 in Block 71; thence South 46° 30' 30" West, 20.00 feet, to the most Northerly corner of Lot 22 in Block 71, said point being on the Southwestern line of the 20.00 foot alley in Block 71; thence along said Southwestern line of said alley, South 43° 29' 30" East, 150.00 feet, to the most Easterly corner of Lot 17 in Block 71, said point being on the Northwestern line of 80.00 foot "F" Street; thence along said Northwestern line of "F" Street, North 46° 30' 30" East, 20.00 feet, to the point of beginning.

Parcel No. 5 -- Block 67 Redevelopment Agency

Lots 1 through 7 and 25 through 32 in Block 67 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records

Together with:

All that portion of Lot 8 in Block 67 of the City of Modesto described as follows:

Beginning at the most Northerly Corner of said Lot 8, thence South 43° 31' 06" East along the northeasterly line of said lot, a distance of 20.14 feet; thence South 46° 27' 30" West a distance of 150.09 feet to the center line of said alley; thence North 43° 31' 16" West along said center line a distance of 20.11 feet to the point of intersection with the southwesterly extension of the Northwesterly line of Lot 8; thence North 46° 26' 46" East along said extension and said Northwesterly line of Lot 8, a distance of 150.09 feet to the point of beginning.

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Also Together with:

All that portion of Lots 23 and 24 in Block 67 described as follows: Beginning at the most westerly corner of Lot 24, thence North 46° 27' 01" East along the northwesterly line of said Lot 24, a distance of 95.17 feet; thence South 43° 32' 30" East, a distance of 33.11 feet; thence South 46° 27' 30" West, a distance of 95.18 feet to a point on the southwesterly line of Lot 23; thence North 43° 31' 28" West, along said southwesterly line of Lot 23 and the southwesterly line of Lot 24 a distance of 33.10 feet to the point of beginning.

Excepting therefrom the following described property:

All that portion of Lot 25 in Block 67 described as follows: Beginning at the most easterly corner of Lot 25; thence South 46° 27' 01" West along the southeasterly line of said Lot 25, a distance of 44.92 feet; thence North 43° 32' 30" West, a distance of 4.91 feet; thence North 46° 27' 30" East, a distance of 54.92 feet to the centerline of the alley as shown on said map of Block 67; thence South 43° 31' 16" East, along said alley centerline, a distance of 4.90 feet, to the point of intersection with the northeasterly extension of the southeasterly line of said Lot 25; thence South 46° 27' 01" West along said extension, a distance of 10.00 feet to the point of beginning.

Parcel No. 6 -- Block 67 City-County Capital Improvements and Financing Agency

An undivided one-half interest in and to the following:

Lots 8 through 24 in Block 67 of the City of Modesto as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Together with the following described property:

All that portion of Lot 25 in Block 67 described as follows: Beginning at the most easterly corner of Lot 25; thence South 46° 27' 01" West along the southeasterly line of said Lot 25, a distance of 44.92 feet; thence North 43° 32' 30" West, a distance of 4.91 feet; thence North 46° 27' 30" East, a distance of 54.92 feet to the centerline of the alley as shown on said map of Block 67; thence South 43° 31' 16" East, along said alley centerline, a distance of 4.90 feet, to the point of intersection with the northeasterly extension of the southeasterly line of said Lot 25; thence South 46° 27' 01" West along said extension, a distance of 10.00 feet to the point of beginning.

Excepting therefrom the following described property:

All that portion of Lot 8 in Block 67 of the City of Modesto described as follows:

Beginning at the most Northerly Corner of said Lot 8, thence South 43° 31' 06" East along the northeasterly line of said lot, a distance of 20.14 feet; thence South 46° 27' 30" West a distance of 150.09 feet to the center line of said alley; thence North 43° 31' 16" West along said center line a distance of 20.11 feet to the point of intersection with the southwesterly extension of the Northwesterly line of Lot 8; thence North 46° 26' 46" East along said extension and said Northwesterly line of Lot 8, a distance of 150.09 feet to the point of beginning.

Also excepting therefrom the following described property:

All that portion of Lots 23 and 24 in Block 67 described as follows: Beginning at the most westerly corner of Lot 24, thence North 46° 27' 01" East along the northwesterly line of said Lot 24, a distance of 95.17 feet; thence South 43° 32' 30" East, a distance of 33.11 feet; thence South 46° 27' 30" West, a distance of 95.18 feet to a point on the southwesterly line of Lot 23; thence North 43° 31' 28" West, along said southwesterly line of Lot 23 and the southwesterly line of Lot 24 a distance of 33.10 feet to the point of beginning.

Parcel no. 7 -- Wesson Park

Parcel No. 1 as per Parcel Map filed January 28, 1980 in Volume 30 of Parcel Maps, Page 13, Stanislaus County Records.

Parcel No. 8 -- Hollywood Park

Lot 1 in Block 13158 of Hollywood Park No. 2 as per Map filed February 28, 1978 in Book 27 of Maps, Page 44, Stanislaus County Records.

Parcel No. 9-- Riverside Park

Parcel A:

Parcels 1 and 1-A as per Parcel Map recorded May 16, 1966 in Book 1 of Parcel Maps, Page 134, Stanislaus County Records.

Excepting Therefrom Parcels B-1 and B-2 as per Parcel Map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

Parcel B:

Parcel No. A as per map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

Parcel No. 10 -- Sipherd Park

Parcel B as per map recorded August 14, 1974 in Book 19 of Parcel Maps, Page 75, Stanislaus County Records.

Parcel No. 11 -- Morris Community Center

All of Block 603 of the City of Modesto as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 12 -- McHenry Mansion

Lots 17 through 24 in Block 122 of the City of Modesto as per Map file December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 13 -- McHenry Museum

Lots 27 through 32 in Block 113 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Excepting therefrom Lot 27, the Southeasterly 3 feet of the Southwesterly 97 feet thereof.

Parcel No. 14 -- Senior Citizens Center

Lots 18 through 31 in Block 590 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 15 -- Parking Structure

Lot 5 through 12 in Block 68 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 16 -- Parking Lot # 3

Lots 29, 30, 31 and 32 in Block 94 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 17 -- Parking Lot # 25

Lots 28 through 32 in Block 55 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 18 -- Fire Station # 1

Lots 17 through 26 in Block 81 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 19 -- Fire Station # 3

Lots 1 and 2 in Block 2283 of Dry Creek Estates No. 1 as per Map filed December 13, 1966 In Volume 21 of Maps, Page 55, Stanislaus County Records.

Parcel No. 20 -- Fire Station # 6

Parcel No. C as per Parcel Map filed August 17, 1977 in Book 25 of Parcel Maps, Page 83, Stanislaus County Records.

Parcel No. 21 -- Fire Station # 7

Parcel A as per Parcel Map filed June 27, 1974 in Volume 19 of Maps, Page 51, Stanislaus County Records.

Parcel No. 22 -- Fire Station #. 5

PARCEL 1:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at a point on the east line of said Lot 2 located on the centerline of a 50 foot public road designated as Oakdale Road on said map, which point is located North 0° 30' West 396 feet from the southeast corner of said Lot 2; thence from said point of beginning parallel to the south line of said Lot 2, North 88° 30' West 660 feet to a point on the west line of said Lot 2; thence North 0° 30' West along said west line of said Lot 2 a distance of 153.73 feet; thence east parallel with the south line of said Lot 2, a distance of 660 feet to a point on the east line of said Lot 2, located on the centerline of said Oakdale Road; thence along the east line of said Lot 2 and the centerline of said Oakdale Road, South 0° 30' East 174.24 feet to the point of beginning.

ALSO EXCEPTING THEREFROM all that portion thereof lying northerly of the north line of Burchell Court (formerly Northern Boulevard) extending westerly to the west line of Lot 2.

ALSO EXCEPTING THEREFROM all that portion thereof lying within Briggsmore Avenue, Burchell Court and McHenry Avenue.

ALSO EXCEPTING THEREFROM all that certain property described in Deed to Chester D. Chambers, recorded March 10, 1964 in Book 1929 at Page 641, and in Deed to S.W.A.P., a Joint Venture, recorded July 10, 1962 in Book 1780 at Page 145, Stanislaus County Records.

PARCEL 2:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, Section 17, Township 3 South, Range 9 East, M.D.B. & M., described as follows:

COMMENCING at a point on the southerly line of the property conveyed to Chester D. Chambers by Deed recorded May 7, 1959 in Volume 1545 of Official Records at Page 321, as Instrument No. 13137, Stanislaus County Records, said point being the northeastern corner of Parcel "E" on the western line of Timothy Avenue as shown on the map entitled "Survey of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6, Record of Surveys, page 53, Stanislaus County Records; thence along a line at right angles to the western line of Timothy Avenue, North 89° 30' East, 30.00 feet to a point on the northerly extension of the centerline of Timothy Avenue; thence along said northerly extension, North 00° 30' West, 46.90 feet to the true point of beginning; thence North 7° 52' 29" East, 84.51 feet to a point on the northern line of said Chambers property, which is also the southern line of the property conveyed to the City of Modesto by Deed recorded October 11, 1957, as Instrument No. 26217, Stanislaus County Records, said line also being the southern line of Parcel "A" as per map of Record of Survey filed July 6, 1962 in Volume 9 of

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Surveys, Page 25, Stanislaus County Records;

(continued)

Order No.: 904378 A

Legal Description - Continued

thence along said line, South 88° 32' 30" East, 142.76 feet to a 3/4 inch iron pipe at the southeastern corner of said Parcel "A", said corner being the northeast corner of said Chambers property which is also a point on the western line of a 20 foot alley conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, at Page 695, as Instrument No. 29947, Stanislaus County Records; thence along said western line, South 00° 30' East, 60.58 feet; thence South 82° 47' 55" West, 155.59 feet to the point of beginning.

PARCEL 3:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at the northeast corner of Parcel A, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed July 6, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the north line of Parcel "A", South 89° 46' 50" West 135.63 feet to the true point of beginning; thence continuing along said north line South 89° 46' 50" West 120.54 feet; thence South 37° 57' 43" East 166.35 feet to the southwest corner of property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence along the west line of the City of Modesto property as conveyed by Deed above referred to and the northerly extension of said westerly line North 7° 52' 29" East 132.90 feet, more or less, to the true point of beginning.

PARCEL 4:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at the northeast corner of Parcel D, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence North 83° 31' 30" West along the north line of said Parcel D and its westerly extension, a distance of 155.02 feet, more or less, to the centerline of Timothy Avenue, as shown on the Record of Survey above referred to; thence North 0° 30' West, along the northerly extension of said centerline of Timothy Avenue to the southwest corner of the property conveyed to the City of Modesto by Deed recorded March 10, 1964, in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence North 82° 47' 55" East along the south line of the City of Modesto property, as conveyed by Deed above referred to, to the southeast corner thereof, said point being on the west line of the property conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, Page 695, as Instrument No. 29947, Stanislaus County Records; thence south along the west line of the City of Modesto property as conveyed by Deed last above referred to, 71.83 feet, more or less, to the point of beginning.

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PARCEL 5:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

COMMENCING at the 3/4 inch iron pipe set for the northeastern corner of Parcel "A", as per map of Record of Survey filed July 26, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the northern line of said Parcel "A", South 89° 46' 50" West, 135.63 feet to the northeastern corner of the property conveyed to Chester D. Chambers by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 641, as Instrument No. 9844, Stanislaus County Records; thence along the eastern line of the Chambers property and the western line of the property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records, South 07° 52' 29" West, 132.90 feet to the southwestern corner of the City property as conveyed by Deed above referred to, and the true point of beginning; thence South 00° 30' 00" East, 48.44 feet, more or less, to a point on the southern line of property conveyed to Chester D. Chambers by Deed recorded May 7, 1959, as Instrument No. 13137, Stanislaus County Records, said point being on the centerline of the 60.00 foot Timothy Avenue, as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence along said southern line of the property conveyed to Chambers by Deed last above referred to and the north line of Timothy Avenue as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records, North 88° 30' West, 30.02 feet to a point on the western line of Timothy Avenue, as shown on said Record of Surveys; thence along said western line, North 00° 30' 00" West, 0.52 feet; thence along a tangent curve concave to the southwest having a radius of 15.00 feet, a central angle of 46° 11' 13" and an arc length of 12.09 feet to a point of reverse curvature from which a radial line bears North 43° 18' 47" East; thence along said reverse curve concave to the east, having a radius of 50.00 feet, a central angle of 98° 43' 30" and an arc length of 86.15 feet; thence along a radial line, South 37° 57' 43" East, 50.00 feet to the southwest corner of the property conveyed to the City of Modesto by the Deed referred to and the true point of beginning.

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Exhibit A

	City-County Admin Building Lease Payments	Parking Garage Lease Payments	Communications Dispatch Ctr Lease Payments	Police HQ Building Lease Payments	Public Parks Project Lease Payments	Total Lease Payments	Total Annual Lease Payments
8/15/98	\$ 574,580.52	\$ 434,093.22	\$ 57,322.47	\$ 303,822.47	\$ 66,343.68	\$ 1,436,162.36	
2/15/99	\$ 608,379.38	\$ 459,628.13	\$ 60,694.38	\$ 321,694.38	\$ 70,246.25	\$ 1,520,642.52	\$ 2,956,804.88
8/15/99	\$ 608,379.38	\$ 459,628.13	\$ 60,694.38	\$ 321,694.38	\$ 70,246.25	\$ 1,520,642.52	
2/15/00	\$ 608,379.38	\$ 459,628.13	\$ 60,694.38	\$ 321,694.38	\$ 70,246.25	\$ 1,520,642.52	\$ 3,041,285.04
8/15/00	\$ 608,379.38	\$ 459,628.13	\$ 60,694.38	\$ 321,694.38	\$ 70,246.25	\$ 1,520,642.52	
2/15/01	\$ 608,379.38	\$ 459,628.13	\$ 60,694.38	\$ 321,694.38	\$ 70,246.25	\$ 1,520,642.52	\$ 3,041,285.04
8/15/01	\$ 608,379.38	\$ 459,628.13	\$ 60,694.38	\$ 321,694.38	\$ 315,246.25	\$ 1,765,642.52	
2/15/02	\$ 608,379.38	\$ 459,628.13	\$ 60,694.38	\$ 321,694.38	\$ 65,346.25	\$ 1,515,742.52	\$ 3,281,385.04
8/15/02	\$ 608,379.38	\$ 459,628.13	\$ 60,694.38	\$ 321,694.38	\$ 320,346.25	\$ 1,770,742.52	
2/15/03	\$ 608,379.38	\$ 459,628.13	\$ 60,694.38	\$ 321,694.38	\$ 60,246.25	\$ 1,510,642.52	\$ 3,281,385.04
8/15/03	\$ 608,379.38	\$ 469,628.13	\$ 60,694.38	\$ 321,694.38	\$ 325,246.25	\$ 1,785,642.52	
2/15/04	\$ 608,379.38	\$ 459,428.13	\$ 60,694.38	\$ 321,694.38	\$ 54,946.25	\$ 1,505,142.52	\$ 3,290,785.04
8/15/04	\$ 608,379.38	\$ 494,428.13	\$ 60,694.38	\$ 321,694.38	\$ 329,946.25	\$ 1,815,142.52	
2/15/05	\$ 608,379.38	\$ 458,728.13	\$ 60,694.38	\$ 321,694.38	\$ 49,446.25	\$ 1,498,942.52	\$ 3,314,085.04
8/15/05	\$ 608,379.38	\$ 508,728.13	\$ 60,694.38	\$ 321,694.38	\$ 339,446.25	\$ 1,838,942.52	
2/15/06	\$ 608,379.38	\$ 457,703.13	\$ 60,694.38	\$ 321,694.38	\$ 43,501.25	\$ 1,491,972.52	\$ 3,330,915.04
8/15/06	\$ 608,379.38	\$ 537,703.13	\$ 60,694.38	\$ 321,694.38	\$ 343,501.25	\$ 1,871,972.52	
2/15/07	\$ 608,379.38	\$ 456,063.13	\$ 60,694.38	\$ 321,694.38	\$ 37,351.25	\$ 1,484,182.52	\$ 3,356,155.04
8/15/07	\$ 608,379.38	\$ 551,063.13	\$ 60,694.38	\$ 321,694.38	\$ 347,351.25	\$ 1,889,182.52	
2/15/08	\$ 608,379.38	\$ 454,068.13	\$ 60,694.38	\$ 321,694.38	\$ 30,841.25	\$ 1,475,677.52	\$ 3,364,860.04
8/15/08	\$ 608,379.38	\$ 579,068.13	\$ 60,694.38	\$ 321,694.38	\$ 355,841.25	\$ 1,925,677.52	
2/15/09	\$ 608,379.38	\$ 451,411.88	\$ 60,694.38	\$ 321,694.38	\$ 23,935.00	\$ 1,466,115.02	\$ 3,391,792.54
8/15/09	\$ 608,379.38	\$ 601,411.88	\$ 60,694.38	\$ 321,694.38	\$ 363,935.00	\$ 1,956,115.02	
2/15/10	\$ 608,379.38	\$ 448,130.63	\$ 60,694.38	\$ 321,694.38	\$ 16,497.50	\$ 1,455,396.27	\$ 3,411,511.29
8/15/10	\$ 613,379.38	\$ 628,130.63	\$ 80,694.38	\$ 346,694.38	\$ 371,497.50	\$ 2,040,396.27	
2/15/11	\$ 608,266.88	\$ 444,080.63	\$ 60,244.38	\$ 321,131.88	\$ 8,510.00	\$ 1,442,233.77	\$ 3,482,630.04
8/15/11	\$ 613,266.88	\$ 654,080.63	\$ 90,244.38	\$ 391,131.88	\$ 378,510.00	\$ 2,127,233.77	
2/15/12	\$ 608,151.88	\$ 439,250.63	\$ 59,554.38	\$ 319,521.88	\$ -	\$ 1,426,478.77	\$ 3,553,712.54

8/15/12	\$ 948,151.88	\$ 684,250.63	\$ 94,554.38	\$ 494,521.88	\$ -	\$ 2,221,478.77	
2/15/13	\$ 600,161.88	\$ 433,493.13	\$ 58,731.88	\$ 315,409.38	\$ -	\$ 1,407,796.27	\$ 3,629,275.04
8/15/13	\$ 985,161.88	\$ 718,493.13	\$ 98,731.88	\$ 515,409.38	\$ -	\$ 2,317,796.27	
2/15/14	\$ 590,921.88	\$ 426,653.13	\$ 57,771.88	\$ 310,609.38	\$ -	\$ 1,385,956.27	\$ 3,703,752.54
8/15/14	\$ 1,025,921.88	\$ 741,653.13	\$ 102,771.88	\$ 540,609.38	\$ -	\$ 2,410,956.27	
2/15/15	\$ 580,046.88	\$ 418,778.13	\$ 56,646.88	\$ 304,859.38	\$ -	\$ 1,360,331.27	\$ 3,771,287.54
8/15/15	\$ 1,070,046.88	\$ 773,778.13	\$ 106,646.88	\$ 564,859.38	\$ -	\$ 2,515,331.27	
2/15/16	\$ 567,796.88	\$ 409,903.13	\$ 55,396.88	\$ 298,359.38	\$ -	\$ 1,331,456.27	\$ 3,846,787.54
8/15/16	\$ 1,117,796.88	\$ 804,903.13	\$ 110,396.88	\$ 588,359.38	\$ -	\$ 2,621,456.27	
2/15/17	\$ 554,046.88	\$ 400,028.13	\$ 54,021.88	\$ 291,109.38	\$ -	\$ 1,299,206.27	\$ 3,920,662.54
8/15/17	\$ 1,164,046.88	\$ 840,028.13	\$ 114,021.88	\$ 616,109.38	\$ -	\$ 2,734,206.27	
2/15/18	\$ 538,415.63	\$ 388,753.14	\$ 52,484.38	\$ 282,781.25	\$ -	\$ 1,262,434.40	\$ 3,996,640.67
8/15/18	\$ 1,223,415.63	\$ 878,753.14	\$ 117,484.38	\$ 637,781.25	\$ -	\$ 2,857,434.40	
2/15/19	\$ 520,862.51	\$ 376,196.88	\$ 50,818.75	\$ 273,684.38	\$ -	\$ 1,221,562.52	\$ 4,078,996.92
8/15/19	\$ 1,275,862.51	\$ 916,196.88	\$ 125,818.75	\$ 668,684.38	\$ -	\$ 2,986,562.52	
2/15/20	\$ 501,515.63	\$ 362,359.39	\$ 48,896.88	\$ 263,562.50	\$ -	\$ 1,176,334.40	\$ 4,162,896.92
8/15/20	\$ 1,331,515.63	\$ 962,359.39	\$ 128,896.88	\$ 698,562.50	\$ -	\$ 3,121,334.40	
2/15/21	\$ 480,246.88	\$ 346,984.39	\$ 46,846.88	\$ 252,415.63	\$ -	\$ 1,126,493.78	\$ 4,247,828.18
8/15/21	\$ 1,385,246.88	\$ 1,001,984.39	\$ 136,846.88	\$ 732,415.63	\$ -	\$ 3,256,493.78	
2/15/22	\$ 458,753.13	\$ 331,428.14	\$ 44,709.38	\$ 241,015.63	\$ -	\$ 1,075,906.28	\$ 4,332,400.06
8/15/22	\$ 1,448,753.13	\$ 1,046,428.14	\$ 139,709.38	\$ 761,015.63	\$ -	\$ 3,395,906.28	
2/15/23	\$ 435,240.63	\$ 314,446.89	\$ 42,453.13	\$ 228,665.63	\$ -	\$ 1,020,806.28	\$ 4,416,712.56
8/15/23	\$ 1,510,240.63	\$ 1,089,446.89	\$ 147,453.13	\$ 793,665.63	\$ -	\$ 3,540,806.28	
2/15/24	\$ 409,709.38	\$ 296,040.64	\$ 39,959.38	\$ 215,246.88	\$ -	\$ 960,956.28	\$ 4,501,762.56
8/15/24	\$ 1,579,709.38	\$ 1,141,040.64	\$ 149,959.38	\$ 830,246.88	\$ -	\$ 3,700,956.28	
2/15/25	\$ 381,921.88	\$ 275,971.89	\$ 37,346.88	\$ 200,640.63	\$ -	\$ 895,881.28	\$ 4,596,837.56
8/15/25	\$ 1,646,921.88	\$ 1,185,971.89	\$ 162,346.88	\$ 865,640.63	\$ -	\$ 3,860,881.28	
2/15/26	\$ 350,296.88	\$ 253,221.89	\$ 34,221.88	\$ 184,015.63	\$ -	\$ 821,756.28	\$ 4,682,637.56
8/15/26	\$ 1,720,296.88	\$ 1,248,221.89	\$ 164,221.88	\$ 909,015.63	\$ -	\$ 4,041,756.28	
2/15/27	\$ 316,046.88	\$ 228,346.89	\$ 30,971.88	\$ 165,890.63	\$ -	\$ 741,256.28	\$ 4,783,012.56
8/15/27	\$ 1,801,046.88	\$ 1,298,346.89	\$ 175,971.88	\$ 945,890.63	\$ -	\$ 4,221,256.28	
2/15/28	\$ 278,921.88	\$ 201,596.89	\$ 27,346.88	\$ 146,390.63	\$ -	\$ 654,256.28	\$ 4,875,512.56

8/15/28	\$ 1,883,921.88	\$ 1,356,596.89	\$ 182,346.88	\$ 991,390.63	\$ -	\$ 4,414,256.28	
2/15/29	\$ 238,796.88	\$ 172,721.89	\$ 23,471.88	\$ 125,265.63	\$ -	\$ 560,256.28	\$ 4,974,512.56
8/15/29	\$ 1,923,796.88	\$ 1,387,721.89	\$ 188,471.88	\$ 1,010,265.63	\$ -	\$ 4,510,256.28	
2/15/30	\$ 196,671.88	\$ 142,346.89	\$ 19,346.88	\$ 103,140.63	\$ -	\$ 461,506.28	\$ 4,971,762.56
8/15/30	\$ 1,971,671.88	\$ 1,427,346.89	\$ 194,346.88	\$ 1,033,140.63	\$ -	\$ 4,626,506.28	
2/15/31	\$ 151,187.51	\$ 109,418.76	\$ 14,862.50	\$ 79,309.38	\$ -	\$ 354,778.15	\$ 4,981,284.43
8/15/31	\$ 2,016,187.51	\$ 1,459,418.76	\$ 199,862.50	\$ 1,059,309.38	\$ -	\$ 4,734,778.15	
2/15/32	\$ 103,396.88	\$ 74,825.01	\$ 10,121.88	\$ 54,196.88	\$ -	\$ 242,540.65	\$ 4,977,318.80
8/15/32	\$ 2,068,396.88	\$ 1,499,825.01	\$ 200,121.88	\$ 1,084,196.88	\$ -	\$ 4,852,540.65	
2/15/33	\$ 53,043.76	\$ 38,309.38	\$ 5,253.13	\$ 27,803.13	\$ -	\$ 124,409.40	\$ 4,976,950.05
8/15/33	\$ 2,123,043.76	\$ 1,533,309.38	\$ 210,253.13	\$ 1,112,803.13	\$ -	\$ 4,979,409.40	\$ 4,979,409.40
	\$ 58,539,528.40	\$ 43,661,752.58	\$ 5,806,949.05	\$ 30,899,539.05	\$ 4,599,063.68	\$ 143,506,832.76	\$ 143,506,832.76

Stanislaus, County Recorder
Karen Mathews Co Recorder Office
DOC- 2000-0048260-00
Thursday, JUN 15, 2000 10:18:51
Tel Pd \$0.00 Nbr-000000000
BYD/R3/ 1-12

Recording Requested By:
City of Modesto, California

When Recorded Mail To:)
Brown & Wood LLP)
555 California Street)
50th Floor)
San Francisco, California 94104)
Attn: Eric D. Tashman, Esq.)

This document is recorded for the benefit of the City of Modesto, California and recording is fee-exempt under § 27383 of the Government Code.

AMENDMENT NO. 1 TO LEASE/PURCHASE AGREEMENT

Dated June 15, 2000

between the

MODESTO PUBLIC FINANCING AUTHORITY,
as Lessor

and the

CITY OF MODESTO,
as Lessee

JUN 15 2000 09:28:40

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AMENDMENT NO. 1 TO LEASE/PURCHASE AGREEMENT

THIS AMENDMENT NO. 1 TO LEASE/PURCHASE AGREEMENT, dated June 15, 2000, by and between the MODESTO PUBLIC FINANCING AUTHORITY, a joint powers agency duly organized and existing under the laws of the State of California, as lessor (the "Lessor"), and the CITY OF MODESTO, California, a charter city and a municipal corporation duly organized and existing under the laws of the State of California, as lessee (the "Lessee") (the "Amendment No. 1 to Lease/Purchase Agreement"), and accepted and agreed to by BNY Western Trust Company, as successor trustee (the "Trustee") to Harris Trust Company of California, a state banking corporation duly organized and existing under and by virtue of the laws of the State of California, as trustee under the Trust Indenture, dated as of March 1, 1998, between the Authority and the Trustee.

WITNESSETH:

WHEREAS, the Lessor is authorized to issue its obligation pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the California Government Code, as amended (the "Act"), for its purposes, including providing funds under a program to finance or refinance the "Cost" of various "Public Capital Improvements" (within the respective meanings of such terms in Sections 6585(d) and (g) of the Act); and

WHEREAS, the Lessee is a "local agency" (within the meaning of such term in Section 6585(f) of the Act, a "Local Agency") and undertook in conjunction with the City-County Capital Improvements and Financing Agency (the "Financing Agency"), and the Redevelopment Agency of the City of Modesto (the "Agency"), the acquisition, construction and/or installation of certain public capital improvements (the "Project"), all as more fully described in the Lease/Purchase Agreement, dated as of March 1, 1998, by and between the Lessor and the Lessee, as recorded in the Official Records of the County of Stanislaus Recorder's Office on March 11, 1998 as Document number 98-0022319-00 (the "1998 Lease/Purchase Agreement"), which facilities are Public Capital Improvements under the Act; and

WHEREAS, in furtherance of the Project, the Lessee and the Agency entered into two site leases (recorded concurrently with the 1998 Lease/Purchase Agreement), one of which is that certain Site Lease (Parking Garage), dated as of March 1, 1998 (the "1998 Site Lease") wherein the Agency leased to the Lessor certain real property (the "1998 Site"); and

WHEREAS, the Lessor leased the 1998 Site, together with the Project constructed and/or installed on the 1998 Site, to the Lessee (the "Leased Property") and the Lessee leased the Leased Property, together with other leased property, from the Lessor, pursuant to and in accordance with the terms of 1998 Lease/Purchase Agreement; and

WHEREAS, in order to provide funds to finance the costs of the acquisition and construction of the Project, the Lessor issued its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) in an aggregate principal amount of \$61,430,000; and

WHEREAS, the Bonds were issued and secured under a Trust Indenture (the "Indenture"), dated as of March 1, 1998, between the Lessor and the Trustee; and

WHEREAS, pursuant to a Reimbursement Agreement, dated as of March 1, 1998, by and between the City and the Agency, the Agency is obligated to pay to the Lessee the costs of the Project constituting the public parking garage, together with related improvements, as more fully described in the 1998 Lease/Purchase Agreement; and

WHEREAS, the Lessee found and determined that the Leased Property as of March 1, 1998 had fair value sufficient to make certain Lease Payments as defined and set forth in the 1998 Lease/Purchase Agreement; and

WHEREAS, the Lessor assigned all of its rights, title and interest under the 1998 Lease/Purchase Agreement to the Trustee under the Indenture, as security for the Bonds;

WHEREAS, Section 5.3 of the 1998 Lease/Purchase Agreement permits the removal of Leased Property, including the release of not more than approximately 15,000 square feet of the property constituting the site upon which the Parking Garage will be located (the "Parking Garage Retail Site") subject to the satisfaction of certain conditions;

WHEREAS, the City has requested the release of the Parking Garage Retail Site from the 1998 Lease/Purchase Agreement and the 1998 Site Lease;

WHEREAS, the City has provided to the Trustee an amended Exhibit C to the 1998 Lease/Purchase Agreement which includes a new metes and bounds description for the 1998 Site which reflects the reconveyance and release of the Parking Garage Retail Site;


WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Amendment No. 1 to Lease/Purchase Agreement (including the delivery of certificates and opinions as required by Section 5.3 of the 1998 Lease/Purchase Agreement) do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into the Amendment No. 1 to Lease/Purchase Agreement;

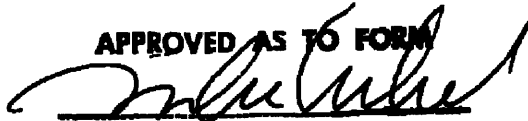
NOW, THEREFORE, in consideration of the above premises and of the mutual covenants hereinafter contained and for other good and valuable consideration, the parties hereto agree as follows:

1. Exhibit C to the 1998 Lease/Purchase Agreement is hereby amended in its entirety with the substitution of Exhibit C attached hereto; and
2. Except as set forth in paragraph 1, the 1998 Lease/Purchase Agreement shall remain in full force and effect in accordance with its terms.

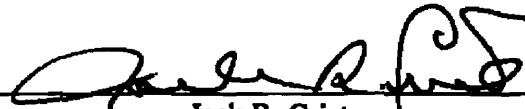
IN WITNESS WHEREOF, the Lessor has caused this Amendment No. 1 to Lease/Purchase Agreement to be executed in its name by its duly authorized representative; and the Lessee has caused this Amendment No. 1 to Lease/Purchase Agreement to be executed in its name by its duly authorized officer, all as of the Dated Date.

MODESTO PUBLIC FINANCING AUTHORITY,
as Lessor

By: 
Jack R. Crist
Executive Director

APPROVED AS TO FORM

Michael D. Milich, City Attorney

CITY OF MODESTO, as Lessee

By: 
Jack R. Crist
City Manager

Accepted and Approved by

BNY WESTERN TRUST COMPANY,
successor to Harris Trust Company of
California

By: 
Inga Keldsen
Vice President

State of California)
) ss.
County of Stanislaus)

On JUNE 12, 2000 before me, LINDA C. KING
[insert date] [Here insert name of notary]

personally appeared Jack R. Crist

personally known to me, or

proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are

subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Linda C. King

[Seal]



048260 JUN 15 00

State of California)
) ss.
County of Stanislaus)

On JUNE 12, 2000 before me, LINDA C. KING
[Insert date] [Here insert name of notary]

personally appeared Jack R. Crist

personally known to me, or

proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are

subscribed to the within instrument and acknowledged to me that he/~~she/they~~ executed the same in his/~~her/their~~ authorized capacity(ies), and that by his/~~her/their~~ signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Linda C. King

[Seal]



State of California)
) ss.
City and County of San Francisco)

On 6/9/00 before me, Susan N. Gorshen
[insert date] [Here insert name of notary]

personally appeared Inga Keldsen

personally known to me, or

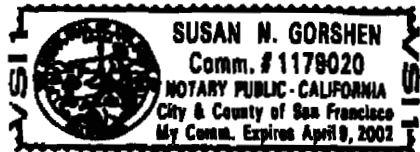
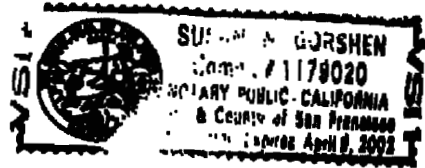
proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are

subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Susan N. Gorshen

[Seal]



Legal Description of the SitesParcel No. 1 -- Graceda Park

All of Blocks 531, 532 and 533 as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 2 -- Floyd Park

Parcels A and B as per Parcel Map filed October 9, 1969 in Volume 7 of Parcel Maps, Page 68, Stanislaus County Records.

Parcel No. 3 -- Communication Facility

An undivided one-half interest in the following:

Parcel 2 as per Parcel Map filed September 24, 1979 in Volume 29 of Parcel Maps, Page 100, Stanislaus County Records.

Parcel No. 4 -- Police Facility

Lots 1 thru 32, inclusive, in Block 71 of the CITY OF MODESTO, as per map recorded December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

TOGETHER WITH

All that real property in the State of California, County of Stanislaus, City of Modesto, being a portion of the Northeast quarter of Section 32, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, described as follows:

That portion of the 20-foot alley in Block 71 as delineated on the Official Map of the City of Modesto, as per map filed December 21, 1942, in Volume 15 of Maps, Stanislaus County Records, described as follows:

Beginning at the most Southerly corner of Lot 16 in said Block 71, said point being on the Northeastern line of said 20.00 foot alley in Block 71; thence along said Northeastern line of said alley, North 43° 29' 30" West, 150.00 feet, to the most Southerly corner of Lot 10 in Block 71; thence South 46° 30' 30" West, 20.00 feet, to the most Northerly corner of Lot 22 in Block 71, said point being on the Southwestern line of the 20.00 foot alley in Block 71; thence along said Southwestern line of said alley, South 43° 29' 30" East, 150.00 feet, to the most Easterly corner of Lot 17 in Block 71, said point being on the Northwestern line of 80.00 foot "F" Street; thence along said Northwestern line of "F" Street, North 46° 30' 30" East, 20.00 feet, to the point of beginning.

All that portion of Block 67 of the City of Modesto, as per the official map thereof, filed in Book 15 of Maps, together with the abandoned alley therein, lying in the south half of Section 29, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, City of Modesto, County of Stanislaus, State of California, described as follows:

BEGINNING at the north corner of said Block 67, said point being the intersection of the southwesterly line of 80.00 feet wide Eleventh Street with the southeasterly line of 80.00 feet wide K Street; thence on said Southeasterly line, South 46°48'48" West 253.06 feet; thence South 43°09'48" East 167.50 feet; thence North 46°50'12" East 23.24 feet; thence South 43°09'48" East 17.52 feet; thence North 46°50'12" East 16.00 feet; thence South 43°09'48" East 16.00 feet; thence South 46°50'12" West 16.00 feet; thence South 43°09'48" East 12.97 feet; thence South 46°48'48" West 54.07 feet; thence North 88°11'12" West 30.10 feet to the northeasterly line of 70.00 feet wide 10th Street; thence on said northeasterly line, South 43°10'10" East 207.48 feet to the northwesterly line of 80.00 feet wide J Street; thence on said northwesterly line, North 46°47'30" East 305.16 feet to the southwesterly line of 80.00 feet wide 11th Street; thence on said southwesterly line, North 43°09'48" west 400.08 feet to the point of beginning.

• Containing 2.522 acres, more or less.

Parcel No. 7 -- Wesson Park

Parcel No. 1 as per Parcel Map filed January 28, 1980 in Volume 30 of Parcel Maps, Page 13, Stanislaus County Records.

Parcel No. 8 -- Hollywood Park

Lot 1 in Block 13158 of Hollywood Park No. 2 as per Map filed February 28, 1978 in Book 27 of Maps, Page 44, Stanislaus County Records.

Parcel No. 9-- Riverside Park

Parcel A:

Parcels 1 and 1-A as per Parcel Map recorded May 16, 1966 in Book 1 of Parcel Maps, Page 134, Stanislaus County Records.

Excepting Therefrom Parcels B-1 and B-2 as per Parcel Map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

Parcel B:

Parcel No. A as per map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

Parcel No. 10 -- Sipherd Park

Parcel B as per map recorded August 14, 1974 in Book 19 of Parcel Maps, Page 75, Stanislaus County Records.

Parcel No. 11 -- Morris Community Center

All of Block 603 of the City of Modesto as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 12 -- McHenry Mansion

Lots 17 through 24 in Block 122 of the City of Modesto as per Map file December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 13 -- McHenry Museum

Lots 27 through 32 in Block 113 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Excepting therefrom Lot 27, the Southeasterly 3 feet of the Southwesterly 97 feet thereof.

Parcel No. 14 -- Senior Citizens Center

Lots 18 through 31 in Block 590 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 15 -- Parking Structure

Lot 5 through 12 in Block 68 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 16 -- Parking Lot # 3

Lots 29, 30, 31 and 32 in Block 94 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 17 -- Parking Lot # 25

Lots 28 through 32 in Block 55 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 18 -- Fire Station # 1

Lots 17 through 26 in Block 81 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 19 -- Fire Station # 3

Lots 1 and 2 in Block 2283 of Dry Creek Estates No. 1 as per Map filed December 13, 1966 In Volume 21 of Maps, Page 55, Stanislaus County Records.

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Parcel No. 20 -- Fire Station # 6

Parcel No. C as per Parcel Map filed August 17, 1977 in Book 25 of Parcel Maps, Page 83, Stanislaus County Records.

Parcel No. 21 -- Fire Station # 7

Parcel A as per Parcel Map filed June 27, 1974 in Volume 19 of Maps, Page 51, Stanislaus County Records.

Parcel No. 22 -- Fire Station #. 5

PARCEL 1:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at a point on the east line of said Lot 2 located on the centerline of a 50 foot public road designated as Oakdale Road on said map, which point is located North 0° 30' West 396 feet from the southeast corner of said Lot 2; thence from said point of beginning parallel to the south line of said Lot 2, North 88° 30' West 660 feet to a point on the west line of said Lot 2; thence North 0° 30' West along said west line of said Lot 2 a distance of 153.73 feet; thence east parallel with the south line of said Lot 2, a distance of 660 feet to a point on the east line of said Lot 2, located on the center line of said Oakdale Road; thence along the east line of said Lot 2 and the centerline of said Oakdale Road, South 0° 30' East 174.24 feet to the point of beginning.

ALSO EXCEPTING THEREFROM all that portion thereof lying northerly of the north line of Burchell Court (formerly Northern Boulevard) extending westerly to the west line of Lot 2.

ALSO EXCEPTING THEREFROM all that portion thereof lying within Briggsmore Avenue, Burchell Court and McHenry Avenue.

ALSO EXCEPTING THEREFROM all that certain property described in Deed to Chester D. Chambers, recorded March 10, 1964 in Book 1929 at Page 641, and in Deed to S.W.A.P., a Joint Venture, recorded July 10, 1962 in Book 1780 at Page 145, Stanislaus County Records.

PARCEL 2:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, Section 17, Township 3 South, Range 9 East, M.D.B. & M., described as follows:

COMMENCING at a point on the southerly line of the property conveyed to Chester D. Chambers by Deed recorded May 7, 1959 in Volume 1545 of Official Records at Page 321, as Instrument No. 13137, Stanislaus County Records, said point being the northeastern corner of Parcel "E" on the western line of Timothy Avenue as shown on the map entitled "Survey of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6, Record of Surveys, page 53, Stanislaus County Records; thence along a line at right angles to the western line of Timothy Avenue, North 89° 30' East, 30.00 feet to a point on the northerly extension of the centerline of Timothy Avenue; thence along said northerly extension, North 00° 30' West, 46.90 feet to the true point of beginning; thence North 7° 52' 29" East, 84.51 feet to a point on the northern line of said Chambers property, which is also the southern line of the property conveyed to the City of Modesto by Deed recorded October 11, 1957, as Instrument No. 26217, Stanislaus County Records, said line also being the southern line of Parcel "A" as per map of Record of Survey filed July 6, 1962 in Volume 9 of

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Surveys, Page 25, Stanislaus County Records;

(continued)
Order No.: 904378 A
Legal Description - Continued

thence along said line, South 88° 32' 30" East, 142.76 feet to a 3/4 inch iron pipe at the southeastern corner of said Parcel "A", said corner being the northeast corner of said Chambers property which is also a point on the western line of a 20 foot alley conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, at Page 695, as Instrument No. 29947, Stanislaus County Records; thence along said western line, South 00° 30' East, 60.58 feet; thence South 82° 47' 55" West, 155.59 feet to the point of beginning.

PARCEL 3:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at the northeast corner of Parcel A, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed July 6, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the north line of Parcel "A", South 89° 46' 50" West 135.63 feet to the true point of beginning; thence continuing along said north line South 89° 46' 50" West 120.54 feet; thence South 37° 57' 43" East 166.35 feet to the southwest corner of property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence along the west line of the City of Modesto property as conveyed by Deed above referred to and the northerly extension of said westerly line North 7° 52' 29" East 132.90 feet, more or less, to the true point of beginning.

PARCEL 4:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at the northeast corner of Parcel D, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence North 83° 31' 30" West along the north line of said Parcel D and its westerly extension, a distance of 155.02 feet, more or less, to the centerline of Timothy Avenue, as shown on the Record of Survey above referred to; thence North 0° 30' West, along the northerly extension of said centerline of Timothy Avenue to the southwest corner of the property conveyed to the City of Modesto by Deed recorded March 10, 1964, in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence North 82° 47' 55" East along the south line of the City of Modesto property, as conveyed by Deed above referred to, to the southeast corner thereof, said point being on the west line of the property conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, Page 695, as Instrument No. 29947, Stanislaus County Records; thence south along the west line of the City of Modesto property as conveyed by Deed last above referred to, 71.83 feet, more or less, to the point of beginning.

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PARCEL 5:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

COMMENCING at the 3/4 inch iron pipe set for the northeastern corner of Parcel "A", as per map of Record of Survey filed July 26, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the northern line of said Parcel "A", South 89° 46' 50" West, 135.63 feet to the northeastern corner of the property conveyed to Chester D. Chambers by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 641, as Instrument No. 9844, Stanislaus County Records; thence along the eastern line of the Chambers property and the western line of the property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records, South 07° 52' 29" West, 132.90 feet to the southwestern corner of the City property as conveyed by Deed above referred to, and the true point of beginning; thence South 00° 30' 00" East, 48.44 feet, more or less, to a point on the southern line of property conveyed to Chester D. Chambers by Deed recorded May 7, 1959, as Instrument No. 13137, Stanislaus County Records, said point being on the centerline of the 60.00 foot Timothy Avenue, as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence along said southern line of the property conveyed to Chambers by Deed last above referred to and the north line of Timothy Avenue as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records, North 88° 30' West, 30.02 feet to a point on the western line of Timothy Avenue, as shown on said Record of Surveys; thence along said western line, North 00° 30' 00" West, 0.52 feet; thence along a tangent curve concave to the southwest having a radius of 15.00 feet, a central angle of 46° 11' 13" and an arc length of 12.09 feet to a point of reverse curvature from which a radial line bears North 43° 18' 47" East; thence along said reverse curve concave to the east, having a radius of 50.00 feet, a central angle of 98° 43' 30" and an arc length of 86.15 feet; thence along a radial line, South 37° 57' 43" East, 50.00 feet to the southwest corner of the property conveyed to the City of Modesto by the Deed referred to and the true point of beginning.

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Stanislaus, County Recorder
Lee Lundrigan Co Recorder Office
DOC- 2002-0144999-00

Recording Requested By:
City of Modesto, California

Rec'd 503-First American Title Co
Wednesday, NOV 06, 2002 08:00:00
Ttl Pd \$46.00 Nbr-0001058395
OWP/R3/1-14

When Recorded Mail To:
Sidley Austin Brown & Wood LLP
555 California Street
50th Floor
San Francisco, California 94104
Attn: Eric D. Tashman, Esq.

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This document is recorded for the benefit of the City of Modesto, California and recording is fee-exempt under § 27383 of the Government Code.

AMENDMENT NO. 2 TO LEASE/PURCHASE AGREEMENT

Dated October 15, 2002

between the

MODESTO PUBLIC FINANCING AUTHORITY,
as Lessor

and the

CITY OF MODESTO,
as Lessee

F.A.T.

RECORD IN ORDER
PRESENTED

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JH

AMENDMENT NO. 2 TO LEASE/PURCHASE AGREEMENT

THIS AMENDMENT NO. 2 TO LEASE/PURCHASE AGREEMENT, dated October 15, 2002, by and between the MODESTO PUBLIC FINANCING AUTHORITY, a joint powers agency duly organized and existing under the laws of the State of California, as lessor (the "Lessor"), and the CITY OF MODESTO, California, a charter city and a municipal corporation duly organized and existing under the laws of the State of California, as lessee (the "Lessee") (the "Amendment No. 2 to Lease/Purchase Agreement"), and accepted and agreed to by BNY Western Trust Company, as successor trustee (the "Trustee") to Harris Trust Company of California, a state banking corporation duly organized and existing under and by virtue of the laws of the State of California, as trustee under the Trust Indenture, dated as of March 1, 1998, between the Authority and the Trustee.

WITNESSETH:

WHEREAS, the Lessor is authorized to issue its obligation pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the California Government Code, as amended (the "Act"), for its purposes, including providing funds under a program to finance or refinance the "Cost" of various "Public Capital Improvements" (within the respective meanings of such terms in Sections 6585(d) and (g) of the Act); and

WHEREAS, the Lessee is a "local agency" (within the meaning of such term in Section 6585(f) of the Act, a "Local Agency") and undertook in conjunction with the City-County Capital Improvements and Financing Agency (the "Financing Agency"), and the Redevelopment Agency of the City of Modesto (the "Agency"), the acquisition, construction and/or installation of certain public capital improvements (the "Project"), all as more fully described in the Lease/Purchase Agreement, dated as of March 1, 1998, by and between the Lessor and the Lessee, as recorded in the Official Records of the County of Stanislaus Recorder's Office on March 11, 1998 as Document number 98-0022319-00 (the "1998 Lease/Purchase Agreement"), which facilities are Public Capital Improvements under the Act; and

WHEREAS, in furtherance of the Project, the Lessee and the Lessor entered into two site leases (recorded concurrently with the 1998 Lease/Purchase Agreement), one of which is that certain Site Lease (Parks Project, Police Headquarters Building and Miscellaneous Public Properties), dated as of March 1, 1998 (the "1998 Site Lease") wherein the Lessee leased to the Lessor certain real property (the "1998 Site"); and

WHEREAS, the Lessor leased the 1998 Site, together with the Project constructed and/or installed on the 1998 Site, to the Lessee (the "Leased Property") and the Lessee leased the Leased Property, together with other leased property, from the Lessor, pursuant to and in accordance with the terms of the 1998 Lease/Purchase Agreement; and

WHEREAS, in order to provide funds to finance the costs of the acquisition and construction of the Project, the Lessor issued its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) in an aggregate principal amount of \$61,430,000; and

WHEREAS, the Bonds were issued and secured under a Trust Indenture (the "Indenture"), dated as of March 1, 1998, between the Lessor and the Trustee; and

WHEREAS, the Lessee found and determined that the Leased Property as of March 1, 1998 had fair value sufficient to make certain Lease Payments as defined and set forth in the 1998 Lease/Purchase Agreement; and

WHEREAS, the Lessor assigned all of its rights, title and interest under the 1998 Lease/Purchase Agreement to the Trustee under the Indenture, as security for the Bonds;

WHEREAS, Section 5.3 of the 1998 Lease/Purchase Agreement permits the removal of Leased Property, including the release of the real property and improvements constituting the Miscellaneous Public Properties as described in Exhibit C to the 1998 Lease/Purchase Agreement and which includes the Parking Lot No. 3 Site (the "Parking Lot No. 3 Site") subject to the satisfaction of certain conditions;

WHEREAS, the Lessor and the Lessee executed that Amendment No. 1 to Lease/Purchase Agreement to release the Parking Garage Retail Site from the 1998 Lease/Purchase Agreement, dated June 15, 2000;

WHEREAS, the Lessee has requested the release of the Parking Lot No. 3 Site from the 1998 Lease/Purchase Agreement and the 1998 Site Lease;

WHEREAS, the Lessee has provided to the Trustee an amended Exhibit B and an amended Exhibit C to the 1998 Lease/Purchase Agreement which includes a new metes and bounds description for the 1998 Site which reflects the reconveyance and release of the Parking Lot No. 3 Site;

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Amendment No. 2 to Lease/Purchase Agreement (including the delivery of certificates and opinions as required by Section 5.3 of the 1998 Lease/Purchase Agreement) do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into the Amendment No. 2 to Lease/Purchase Agreement;

NOW, THEREFORE, in consideration of the above premises and of the mutual covenants hereinafter contained and for other good and valuable consideration, the parties hereto agree as follows:

1. Exhibit B to the 1998 Lease/Purchase Agreement is hereby amended in its entirety with the substitution of Exhibit B attached hereto; and

2. Exhibit C to the 1998 Lease/Purchase Agreement is hereby amended in its entirety with the substitution of Exhibit C attached hereto; and

3. Except as set forth in paragraphs 1 and 2, the 1998 Lease/Purchase Agreement shall remain in full force and effect in accordance with its terms; and

4. This Amendment No. 2 to Lease/Purchase Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and any and all such counterparts shall together constitute but one and the same instrument.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Lessor has caused this Amendment No. 2 to Lease/Purchase Agreement to be executed in its name by its duly authorized representative; and the Lessee has caused this Amendment No. 2 to Lease/Purchase Agreement to be executed in its name by its duly authorized officer, all as of the day and year first above written.

MODESTO PUBLIC FINANCING AUTHORITY,
as Lessor

By: 
Jack R. Crist
Executive Director

CITY OF MODESTO, as Lessee

By: 
Jack R. Crist
City Manager

Accepted and Approved by

BNY WESTERN TRUST COMPANY,
successor to Harris Trust Company of
California, as Trustee

By: 
Vice President

State of California)
) ss.
County of Stanislaus)

On 10-27-02 before me, Esther Puckett
[insert date] [Here insert name of notary]

personally appeared Jack R. Crist

personally known to me, or

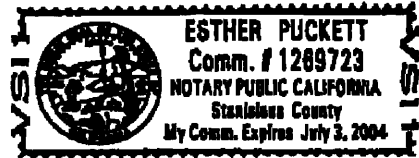
proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are

subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Esther Puckett

[Seal]



State of California)
) ss.
County of Stanislaus)

On 10-29-02 before me, Esther Puckett
[insert date] [Here insert name of notary]

personally appeared Jack R. Crist

personally known to me, or

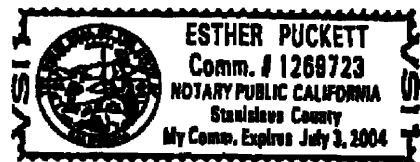
proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are

subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Esther Puckett

[Seal]



State of California)
) ss.
City and County of San Francisco)

On OCT 25, 2002 before me, ALAN MARAVILLA NOTARY PUBLIC
[Insert date] [Here insert name of notary]

personally appeared INCA KELDSEN

~~(s)~~ (personally known to me) or

~~(s)~~ proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are

subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature



[Seal]



GENERAL DESCRIPTION OF THE LEASED PROPERTY

1. **The Lessee's one-half undivided interest in and to portions of the City-County Administrative building, including the Lessee's one-half undivided interest in the Site upon which such facility will be constructed, together with the Lessee's rights and interests in the use of common areas, but excluding that certain airspace subdivision on the first floor of the City-County Administrative building.**
2. **The public parking garage containing approximately 700 spaces to be used by the general public, including the Site upon which such facility is located.**
3. **The Public Park Improvements, consisting of (i) the Floyd Neighborhood Park, (ii) the Riverside Neighborhood Park, (iii) the Sipherd Neighborhood Park (iv) the Wesson Ranch Neighborhood Park, and (v) the Park Graceada, including in each instance, all other improvements, facilities to be exclusively occupied or administered by the City.**
4. **The Lessee's undivided fifty percent (50%) interest in and to the use of facilities constituting the Communications Dispatch Center, including its undivided fifty percent (50%) interest in and to the Site, and interests in the use of common areas.**
5. **The Police Headquarters building, including the Site upon which such facility is located.**
6. **The Miscellaneous Public Properties, such properties being located within the City and more commonly referred to as (i) Fire Station No. 1; (ii) Fire Station No. 3; (iii) Fire Station No. 5; (iv) Fire Station No. 6; (v) Fire Station No. 7; (vi) the McHenry Museum; (vii) the McHenry Mansion; (viii) the Community Center; (ix) the Senior Citizen Center; (x) Parking Lot No. 25; and (xi) the Parking Structure.**

Legal Description of the SitesParcel No. 1 -- Graceda Park

All of Blocks 531, 532 and 533 as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 2 -- Floyd Park

Parcels A and B as per Parcel Map filed October 9, 1969 in Volume 7 of Parcel Maps, Page 68, Stanislaus County Records.

Parcel No. 3 -- Communication Facility

An undivided one-half interest in the following:
Parcel 2 as per Parcel Map filed September 24, 1979 in Volume 29 of Parcel Maps, Page 100, Stanislaus County Records.

Parcel No. 4 -- Police Facility

Lots 1 thru 32, inclusive, in Block 71 of the CITY OF MODESTO, as per map recorded December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

TOGETHER WITH

All that real property in the State of California, County of Stanislaus, City of Modesto, being a portion of the Northeast quarter of Section 32, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, described as follows:

That portion of the 20-foot alley in Block 71 as delineated on the Official Map of the City of Modesto, as per map filed December 21, 1942, in Volume 15 of Maps, Stanislaus County Records, described as follows:

Beginning at the most Southerly corner of Lot 16 in said Block 71, said point being on the Northeastern line of said 20.00 foot alley in Block 71; thence along said Northeastern line of said alley, North 43° 29' 30" West, 150.00 feet, to the most Southerly corner of Lot 10 in Block 71; thence South 46° 30' 30" West, 20.00 feet, to the most Northerly corner of Lot 22 in Block 71, said point being on the Southwestern line of the 20.00 foot alley in Block 71; thence along said Southwestern line of said alley, South 43° 29' 30" East, 150.00 feet, to the most Easterly corner of Lot 17 in Block 71, said point being on the Northwestern line of 80.00 foot "F" Street; thence along said Northwestern line of "F" Street, North 46° 30' 30" East, 20.00 feet, to the point of beginning.

All that portion of Block 67 of the City of Modesto, as per the official map thereof, filed in Book 15 of Maps, together with the abandoned alley therein, lying in the south half of Section 29, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, City of Modesto, County of Stanislaus, State of California, described as follows:

BEGINNING at the north corner of said Block 67, said point being the intersection of the southwesterly line of 80.00 feet wide Eleventh Street with the southeasterly line of 80.00 feet wide K Street; thence on said Southeasterly line, South 46°48'48" West 253.06 feet; thence South 43°09'48" East 167.50 feet; thence North 46°50'12" East 23.24 feet; thence South 43°09'48" East 17.52 feet; thence North 46°50'12" East 16.00 feet; thence South 43°09'48" East 16.00 feet; thence South 46°50'12" West 16.00 feet; thence South 43°09'48" East 12.97 feet; thence South 46°48'48" West 54.07 feet; thence North 88°11'12" West 30.10 feet to the northeasterly line of 70.00 feet wide 10th Street; thence on said northeasterly line, South 43°10'10" East 207.48 feet to the northwesterly line of 80.00 feet wide J Street; thence on said northwesterly line, North 46°47'30" East 305.16 feet to the southwesterly line of 80.00 feet wide 11th Street; thence on said southwesterly line, North 43°09'48" west 400.08 feet to the point of beginning.

Containing 2.522 acres, more or less.

Parcel no. 7 -- Wesson Park

Parcel No. 1 as per Parcel Map filed January 28, 1980 in Volume 30 of Parcel Maps, Page 13, Stanislaus County Records.

Parcel No. 8 -- Hollywood Park

Lot 1 in Block 13158 of Hollywood Park No. 2 as per Map filed February 28, 1978 in Book 27 of Maps, Page 44, Stanislaus County Records.

Parcel No. 9-- Riverside Park

Parcel A:

Parcels 1 and 1-A as per Parcel Map recorded May 16, 1966 in Book 1 of Parcel Maps, Page 134, Stanislaus County Records.

Excepting Therefrom Parcels B-1 and B-2 as per Parcel Map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

Parcel B:

Parcel No. A as per map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

Parcel No. 10 -- Sipherd Park

Parcel B as per map recorded August 14, 1974 in Book 19 of Parcel Maps, Page 75, Stanislaus County Records.

Parcel No. 11 -- Morris Community Center

All of Block 603 of the City of Modesto as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 12 -- McHenry Mansion

Lots 17 through 24 in Block 122 of the City of Modesto as per Map file December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 13 -- McHenry Museum

Lots 27 through 32 in Block 113 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Excepting therefrom Lot 27, the Southeasterly 3 feet of the Southwesterly 97 feet thereof.

Parcel No. 14 -- Senior Citizens Center

Lots 18 through 31 in Block 590 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 15 -- Parking Structure

Lot 5 through 12 in Block 68 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 17 -- Parking Lot # 25

Lots 28 through 32 in Block 55 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 18 -- Fire Station # 1

Lots 17 through 26 in Block 81 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 19 -- Fire Station # 3

Lots 1 and 2 in Block 2283 of Dry Creek Estates No. 1 as per Map filed December 13, 1966 In Volume 21 of Maps, Page 55, Stanislaus County Records.

Parcel No. 20 -- Fire Station # 6
Parcel No. C as per Parcel Map filed August 17, 1977 in Book 25 of Parcel Maps, Page 83, Stanislaus County Records.

Parcel No. 21 -- Fire Station # 7
Parcel A as per Parcel Map filed June 27, 1974 in Volume 19 of Maps, Page 51, Stanislaus County Records.

Parcel No. 22 -- Fire Station #. 5

PARCEL 1:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at a point on the east line of said Lot 2 located on the centerline of a 50 foot public road designated as Oakdale Road on said map, which point is located North 0° 30' West 396 feet from the southeast corner of said Lot 2; thence from said point of beginning parallel to the south line of said Lot 2, North 88° 30' West 660 feet to a point on the west line of said Lot 2; thence North 0° 30' West along said west line of said Lot 2 a distance of 153.73 feet; thence east parallel with the south line of said Lot 2, a distance of 660 feet to a point on the east line of said Lot 2, located on the center line of said Oakdale Road; thence along the east line of said Lot 2 and the centerline of said Oakdale Road, South 0° 30' East 174.24 feet to the point of beginning.

ALSO EXCEPTING THEREFROM all that portion thereof lying northerly of the north line of Burchell Court (formerly Northern Boulevard) extending westerly to the west line of Lot 2.

ALSO EXCEPTING THEREFROM all that portion thereof lying within Briggsmore Avenue, Burchell Court and McHenry Avenue.

ALSO EXCEPTING THEREFROM all that certain property described in Deed to Chester D. Chambers, recorded March 10, 1964 in Book 1929 at Page 641, and in Deed to S.W.A.P., a Joint Venture, recorded July 10, 1962 in Book 1780 at Page 145, Stanislaus County Records.

PARCEL 2:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, Section 17, Township 3 South, Range 9 East, M.D.B. & M., described as follows:

COMMENCING at a point on the southerly line of the property conveyed to Chester D. Chambers by Deed recorded May 7, 1959 in Volume 1545 of Official Records at Page 321, as Instrument No. 13137, Stanislaus County Records, said point being the northeastern corner of Parcel "E" on the western line of Timothy Avenue as shown on the map entitled "Survey of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6, Record of Surveys, page 53, Stanislaus County Records; thence along a line at right angles to the western line of Timothy Avenue, North 89° 30' East, 30.00 feet to a point on the northerly extension of the centerline of Timothy Avenue; thence along said northerly extension, North 00° 30' West, 46.90 feet to the true point of beginning; thence North 7° 52' 29" East, 84.51 feet to a point on the northern line of said Chambers property, which is also the southern line of the property conveyed to the City of Modesto by Deed recorded October 11, 1957, as Instrument No. 26217, Stanislaus County Records, said line also being the southern line of Parcel "A" as per map of Record of Survey filed July 6, 1962 in Volume 9 of

(continued)

Order No.: 904378 A

Legal Description - Continued

thence along said line, South 88° 32' 30" East, 142.76 feet to a 3/4 inch iron pipe at the southeastern corner of said Parcel "A", said corner being the northeast corner of said Chambers property which is also a point on the western line of a 20 foot alley conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, at Page 695, as Instrument No. 29947, Stanislaus County Records; thence along said western line, South 00° 30' East, 60.58 feet; thence South 82° 47' 55" West, 155.59 feet to the point of beginning.

PARCEL 3:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at the northeast corner of Parcel A, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed July 6, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the north line of Parcel "A", South 89° 46' 50" West 135.63 feet to the true point of beginning; thence continuing along said north line South 89° 46' 50" West 120.54 feet; thence South 37° 57' 43" East 166.35 feet to the southwest corner of property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence along the west line of the City of Modesto property as conveyed by Deed above referred to and the northerly extension of said westerly line North 7° 52' 29" East 132.90 feet, more or less, to the true point of beginning.

PARCEL 4:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at the northeast corner of Parcel D, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence North 83° 31' 30" West along the north line of said Parcel D and its westerly extension, a distance of 155.02 feet, more or less, to the centerline of Timothy Avenue, as shown on the Record of Survey above referred to; thence North 0° 30' West, along the northerly extension of said centerline of Timothy Avenue to the southwest corner of the property conveyed to the City of Modesto by Deed recorded March 10, 1964, in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence North 82° 47' 55" East along the south line of the City of Modesto property, as conveyed by Deed above referred to, to the southeast corner thereof, said point being on the west line of the property conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, Page 695, as Instrument No. 29947, Stanislaus County Records; thence south along the west line of the City of Modesto property as conveyed by Deed last above referred to, 71.83 feet, more or less, to the point of beginning.

PARCEL 5:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

COMMENCING at the 3/4 inch iron pipe set for the northeastern corner of Parcel "A", as per map of Record of Survey filed July 26, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the northern line of said Parcel "A", South 89° 46' 50" West, 135.63 feet to the northeastern corner of the property conveyed to Chester D. Chambers by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 641, as Instrument No. 9844, Stanislaus County Records; thence along the eastern line of the Chambers property and the western line of the property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records, South 07° 52' 29" West, 132.90 feet to the southwestern corner of the City property as conveyed by Deed above referred to, and the true point of beginning; thence South 00° 30' 00" East, 48.44 feet, more or less, to a point on the southern line of property conveyed to Chester D. Chambers by Deed recorded May 7, 1959, as Instrument No. 13137, Stanislaus County Records, said point being on the centerline of the 60.00 foot Timothy Avenue, as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence along said southern line of the property conveyed to Chambers by Deed last above referred to and the north line of Timothy Avenue as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records, North 88° 30' West, 30.02 feet to a point on the western line of Timothy Avenue, as shown on said Record of Surveys; thence along said western line, North 00° 30' 00" West, 0.52 feet; thence along a tangent curve concave to the southwest having a radius of 15.00 feet, a central angle of 46° 11' 13" and an arc length of 12.09 feet to a point of reverse curvature from which a radial line bears North 43° 18' 47" East; thence along said reverse curve concave to the east, having a radius of 50.00 feet, a central angle of 98° 43' 30" and an arc length of 86.15 feet; thence along a radial line, South 37° 57' 43" East, 50.00 feet to the southwest corner of the property conveyed to the City of Modesto by the Deed referred to and the true point of beginning.

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CERTIFICATE REGARDING LEASE/PURCHASE
AGREEMENT, SITE LEASES AND FACILITIES LEASES

I, Jean Morris, hereby certify that I am the Secretary of the Commission of the Modesto Public Financing Authority (the "Authority"), a joint exercise of powers authority organized under the laws of the State of California, and that as such I am authorized to execute this Certificate on behalf of the Authority.

I hereby further certify that there is attached hereto full, true and correct copies of the following documents:

1. Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002 (as so amended, the "1998 Lease"), each by and between the Authority and the City.
2. Site Lease (Parks Project, Police Headquarters Building and Miscellaneous Public Properties), dated as of March 1, 1998, as amended by Amendment No. 1 to Site Lease, dated October 15, 2002 (as so amended, the "Miscellaneous Site Lease"), each by and between the Authority and the City.
3. Site Lease (Parking Garage), dated as of March 1, 1998, as amended by Amendment No. 1 to Site Lease, dated June 15, 2000 (as so amended, the "Parking Garage Site Lease"), each by and between the Authority and the Redevelopment Agency of the City of Modesto.
4. Facilities Lease (Communications Dispatch Center), dated as of March 1, 1998 (the "Dispatch Lease") by and between the Authority and the City.
5. Facilities Lease (City-County Administration Building), dated as of March 1, 1998 (the "Administration Building Lease") by and between the Authority and the City-County Capital Improvements and Financing Agency.

I hereby further certify that the 1998 Lease, the Miscellaneous Site Lease, the Parking Garage Site Lease, the Dispatch Lease and the Administration Building Lease have not been amended, rescinded or modified, and are now in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand as of the date set forth herein.

Dated: April 18, 2007

MODESTO PUBLIC FINANCING AUTHORITY

By: Jean Morris
Jean Morris
Secretary

4373 MG

Stanislaus, County Recorder
Karen Mathews Co Recorder Office

RECORDING REQUESTED BY:
City of Modesto, California

DOC - 98-0022315-00
Acct 502-Fidelity National Title
Wednesday, MAR 11, 1998 08:00:00

FRE \$0.00!!
Ttl Pd \$0.00 Nbr-0000178233
ACK/R1/1-19

WHEN RECORDED MAIL TO:
BROWN & WOOD LLP
555 California Street
50th Floor
San Francisco, California 94104
Attention: Eric D. Tashman, Esq.

This document is recorded for the benefit of the City of Modesto and recording is fee-exempt under Section 27383 of the Government Code.

SITE LEASE
(Parks Project, Police Headquarters Building and Miscellaneous Public Properties)

by and between the

CITY OF MODESTO

and the

MODESTO PUBLIC FINANCING AUTHORITY

Dated as of March 1, 1998

RECORDER'S MEMO:
POOR RECORD IS DUE TO
QUALITY OF ORIGINAL DOCUMENT

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This SITE LEASE (the "Site Lease"), executed and entered into as of March 1, 1998, by and between the CITY OF MODESTO, a charter city and a municipal corporation duly organized and existing under the laws of the State of California, as lessor (the "City"), and the MODESTO PUBLIC FINANCING AUTHORITY, a joint powers agency duly organized and existing under the laws of the State of California, as lessee (the "Authority");

WITNESSETH:

WHEREAS, the Authority intends to assist the City in the refunding of its Certificates of Participation (Capital Improvements Projects) which are currently outstanding in the aggregate principal amount of \$61,430,000, together with the financing of the costs of public capital improvements related to the 10th Street Place Project, together with other capital improvements, through the issuance of the Authority's Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "Bonds"); and

WHEREAS, pursuant to this Site Lease, the City proposes to lease to the Authority the Sites upon which certain Leased Units of the Project (as more fully described in the Lease referred to below) will be constructed or installed; and

WHEREAS, the Authority intends to lease back the Sites, together with the Leased Units of the Project (collectively, the "Leased Property") to the City pursuant to a Lease/Purchase Agreement to be executed and entered into as of the date hereof (the "Lease"); and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Site Lease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into the Site Lease;

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

SECTION 1. Leased Premises.

The City hereby leases to the Authority (without option to purchase) and the Authority hereby leases from the City, on the terms and conditions hereinafter set forth, the Sites, as more fully described in Exhibit A hereto.

SECTION 2. Term.

The term hereof shall commence as of the date hereof and shall remain in effect until the term of the Lease expires as provided by Section 4.2 thereof, provided, however, that if Lease Payments (as defined therein) due under the Lease remain unpaid at the expiration of the Lease term, then this Site Lease shall not terminate until the earlier of (i) September 1, 2043, (ii) the

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date on which the Bonds have been paid in full or (iii) the expiration of the term of any lease executed and delivered pursuant to Section 8.2(b) of the Lease, unless such term is sooner terminated as hereinafter provided.

SECTION 3. Rental.

The Authority shall pay to the City as and for rental hereunder the sum of One Dollar (\$1.00) on the date of initial issuance of the Bonds.

SECTION 4. Purpose.

The Authority shall use the Sites solely for the purpose of leasing the Sites, together with the improvements to be constructed or installed thereon, to the City pursuant to the Lease; provided, that in the event of default by the City under the Lease the Authority may exercise the remedies provided in the Lease.

SECTION 5. Owner in Fee.

The City covenants that it is the owner in fee of the Sites, except as to easements and encumbrances which will not adversely affect the Lessee's use and occupancy of the Sites.

SECTION 6. Assignments and Subleases.

Unless the City shall be in default under the Lease, the Authority may not, without the written consent of the City, assign its rights hereunder or sublet the Sites, except to the trustee (the "Trustee") of the Authority's Bonds, the proceeds of which shall be used to pay costs of the Project (as defined in the Lease).

SECTION 7. Right of Entry.

The City reserves the right for any of its duly authorized representatives to enter upon the Sites at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof, which right is exercisable only so long as the City is not in default under the Lease.

SECTION 8. Termination.

The Authority agrees, upon the termination hereof, to quit and surrender the Sites in the same good order and condition as the same was in at the time of commencement of the term hereunder (with such modifications and improvements as are contemplated by the Lease), reasonable wear and tear excepted, and agrees that any permanent improvements and structures existing upon the Sites at the time of the termination hereof shall remain thereon and title thereto shall vest in the City.

SECTION 9. Default.

In the event the Authority shall be in default in the performance of any obligation on its part to be performed under the terms of this Site Lease, which default continues for 30 days following written notice to and demand for correction thereof by the City, the City may exercise any and all remedies granted by law which do not adversely affect the interests of the owners of the Bonds, with the consent of the Trustee; provided that the City may not terminate this Site Lease and shall exercise only remedies providing for specific performance hereunder.

SECTION 10. Quiet Enjoyment.

The Authority at all times during the term hereof shall peaceably and quietly have, hold and enjoy all of the Sites.

SECTION 11. Waiver of Personal Liability.

All liabilities hereunder on the part of the Authority shall be solely liabilities of the Authority as a separate legal entity, and the City hereby releases each and every member, officer and employee of the Authority of and from any personal or individual liability under this Site Lease. No member, officer or employee of the Authority shall at any time or under any circumstances be individually or personally liable hereunder for anything done or omitted to be done by the Authority hereunder.

SECTION 12. Taxes.

The City hereby agrees and covenants to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Sites.

SECTION 13. Eminent Domain.

In the event the whole or any part of the Sites is taken by eminent domain proceedings, the interest of the Authority shall be recognized and the award shall be paid as provided in the Trust Indenture, dated as of March 1, 1998, pursuant to which the Bonds were issued.

SECTION 14. Partial Invalidity.

If any one or more of the agreements, conditions, covenants or terms hereof shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining agreements, conditions, covenants or terms hereof shall be affected thereby, and each provision of the Site Lease shall be valid and enforceable to the fullest extent permitted by law.

SECTION 15. Notices.

All approvals, authorizations, consents, demands, designations, notices, offers, requests, statements or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States registered or certified mail, return receipt requested, postage prepaid, and addressed as provided in Exhibit B hereof, with a copy to the Trustee, or to such other addresses as the respective parties may from time to time designate by notice in writing.

SECTION 16. No Merger of Interests.

The Leasehold estates under this Site Lease and the Lease shall not merge, whether by the exercise of any right or remedy hereunder or thereunder, by operation of law, or otherwise.

SECTION 17. Section Headings.

All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision hereof.

SECTION 18. Execution.

This Site Lease may be executed and entered into in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

SECTION 19. Governing Law.

This Site Lease shall be governed by and construed in accordance with the laws of the State of California.

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IN WITNESS WHEREOF, the parties hereto have executed and entered into the Site Lease by their officers thereunto duly authorized as of the day and year first above written.

CITY OF MODESTO

By [Signature]
City Manager

MODESTO PUBLIC FINANCING AUTHORITY

By [Signature]
Chairperson

Approved as to form
[Signature]
Michael D. Milich, City Attorney

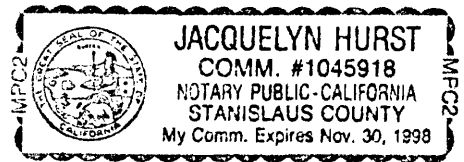
027310 MAR 11 98

State of California)
) SS
County of Stanislaus)

On March 6, 1998 before me, Jacquelyn Hurst, Notary Public, personally appeared J. Edward Tewes, personally known to me, or proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Jacquelyn Hurst [Seal]

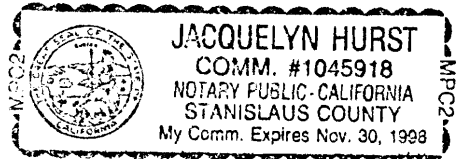


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State of California)
) SS
County of Stanislaus)

On March 6, 1998 before me, Jacquelyn W. Hurst, Notary Public personally appeared Richard A. Lange, personally known to me, or proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.



Signature Jacquelyn Hurst [Seal]

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State of California)
) ss.
County of Stanislaus)

On March 9, 1998, before me, Rosemarie Havener, Notary Public
Notary Public
personally appeared Michael D. Milich
Name(s) of Signer(s)

personally known to me -OR- proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.



WITNESS my hand and official seal.

Rosemarie Havener
Signature of Notary Public

OPTIONAL

Capacity Claimed by Signer
 Individual
 Corporate Officer
Title(s): _____
 Partner -- Limited General
 Attorney-in-fact
 Trustee
 Guardian/Conservator
 Other: _____

Signer is Representing: _____
Name of Persons(s) or Entity(ies)

Attention Notary: *Although the information requested below is OPTIONAL, it could prevent fraudulent attachment of this certificate to an unauthorized document.*

THIS CERTIFICATE MUST BE ATTACHED TO THE DOCUMENT DESCRIBED AT RIGHT:
Title or Type of Document _____
Number of Pages _____ Date of Document _____
Signer(s) Other than Named Above _____

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EXHIBIT A

Legal Description of the Sites

1. The Police Headquarters Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

See Attachment 1 hereto.

2. The Graceda Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

All of Blocks 531, 532 and 533, inclusive, as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

3. The Floyd Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Parcels A and B as shown on that certain Parcel Map filed October 9, 1969 in Volume 7 of Parcel Maps, page 68, Stanislaus County Records.

4. The Wesson Ranch Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Parcel 1 as shown and designated on that certain Parcel Map filed January 28, 1980 in Volume 30 of Parcel Maps, at page 13, Stanislaus County Records.

5. The Hollywood Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lot 1 in Block 13158 of HOLLYWOOD PARK NO. 2, according to the Official Map thereof, filed in the office of the County Recorder of Stanislaus County, California, on February 28, 1978 in Book 27 of Maps, at Page 44.

6. The Riverside Neighborhood Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

PARCEL ONE:

Parcels 1 and 1-A as per Parcel Map recorded May 16, 1966 in Book 1 of Parcel Maps, Page 134, Stanislaus County Records.

EXCEPTING THEREFROM Parcels B-1 and B-2 as per map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

PARCEL TWO:

Parcel A per map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

7. The Sipherd Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Parcel B as per map recorded August 14, 1974 in Book 19 of Parcel Maps, at Page 75, Stanislaus County Records.

8. The Fire Station No. 1 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 17 thru 26, inclusive, in Block 81 of the CITY OF MODESTO, as per map thereof filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

9. The Fire Station No. 3 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 1 and 2 in Block 2283 of DRY CREEK ESTATES NO. 1, according to the Official Map thereof filed in the Office of the Recorder of Stanislaus County, California, on December 13, 1966 in Volume 21 of Maps, Page 3, more 55.

10. The Fire Station No. 5 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

See Attachment II hereto.

11. The Fire Station No. 6 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Parcel C as per Parcel Map recorded August 17, 1977 in Book 25 of Parcel Maps, at Page 83, Stanislaus County Records.

12. The Fire Station No. 7 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Parcel A as shown on that certain Parcel Map filed June 27, 1974 in Volume 19 of Parcel Maps, page 51, Stanislaus County Records.

13. The McHenry Museum Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 27 thru 32, inclusive, in Block 113 of the CITY OF MODESTO, per map recorded December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

14. The McHenry Mansion Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 17 thru 24, inclusive, in Block 122 of the CITY OF MODESTO, according to the Official Map thereof, filed in the office of the Recorder of Stanislaus County, California, on December 21, 1942 in Volume 15 of Maps.

15. The 800 E. Morris/Community Center Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

All of Block 603 of the CITY OF MODESTO, as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

16. The Senior Citizens Center Site is described below.

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All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 18 thru 31, inclusive, in Block 590 of the CITY OF MODESTO, as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

17. The Parking Lot No. 25 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 28 thru 32, inclusive, in Block 55 of the CITY OF MODESTO, as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

18. The Parking Lot No. 3 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 29, 30, 31 and 32 in Block 94 of the CITY OF MODESTO, as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

19. The Parking Structure Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 5-12 inclusive in Block 68 of the CITY OF MODESTO, according to the Official Map thereof, filed in the office of the Recorder of Stanislaus County, California, on December 21, 1942 in Volume 15 of Maps.

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ATTACHMENT I

Lots 1 thru 32, inclusive, in Block 71 of the CITY OF MODESTO, as per map recorded December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

All that real property in the State of California, County of Stanislaus, City of Modesto, being a portion of the Northeast quarter of Section 32, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, described as follows:

That portion of the 20-foot alley in Block 71 as delineated on the Official Map of the City of Modesto, as per map filed December 21, 1942, in Volume 15 of Maps, Stanislaus County Records, described as follows:

Beginning at the most Southerly corner of Lot 16 in said Block 71, said point being on the Northeastern line of said 20.00 foot alley in Block 71; thence along said Northeastern line of said alley, North $43^{\circ} 29' 30''$ West, 150.00 feet, to the most Southerly corner of Lot 10 in Block 71; thence South $46^{\circ} 30' 30''$ West, 20.00 feet, to the most Northerly corner of Lot 22 in Block 71, said point being on the Southwestern line of the 20.00 foot alley in Block 71; thence along said Southwestern line of said alley, South $43^{\circ} 29' 30''$ East, 150.00 feet, to the most Easterly corner of Lot 17 in Block 71, said point being on the Northwestern line of 80.00 foot "F" Street; thence along said Northwestern line of "F" Street, North $46^{\circ} 30' 30''$ East, 20.00 feet, to the point of beginning.

ATTACHMENT II

The land herein referred to is situated in the incorporated area of the City of Modesto, County of Stanislaus, State of California, and is described as follows:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at a point on the east line of said Lot 2 located on the centerline of a 50 foot public road designated as Oakdale Road on said map, which point is located North 0° 30' West 396 feet from the southeast corner of said Lot 2; thence from said point of beginning parallel to the south line of said Lot 2, North 88° 30' West 660 feet to a point on the west line of said Lot 2; thence North 0° 30' West along said west line of said Lot 2 a distance of 153.73 feet; thence east parallel with the south line of said Lot 2, a distance of 660 feet to a point on the east line of said Lot 2, located on the center line of said Oakdale Road; thence along the east line of said Lot 2 and the centerline of said Oakdale Road, South 0° 30' East 174.24 feet to the point of beginning.

ALSO EXCEPTING THEREFROM all that portion thereof lying northerly of the north line of Burchell Court (formerly Northern Boulevard) extending westerly to the west line of Lot 2.

ALSO EXCEPTING THEREFROM all that portion thereof lying within Briggsmore Avenue, Burchell Court and McHenry Avenue.

ALSO EXCEPTING THEREFROM all that certain property described in Deed to Chester D. Chambers, recorded March 10, 1964 in Book 1929 at Page 641, and in Deed to S.W.A.P., a Joint Venture, recorded July 10, 1962 in Book 1780 at Page 145, Stanislaus County Records.

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, Section 17, Township 3 South, Range 9 East, M.D.B. & M., described as follows:

COMMENCING at a point on the southerly line of the property conveyed to Chester D. Chambers by Deed recorded May 7, 1959 in Volume 1545 of Official Records at Page 321, as Instrument No. 13137, Stanislaus County Records, said point being the northeastern corner of Parcel "E" on the western line of Timothy Avenue as shown on the map entitled "Survey of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6, Record of Surveys, page 53, Stanislaus County Records; thence along a line at right angles to the western line of Timothy Avenue, North 89° 30' East, 30.00 feet to a point on the northerly extension of the centerline of Timothy Avenue; thence along said northerly extension, North 00° 30' West, 46.90 feet to the true point of beginning; thence North 7° 52' 29" East, 84.51 feet to a point on the northern line of said Chambers property, which is also the southern line of the property conveyed to the City of Modesto by Deed recorded October 11, 1957, as Instrument No. 26217, Stanislaus County Records, said line also being the southern line of Parcel "A" as per map of Record of Survey filed July 6, 1962 in Volume 9 of Surveys, Page 25, Stanislaus County Records;

(continued)

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thence along said line, South 88° 32' 30" East, 142.76 feet to a 3/4 inch iron pipe at the southeastern corner of said Parcel "A", said corner being the northeast corner of said Chambers property which is also a point on the western line of a 20 foot alley conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, at Page 695, as Instrument No. 29947, Stanislaus County Records; thence along said western line, South 00° 30' East, 60.58 feet; thence South 82° 47' 55" West, 155.59 feet to the point of beginning.

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at the northeast corner of Parcel A, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed July 6, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the north line of Parcel "A", South 89° 46' 50" West 135.63 feet to the true point of beginning; thence continuing along said north line South 89° 46' 50" West 120.54 feet; thence South 37° 57' 43" East 166.35 feet to the southwest corner of property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence along the west line of the City of Modesto property as conveyed by Deed above referred to and the northerly extension of said westerly line North 7° 52' 29" East 132.90 feet, more or less, to the true point of beginning.

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at the northeast corner of Parcel D, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence North 83° 31' 30" West along the north line of said Parcel D and its westerly extension, a distance of 155.02 feet, more or less, to the centerline of Timothy Avenue, as shown on the Record of Survey above referred to; thence North 0° 30' West, along the northerly extension of said centerline of Timothy Avenue to the southwest corner of the property conveyed to the City of Modesto by Deed recorded March 10, 1964, in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence North 82° 47' 55" East along the south line of the City of Modesto property, as conveyed by Deed above referred to, to the southeast corner thereof, said point being on the west line of the property conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, Page 695, as Instrument No. 29947, Stanislaus County Records; thence south along the west line of the City of Modesto property as conveyed by Deed last above referred to; 71.83 feet, more or less, to the point of beginning.

(continued)

U 27315 MAR 11 98

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

COMMENCING at the 3/4 inch iron pipe set for the northeastern corner of Parcel "A", as per map of Record of Survey filed July 26, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the northern line of said Parcel "A", South 89° 46' 50" West, 135.63 feet to the northeastern corner of the property conveyed to Chester D. Chambers by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 641, as Instrument No. 9844, Stanislaus County Records; thence along the eastern line of the Chambers property and the western line of the property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records, South 07° 52' 29" West, 132.90 feet to the southwestern corner of the City property as conveyed by Deed above referred to, and the true point of beginning; thence South 00° 30' 00" East, 48.44 feet, more or less, to a point on the southern line of property conveyed to Chester D. Chambers by Deed recorded May 7, 1959, as Instrument No. 13137, Stanislaus County Records, said point being on the centerline of the 60.00 foot Timothy Avenue, as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence along said southern line of the property conveyed to Chambers by Deed last above referred to and the north line of Timothy Avenue as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records, North 88° 30' West, 30.02 feet to a point on the western line of Timothy Avenue, as shown on said Record of Surveys; thence along said western line, North 00° 30' 00" West, 0.52 feet; thence along a tangent curve concave to the southwest having a radius of 15.00 feet, a central angle of 46° 11' 13" and an arc length of 12.09 feet to a point of reverse curvature from which a radial line bears North 43° 18' 47" East; thence along said reverse curve concave to the east, having a radius of 50.00 feet, a central angle of 98° 43' 30" and an arc length of 86.15 feet; thence along a radial line, South 37° 57' 43" East, 50.00 feet to the southwest corner of the property conveyed to the City of Modesto by the Deed referred to and the true point of beginning.

U 27315 MAR 11 98

EXHIBIT B

Notices

If to the Lessee: Modesto Public Financing Authority
c/o City of Modesto
Finance Department
City Hall
1012 "I" Street, 2nd Floor
Modesto, California 95354

If to the Lessor: City of Modesto
Finance Department
City Hall
1012 "I" Street, 2nd Floor
Modesto, California 95354

022315 MAR 11 98

RECORDING REQUESTED BY:
City of Modesto, California

WHEN RECORDED MAIL TO:
Sidley Austin Brown & Wood LLP
555 California Street
50th Floor
San Francisco, California 94104
Attention: Eric D. Tashman, Esq.

Stanislaus, County Recorder
Lee Lundrigan Co Recorder Office
DOC- 2002-0144998-00
Root 503-First American Title Co
Wednesday, NOV 06, 2002 08:00:00
Ttl Pd \$37.00 Nbr-0001058393
OWP/R3/1-11

This document is recorded for the benefit of the City of Modesto and recording is fee-exempt under Section 27383 of the Government Code.

AMENDMENT NO. 1 TO SITE LEASE
(Parks Project, Police Headquarters Building and Miscellaneous Public Properties)

by and between the

THE CITY OF MODESTO,

and the

MODESTO PUBLIC FINANCING AUTHORITY

Dated October 15, 2002

**RECORD IN ORDER
PRESENTED**

F.A.T.

11
JH

AMENDMENT NO. 1 TO SITE LEASE

This AMENDMENT NO. 1 TO SITE LEASE (the "Amendment No. 1 to Site Lease"), executed and entered into on October 15, 2002, by and between the CITY OF MODESTO, a charter city and a municipal corporation duly organized and existing under the laws of the State of California, as lessor (the "City"), and the MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise of powers agency duly organized and existing under the laws of the State of California, as lessee (the "Authority"), and accepted and agreed to by BNY Western Trust Company, as successor trustee (the "Trustee") to Harris Trust Company of California, a state banking association duly organized and existing under and by virtue of the laws of the State of California, as trustee under the Trust Indenture, dated as of March 1, 1998, between the Authority and the Trustee;

WITNESSETH:

WHEREAS, the City and the County of Stanislaus (the "County"), in conjunction with Redevelopment Agency of the City of Modesto and the City-County Capital Improvements and Financing Agency, in 1998 undertook a mixed used development to provide, among other uses, retail office uses, a cinema complex, a public parking garage, a City-County administration building, together with other public capital improvements (collectively, the "Project");

WHEREAS, the Authority and the City previously executed the Site Lease (Parks Project, Police Headquarters Building and Miscellaneous Public Properties), dated as of March 1, 1998, and recorded in the official records of the County of Stanislaus Recorder's Office on March 11, 1998, as Document number 98-0022315-00 (the "1998 Site Lease") pursuant to which the City leased to the Authority the real property situated in the City of Modesto, State of California, described in Exhibit A thereto (the "1998 Site"); and

WHEREAS, the Authority leased back the 1998 Site, together with certain Leased Units of the Project (referred to therein as the "Leased Property"), to the City pursuant to a Lease/Purchase Agreement, dated as of March 1, 1998, between the Authority and the City, and recorded in the official records of the County of Stanislaus Recorder's Office on March 11, 1998, as Document number 98-0022319-00 (the "1998 Lease/Purchase Agreement"); and

WHEREAS, Section 5.3 of the 1998 Lease/Purchase Agreement permits the removal of Leased Property, including the release of the real property and improvements constituting the Miscellaneous Public Properties as described in Exhibit C to the 1998 Lease/Purchase Agreement and which includes the Parking Lot No. 3 Site (the "Parking Lot No. 3 Site"), subject to the satisfaction of certain conditions; and

WHEREAS, the Authority and the City executed that Amendment No. 1 to Lease/Purchase Agreement to release the Parking Garage Retail Site from the 1998 Lease/Purchase Agreement, dated June 15, 2000;

WHEREAS, the City has requested the release of the Parking Lot No. 3 Site from the 1998 Lease/Purchase Agreement and 1998 Site Lease; and

WHEREAS, the City has provided to the Trustee an amended Exhibit B and an amended Exhibit C to the 1998 Lease/Purchase Agreement which includes a new metes and bounds description for the 1998 Site which reflects the reconveyance and release of the Parking Lot No. 3 Site; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Amendment No. 1 to Site Lease (including the delivery of certificates and opinions as required by Section 5.3 of the 1998 Lease/Purchase Agreement) do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Amendment No. 1 to Site Lease;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements and covenants contained herein and for other valuable consideration, the parties hereto do hereby agree as follows:

- 1. Exhibit A to the 1998 Site Lease is hereby amended in its entirety with the substitution of Exhibit A attached hereto; and**
- 2. Except as set forth in paragraph 1, the 1998 Site Lease shall remain in full force and effect in accordance with its terms.**
- 3. This Amendment No. 1 to Site Lease may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and any and all such counterparts shall together constitute but one and the same instrument.**

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed and entered into this Amendment No. 1 to Site Lease by their officers thereunto duly authorized as of the day and year first above written.

CITY OF MODESTO

By: 
Jack R. Crist
City Manager

MODESTO PUBLIC FINANCING AUTHORITY

By: 
Jack R. Crist
Executive Director

Accepted and Agreed by
BNY WESTERN TRUST COMPANY,
successor to Harris Trust Company
of California, as Trustee

By: 
Vice President

State of California)
) ss.
County of Stanislaus)

On 10-29-02 before me, Esther Puckett
[insert date] [Here insert name of notary]

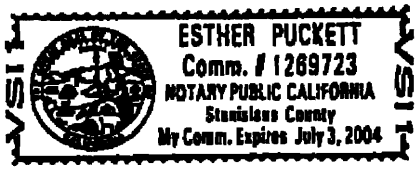
personally appeared Jack R. Crist

- () personally known to me, or
- () proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Esther Puckett

[Seal]



State of California)
) ss.
County of Stanislaus)

On 10-29-02 before me, Esther Puckett
[insert date] [Here insert name of notary]

personally appeared Jack R. Crist

(s) personally known to me, or

(s) proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are

subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature

Esther Puckett

[Seal]



State of California)
) ss.
City and County of San Francisco)

On OCT. 25, 2002 before me, ALAN MARAVILLA, NOTARY PUBLIC
[insert date] [Here insert name of notary]

personally appeared INGA KELDSEN

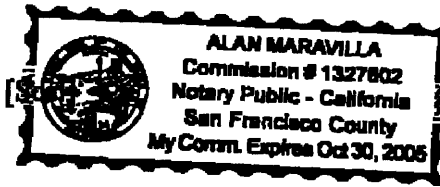
personally known to me, or

~~proved to me on the basis of satisfactory evidence~~ to be the person(s) whose name(s) is/are

subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature



Legal Description of the Sites

1. The Police Headquarters Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

See Attachment 1 hereto.

2. The Graceda Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

All of Blocks 531, 532 and 533, inclusive, as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

3. The Floyd Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Parcels A and B as shown on that certain Parcel Map filed October 9, 1969 in Volume 7 of Parcel Maps, page 68, Stanislaus County Records.

4. The Wesson Ranch Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Parcel 1 as shown and designated on that certain Parcel Map filed January 28, 1980 in Volume 30 of Parcel Maps, at page 13, Stanislaus County Records.

5. The Hollywood Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lot 1 in Block 13158 of HOLLYWOOD PARK NO. 2, according to the Official Map thereof, filed in the office of the County Recorder of Stanislaus County, California, on February 28, 1978 in Book 27 of Maps, at Page 44.

6. The Riverside Neighborhood Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

PARCEL ONE:

Parcels 1 and 1-A as per Parcel Map recorded May 16, 1966 in Book 1 of Parcel Maps, Page 134, Stanislaus County Records.

EXCEPTING THEREFROM Parcels B-1 and B-2 as per map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

PARCEL TWO:

Parcel A per map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

7. The Sipherd Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Parcel B as per map recorded August 14, 1974 in Book 19 of Parcel Maps, at Page 75, Stanislaus County Records.

8. The Fire Station No. 1 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 17 thru 26, inclusive, in Block 81 of the CITY OF MODESTO, as per map thereof filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

9. The Fire Station No. 3 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 1 and 2 in Block 2283 of DRY CREEK ESTATES NO. 1, according to the Official Map thereof filed in the Office of the Recorder of Stanislaus County, California, on December 13, 1966 in Volume 21 of Maps, Page 3, more 55.

10. The Fire Station No. 5 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

See Attachment II hereto.

11. The Fire Station No. 6 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Parcel C as per Parcel Map recorded August 17, 1977 in Book 25 of Parcel Maps, at Page 83, Stanislaus County Records.

12. The Fire Station No. 7 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Parcel A as shown on that certain Parcel Map filed June 27, 1974 in Volume 19 of Parcel Maps, page 51, Stanislaus County Records.

13. The McHenry Museum Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 27 thru 32, inclusive, in Block 113 of the CITY OF MODESTO, per map recorded December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

14. The McHenry Mansion Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 17 thru 24, inclusive, in Block 122 of the CITY OF MODESTO, according to the Official Map thereof, filed in the office of the Recorder of Stanislaus County, California, on December 21, 1942 in Volume 15 of Maps.

15. The 800 E. Morris/Community Center Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

All of Block 603 of the CITY OF MODESTO, as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

16. The Senior Citizens Center Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 18 thru 31, inclusive, in Block 590 of the CITY OF MODESTO, as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

17. The Parking Lot No. 25 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 28 thru 32, inclusive, in Block 55 of the CITY OF MODESTO, as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

18. The Parking Structure Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 5-12 inclusive in Block 68 of the CITY OF MODESTO, according to the Official Map thereof, filed in the office of the Recorder of Stanislaus County, California, on December 21, 1942 in Volume 15 of Maps.

I CERTIFY THIS INSTRUMENT TO BE A TRUE CERTIFIED COPY OF THE RECORD IN THIS OFFICE.
ATTEST

STANISLAUS COUNTY, CALIF.
LEE LUNDRIGAN
REGISTRAR/CLERK-RECORDER

BY

C. Lavette Traxler

Deputy



MAR 08 2007

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CERTIFICATE REGARDING LEASE/PURCHASE
AGREEMENT, SITE LEASES AND FACILITIES LEASES

I, Jean Morris, hereby certify that I am the Secretary of the Commission of the Modesto Public Financing Authority (the "Authority"), a joint exercise of powers authority organized under the laws of the State of California, and that as such I am authorized to execute this Certificate on behalf of the Authority.

I hereby further certify that there is attached hereto full, true and correct copies of the following documents:

1. Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002 (as so amended, the "1998 Lease"), each by and between the Authority and the City.
2. Site Lease (Parks Project, Police Headquarters Building and Miscellaneous Public Properties), dated as of March 1, 1998, as amended by Amendment No. 1 to Site Lease, dated October 15, 2002 (as so amended, the "Miscellaneous Site Lease"), each by and between the Authority and the City.
3. Site Lease (Parking Garage), dated as of March 1, 1998, as amended by Amendment No. 1 to Site Lease, dated June 15, 2000 (as so amended, the "Parking Garage Site Lease"), each by and between the Authority and the Redevelopment Agency of the City of Modesto.
4. Facilities Lease (Communications Dispatch Center), dated as of March 1, 1998 (the "Dispatch Lease") by and between the Authority and the City.
5. Facilities Lease (City-County Administration Building), dated as of March 1, 1998 (the "Administration Building Lease") by and between the Authority and the City-County Capital Improvements and Financing Agency.

I hereby further certify that the 1998 Lease, the Miscellaneous Site Lease, the Parking Garage Site Lease, the Dispatch Lease and the Administration Building Lease have not been amended, rescinded or modified, and are now in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand as of the date set forth herein.

Dated: April 18, 2007

MODESTO PUBLIC FINANCING AUTHORITY

By: Jean Morris
Jean Morris
Secretary

904373 mg

Stanislaus, County Recorder
Karen Mathews Co Recorder Office

RECORDING REQUESTED BY:)
 City of Modesto, California)
)
)
)
)
 WHEN RECORDED MAIL TO:)
 BROWN & WOOD LLP)
 555 California Street)
 50th Floor)
 San Francisco, California 94104)
 Attention: Eric D. Tashman, Esq.)

DOC - 98-0022316-00
 Acct 502-Fidelity National Title
 Wednesday, MAR 11, 1998 08:00:00
 FRE \$0.00!!
 Ttl Pd \$0.00 Nbr-0000178234
 ACK/R1/1-12

This document is recorded for the benefit of the City of Modesto and recording is fee-exempt under Section 27383 of the Government Code.

SITE LEASE
(Parking Garage)

by and between the

REDEVELOPMENT AGENCY OF THE CITY OF MODESTO

and the

MODESTO PUBLIC FINANCING AUTHORITY

Dated as of March 1, 1998

RECORDER'S MEMO:
POOR RECORD IS DUE TO
QUALITY OF ORIGINAL DOCUMENT

2015-168

RECORDED IN ORDER PRESENTED

13

027316 MAR 11 98

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This SITE LEASE (the "Site Lease"), executed and entered into as of March 1, 1998, by and between the REDEVELOPMENT AGENCY OF THE CITY OF MODESTO, a redevelopment agency, public body corporate and politic duly organized and existing under the laws of the State of California, as lessor (the "Agency"), and the MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise of powers agency duly organized and existing under the laws of the State of California, as lessee (the "Authority");

WITNESSETH:

WHEREAS, the City of Modesto (the "City") and the County of Stanislaus (the "County"), in conjunction with Agency and the City-County Capital Improvements and Financing Agency, have determined to undertake a mixed used development, including among other uses, retail and office uses, a City-County Administration building, together with other public capital improvements, including the rehabilitation of a Communication Dispatch Center and the acquisition and construction of a Police Headquarters Building (collectively, the "Project");

WHEREAS, the Authority intends to assist the Agency, the City and the County to, among other purposes, finance the costs of the Project through the issuance of the Authority's Lease Revenue Bonds, Series 1998 (10th Street Place Project) (the "Bonds"); and

WHEREAS, pursuant to this Site Lease, the Agency proposes to lease to the Authority the real property situated in the City of Modesto, State of California, described in Exhibit A attached hereto (the "Site") upon the component of the Project (as more fully described in the Lease referred to below) constituting the Public Parking Garage will be constructed, installed and equipped; and

WHEREAS, the Authority intends to lease back the Site, together with certain Leased Units of the Project (referred to therein as the "Leased Property"), to the City pursuant to a Lease/Purchase Agreement to be executed and entered into as of the date hereof (the "Lease"); and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Site Lease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into the Site Lease;

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

U 2 2 3 1 6 MAR 11 98

SECTION 1. Leased Premises.

The Agency hereby leases to the Authority (without option to purchase) and the Authority hereby leases from the Agency, on the terms and conditions hereinafter set forth, the Site, as more fully described in Exhibit A hereto.

SECTION 2. Term.

The term hereof shall commence as of the date hereof and shall remain in effect until the term of the Lease expires as provided by Section 4.2 thereof, provided, however, that if Lease Payments (as defined therein) due under the Lease remain unpaid at the expiration of the Lease term, then this Site Lease shall not terminate until the earlier of (i) September 1, 2043, (ii) the date on which the Bonds have been paid in full or (iii) the expiration of the term of any lease executed and delivered pursuant to Section 8.2(b) of the Lease, unless such term is sooner terminated as hereinafter provided.

SECTION 3. Rental.

The Authority shall pay to the Agency as and for rental hereunder the sum of One Dollar (\$1.00) on the date of initial issuance of the Bonds.

SECTION 4. Purpose.

The Authority shall use the Site solely for the purpose of leasing the Site, together with the improvements to be constructed or installed thereon, to the City pursuant to the Lease; provided, that in the event of default by the Agency under the Lease the Authority may exercise the remedies provided in the Lease.

SECTION 5. Owner in Fee.

The Agency covenants that it is the owner in fee of the Site, except as to easements and other encumbrances which will not adversely affect the Lessee's use and occupancy of said Site.

SECTION 6. Assignments and Subleases.

Unless the City shall be in default under the Lease, the Authority may not, without the written consent of the City, assign its rights hereunder or sublet the Site, except to the trustee (the "Trustee") of the Authority's Bonds, the proceeds of which shall be used to pay costs of the Project (as defined in the Lease).

SECTION 7. Right of Entry.

The Agency reserves the right for any of its duly authorized representatives to enter upon the Site at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof, which right is exercisable only so long as the Agency is not in default under the Lease.

SECTION 8. Termination.

The Authority agrees, upon the termination hereof, to quit and surrender the Site in the same good order and condition as the same was in at the time of commencement of the term hereunder (with such modifications and improvements as are contemplated by the Lease), reasonable wear and tear excepted, and agrees that any permanent improvements and structures existing upon the Site at the time of the termination hereof shall remain thereon and title thereto shall vest in the Agency.

SECTION 9. Default.

In the event the Authority shall be in default in the performance of any obligation on its part to be performed under the terms of this Site Lease, which default continues for 30 days following written notice to and demand for correction thereof by the Agency, the Agency may exercise any and all remedies granted by law which do not adversely affect the interests of the owners of the Bonds, with the consent of the Trustee; provided that the Agency may not terminate this Site Lease and shall exercise only remedies providing for specific performance hereunder.

SECTION 10. Quiet Enjoyment.

The Authority at all times during the term hereof shall peaceably and quietly have, hold and enjoy all of the Site.

SECTION 11. Waiver of Personal Liability.

All liabilities hereunder on the part of the Authority shall be solely liabilities of the Authority as a separate legal entity, and the Agency hereby releases each and every member, officer and employee of the Authority of and from any personal or individual liability under this Site Lease. No member, officer or employee of the Authority shall at any time or under any circumstances be individually or personally liable hereunder for anything done or omitted to be done by the Authority hereunder.

SECTION 12. Taxes.

The Agency hereby agrees and covenants to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Site.

SECTION 13. Eminent Domain.

In the event the whole or any part of the Site is taken by eminent domain proceedings, the interest of the Authority shall be recognized and the award shall be paid as provided in the Trust Indenture, dated as of March 1, 1998, pursuant to which the Bonds were issued.

SECTION 14. Partial Invalidity.

If any one or more of the agreements, conditions, covenants or terms hereof shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining agreements, conditions, covenants or terms hereof shall be affected thereby, and each provision of the Site Lease shall be valid and enforceable to the fullest extent permitted by law.

SECTION 15. Notices.

All approvals, authorizations, consents, demands, designations, notices, offers, requests, statements or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States registered or certified mail, return receipt requested, postage prepaid, and addressed as provided in Exhibit B hereof, with a copy to the Trustee, or to such other addresses as the respective parties may from time to time designate by notice in writing.

SECTION 16. No Merger of Interests.

The Leasehold estates under this Site Lease and the Lease shall not merge, whether by the exercise of any right or remedy hereunder or thereunder, by operation of law, or otherwise.

SECTION 17. Section Headings.

All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision hereof.

SECTION 18. Execution.

This Site Lease may be executed and entered into in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

SECTION 19. Governing Law.

This Site Lease shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the parties hereto have executed and entered into the Site Lease by their officers thereunto duly authorized as of the day and year first above written.

REDEVELOPMENT AGENCY OF THE CITY OF MODESTO

By *Jessie G. Gray*
Chairperson of the
Redevelopment Agency of the
City of Modesto

MODESTO PUBLIC FINANCING AUTHORITY

By *Jessie G. Gray*
Chairperson

Approved AS TO FORM

APPROVED AS TO FORM

Michael D. Milch

Michael D. Milch, City Attorney

Michael D. Milch, City Attorney

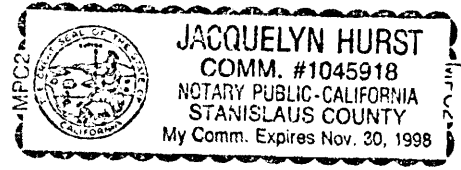
027316 MAR 11 98

State of California)
) SS
County of Stanislaus)

On March 6 1998 before me, Jacquelyn Hurst Notary P.B., personally appeared Richard A. Lang, personally known to me, or proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Jacquelyn Hurst [Seal]

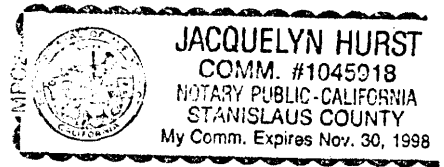


047316 MAR 11 98

State of California)
) SS
County of Stanislaus)

On March 6, 1998 before me, Jacquelyn Hurst, Notary Public, personally appeared Richard A. Lang, personally known to me, or proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.



Signature Jacquelyn Hurst [Seal]

U 7 3 1 6 MAR 11 98

State of California)
) ss.
County of Stanislaus)

On March 9, 1998, before me, Rosemarie Havener, Notary Public
Notary Public
personally appeared Michael D. Milich
Name(s) of Signer(s)

personally known to me -OR- proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.



WITNESS my hand and official seal.

Rosemarie Havener
Signature of Notary Public

OPTIONAL

Capacity Claimed by Signer

- Individual
- Corporate Officer
Title(s): _____
- Partner -- Limited General
- Attorney-in-fact
- Trustee
- Guardian/Conservator
- Other: _____

Signer is Representing: _____
Name of Persons(s) or Entity(ies)

Attention Notary: Although the information requested below is OPTIONAL, it could prevent fraudulent attachment of this certificate to an unauthorized document.

**THIS CERTIFICATE
MUST BE ATTACHED
TO THE DOCUMENT
DESCRIBED AT RIGHT:**

Title or Type of Document _____
Number of Pages _____ Date of Document _____
Signer(s) Other than Named Above _____

U 27316 MAR 11 98

EXHIBIT A

Legal Description of the Site

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 1 through 7 and 25 through 32 in Block 67 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records

Together with:

All that portion of Lot 8 in Block 67 of the City of Modesto described as follows:

Beginning at the most Northerly Corner of said Lot 8, thence South 43° 31' 06" East along the northeasterly line of said lot, a distance of 20.14 feet; thence South 46° 27' 30" West a distance of 150.09 feet to the center line of said alley; thence North 43° 31' 16" West along said center line a distance of 20.11 feet to the point of intersection with the southwesterly extension of the Northwesterly line of Lot 8; thence North 46° 26' 46" East along said extension and said Northwesterly line of Lot 8, a distance of 150.09 feet to the point of beginning.

Also Together with:

All that portion of Lots 23 and 24 in Block 67 described as follows: Beginning at the most westerly corner of Lot 24, thence North 46° 27' 01" East along the northwesterly line of said Lot 24, a distance of 95.17 feet; thence South 43° 32' 30" East, a distance of 33.11 feet; thence South 46° 27' 30" West, a distance of 95.18 feet to a point on the southwesterly line of Lot 23; thence North 43° 31' 28" West, along said southwesterly line of Lot 23 and the southwesterly line of Lot 24 a distance of 33.10 feet to the point of beginning.

Excepting therefrom the following described property:

All that portion of Lot 25 in Block 67 described as follows: Beginning at the most easterly corner of Lot 25; thence South 46° 27' 01" West along the southeasterly line of said Lot 25, a distance of 44.92 feet; thence North 43° 32' 30" West, a distance of 4.91 feet; thence North 46° 27' 30" East, a distance of 54.92 feet to the centerline of the alley as shown on said map of Block 67; thence South 43° 31' 16" East, along said alley centerline, a distance of 4.90 feet, to the point of intersection with the northeasterly extension of the southeasterly line of said Lot 25; thence South 46° 27' 01" West along said extension, a distance of 10.00 feet to the point of beginning.

EXHIBIT B

Notices

If to the Lessee:

Modesto Public Financing Authority
c/o City of Modesto
Finance Department
City Hall
1012 "I" Street, 2nd Floor
Modesto, California 95354

If to the Lessor:

Redevelopment Agency of the City of Modesto
801 11th Street
Modesto, California 95354

072316 MAR 11 98



RECORDING REQUESTED BY:
City of Modesto, California

Stanislaus, County Recorder
Karen Mathews Co Recorder Office
DOC- 2000-0048261-00
Thursday, JUN 15, 2000 10:19:16
761 Pd 90.00 Nbr-000055301
BYD/R3/ 1-7

WHEN RECORDED MAIL TO:
BROWN & WOOD LLP
555 California Street
50th Floor
San Francisco, California 94104
Attention: Eric D. Tashman, Esq.

This document is recorded for the benefit of the City of Modesto and recording is fee-exempt
under Section 27383 of the Government Code.

AMENDMENT NO. 1 TO SITE LEASE
(Parking Garage)

by and between the

REDEVELOPMENT AGENCY OF THE CITY OF MODESTO,

and the

MODESTO PUBLIC FINANCING AUTHORITY

Dated June 15, 2000

048261 JUN 15 00

AMENDMENT NO. 1 TO SITE LEASE

This AMENDMENT NO. 1 TO SITE LEASE (the "Amendment No. 1 to Site Lease"), executed and entered into on June 15, 2000, by and between the REDEVELOPMENT AGENCY OF THE CITY OF MODESTO, a redevelopment agency, public body corporate and politic duly organized and existing under the laws of the State of California, as lessor (the "Agency"), and the MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise of powers agency duly organized and existing under the laws of the State of California, as lessee (the "Authority"), and accepted and agreed to by BNY Western Trust Company, as successor trustee (the "Trustee") to Harris Trust Company of California, a state banking association duly organized and existing under and by virtue of the laws of the State of California, as trustee under the Trust Indenture, dated as of March 1, 1998, between the Authority and the Trustee;

WITNESSETH:

WHEREAS, the City of Modesto (the "City") and the County of Stanislaus (the "County"), in conjunction with Agency and the City-County Capital Improvements and Financing Agency, in 1998 undertook a mixed used development to provide, among other uses, retail office uses, a cinema complex, a public parking garage, a City-County administration building, together with other public capital improvements (collectively, the "Project");

WHEREAS, the Authority and the Agency previously executed the Site Lease (Parking Garage), dated as of March 1, 1998, and recorded in the official records of the County of Stanislaus Recorder's Office on March 11, 1998, as Document number 98-0022316-00 (the "1998 Site Lease") pursuant to which the Agency leased to the Authority the real property situated in the City of Modesto, State of California, described in Exhibit A thereto (the "1998 Site"); and

WHEREAS, the Authority leased back the 1998 Site, together with certain Leased Units of the Project (referred to therein as the "Leased Property"), to the City pursuant to a Lease/Purchase Agreement, dated as of March 1, 1998, between the Authority and the City, and recorded in the official records of the County of Stanislaus Recorder's Office on March 11, 1998, as Document number 98-0022319-00 (the "1998 Lease/Purchase Agreement"); and

WHEREAS, Section 5.3 of the 1998 Lease/Purchase Agreement permits the removal of Leased Property, including the release of not more than approximately 15,000 square feet of the property constituting the site upon which the Parking Garage will be located (the "Parking Garage Retail Site"), subject to the satisfaction of certain conditions; and

WHEREAS, the City has requested the release of the Parking Garage Retail Site from the 1998 Lease/Purchase Agreement and 1998 Site Lease;

WHEREAS, the City has provided to the Trustee an amended Exhibit C to the 1998 Lease/Purchase Agreement which includes a new metes and bounds description for the 1998 Site which reflects the reconveyance and release of the Parking Garage Retail Site; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into

048261 JUN 15 00

of this Amendment No. 1 to Site Lease (including the delivery of certificates and opinions as required by Section 5.3 of the 1998 Lease/Purchase Agreement) do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into the Amendment No. 1 to Site Lease;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements and covenants contained herein and for other valuable consideration, the parties hereto do hereby agree as follows:

1. Exhibit A to the 1998 Site Lease is hereby amended in its entirety with the substitution of Exhibit A attached hereto; and
2. Except as set forth in paragraph 1, the 1998 Site Lease shall remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the parties hereto have executed and entered into the Amendment No. 1 to Site Lease by their officers thereunto duly authorized as of the day and year first above written.

REDEVELOPMENT AGENCY OF THE CITY OF
MODESTO

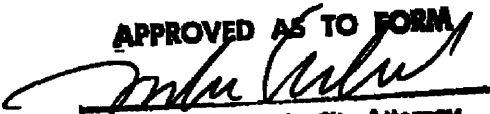
By: 

Jack R. Crist
Executive Director

MODESTO PUBLIC FINANCING AUTHORITY

By: 

Jack R. Crist
Executive Director

APPROVED AS TO FORM

Michael D. Milich, City Attorney

Accepted and Agreed by
BNY WESTERN TRUST COMPANY,
successor to Harris Trust Company
of California

By: 
Inga Keldsen
Vice President

State of California)
) ss.
County of Stanislaus)

On JUNE 12, 2000 before me, LINDA C. KING
[insert date] [Here insert name of notary]

personally appeared Jack R. Crist

personally known to me, or

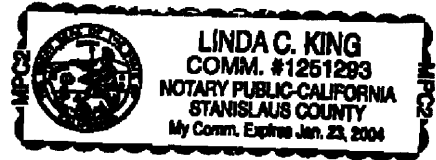
proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are

subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Linda C King

[Seal]



State of California)
) ss.
County of Stanislaus)

On JUNE 12, 2000 before me, LINDA C. KING
[Insert date] [Here insert name of notary]

personally appeared Jack R. Crist

personally known to me, or

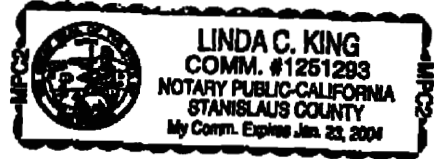
proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are

subscribed to the within instrument and acknowledged to me that he/~~she~~/they executed the same in his/~~her~~/their authorized capacity(ies), and that by his/~~her~~/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Linda C. King

[Seal]



048261 JUN 15 00

State of California)
) ss.
City and County of San Francisco)

On 6/9/00 before me, Susan N. Gorshen
[Insert date] [Here insert name of notary]

personally appeared Inga Keldsen

personally known to me, or

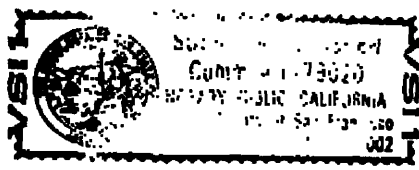
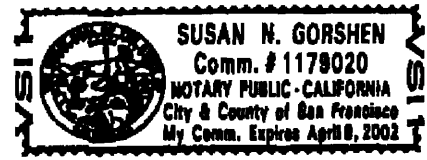
proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are

subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Susan N. Gorshen

[Seal]



048261 JUN 15 00

LEGAL DESCRIPTION OF THE SITE

All that portion of Block 67 of the City of Modesto, as per the official map thereof, filed in Book 15 of Maps, together with the abandoned alley therein, lying in the south half of Section 29, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, City of Modesto, County of Stanislaus, State of California, described as follows:

BEGINNING at the north corner of said Block 67, said point being the intersection of the southwesterly line of 80.00 feet wide Eleventh Street with the southeasterly line of 80.00 feet wide K Street; thence on said Southeasterly line, South 46°48'48" West 253.06 feet; thence South 43°09'48" East 167.50 feet; thence North 46°50'12" East 23.24 feet; thence South 43°09'48" East 17.52 feet; thence North 46°50'12" East 16.00 feet; thence South 43°09'48" East 16.00 feet; thence South 46°50'12" West 16.00 feet; thence South 43°09'48" East 12.97 feet; thence South 46°48'48" West 54.07 feet; thence North 88°11'12" West 30.10 feet to the northeasterly line of 70.00 feet wide 10th Street; thence on said northeasterly line, South 43°10'10" East 207.48 feet to the northwesterly line of 80.00 feet wide J Street; thence on said northwesterly line, North 46°47'30" East 305.16 feet to the southwesterly line of 80.00 feet wide 11th Street; thence on said southwesterly line, North 43°09'48" west 400.08 feet to the point of beginning.

Containing 2.522 acres, more or less.

I CERTIFY THIS INSTRUMENT TO BE A TRUE CERTIFIED COPY OF THE RECORD IN THIS OFFICE.
ATTEST:

STANISLAUS COUNTY, CALIF.
LEE LUNDRIGAN
REGISTRAR OF RECORDS

BY: *Chadette Praxett*
Deputy



MAR 08 2007

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CERTIFICATE REGARDING LEASE/PURCHASE
AGREEMENT, SITE LEASES AND FACILITIES LEASES

I, Jean Morris, hereby certify that I am the Secretary of the Commission of the Modesto Public Financing Authority (the "Authority"), a joint exercise of powers authority organized under the laws of the State of California, and that as such I am authorized to execute this Certificate on behalf of the Authority.

I hereby further certify that there is attached hereto full, true and correct copies of the following documents:

1. Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002 (as so amended, the "1998 Lease"), each by and between the Authority and the City.
2. Site Lease (Parks Project, Police Headquarters Building and Miscellaneous Public Properties), dated as of March 1, 1998, as amended by Amendment No. 1 to Site Lease, dated October 15, 2002 (as so amended, the "Miscellaneous Site Lease"), each by and between the Authority and the City.
3. Site Lease (Parking Garage), dated as of March 1, 1998, as amended by Amendment No. 1 to Site Lease, dated June 15, 2000 (as so amended, the "Parking Garage Site Lease"), each by and between the Authority and the Redevelopment Agency of the City of Modesto.
4. Facilities Lease (Communications Dispatch Center), dated as of March 1, 1998 (the "Dispatch Lease") by and between the Authority and the City.
5. Facilities Lease (City-County Administration Building), dated as of March 1, 1998 (the "Administration Building Lease") by and between the Authority and the City-County Capital Improvements and Financing Agency.

I hereby further certify that the 1998 Lease, the Miscellaneous Site Lease, the Parking Garage Site Lease, the Dispatch Lease and the Administration Building Lease have not been amended, rescinded or modified, and are now in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand as of the date set forth herein.

Dated: April 18, 2007

MODESTO PUBLIC FINANCING AUTHORITY

By: Jean Morris
Jean Morris
Secretary

13

04373 MG

Stanislaus, County Recorder
Karen Mathews Co Recorder Office

RECORDING REQUESTED BY:
City of Modesto, California

DOC - 98-0022317-00
Acct 502-Fidelity National Title
Wednesday, MAR 11, 1998 08:00:00
FRE \$0.00!!
Ttl Pd \$0.00
Nbr-0000178235
ACK/R1/1-15

WHEN RECORDED MAIL TO:
BROWN & WOOD LLP
555 California Street
50th Floor
San Francisco, California 94104
Attention: Eric D. Tashman, Esq.

This document is recorded for the benefit of the City of Modesto and recording is fee-exempt under Section 27383 of the Government Code.

FACILITIES LEASE
(Communications Dispatch Center)

by and between the
CITY OF MODESTO

and the

MODESTO PUBLIC FINANCING AUTHORITY

Dated as of March 1, 1998

RECORDER'S MEMO:
POOR RECORD IS DUE TO
QUALITY OF ORIGINAL DOCUMENT

2015-168

RECORDED IN ORDER PRESENTED

15

022317 MAR 11 98

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U 2 7 3 1 / MAR 11 98

This FACILITIES LEASE (the "Facilities Lease"), executed and entered into as of March 1, 1998, by and between the CITY OF MODESTO, a charter city and a municipal corporation duly organized and existing under the laws of the State of California, as lessor (the "Lessor"), and the MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise of powers agency duly organized and existing under the laws of the State of California, as lessee (the "Lessee");

WITNESSETH:

WHEREAS, the Lessor and the County of Stanislaus (the "County"), in conjunction with the City-County Capital Improvements and Financing Agency (the "Agency") and the Redevelopment Agency of the City of Modesto (the "Redevelopment Agency"), have determined to undertake a mixed-use development located in downtown Modesto, together with other related public improvements, including the rehabilitation of the Communications Dispatch Center (collectively, the "Project");

WHEREAS, the Lessee intends to assist the Lessor and Authority to, among other things, finance the costs of the Project through the issuance of the Authority's Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "Bonds") pursuant to the terms of the Indenture of Trust (the "Indenture"), dated as of March 1, 1998, by and between the Lessee and Harris Trust Company of California, as trustee (the "Trustee"); and

WHEREAS, pursuant to this Facilities Lease, the Lessor proposes to lease its undivided one-half interest in the component of the Project constituting the Communications Dispatch Center, together with its undivided one-half interest in the site upon which such facility is located, as more fully described in Exhibit A attached hereto (the "City Facilities") to the Lessee; and

WHEREAS, the Lessee intends to lease-back the City Facilities, together with certain other real property and improvements, to the Lessor pursuant to a Lease/Purchase Agreement to be executed and entered into as of the date hereof (the "Lease"), and payments required to be made by the City pursuant to such Lease shall secure payment of the Bonds; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Facilities Lease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into the Facilities Lease;

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

U 2 2 3 1 / MAR 11 98

SECTION 1. Leased Premises.

The Lessor hereby leases to the Lessee (without option to purchase) and the Lessor hereby leases from the Lessee, on the terms and conditions hereinafter set forth, the City Facilities, as more fully described in Exhibit A hereto.

SECTION 2. Lessee Covenant to Issue Bonds.

In consideration of the lease of the City Facilities by the Lessor to the Lessee as provided in Section 1 hereof, the Lessee hereby covenants to issue its Bonds and to apply or cause the proceeds thereof to be applied to pay the cost of the acquisition, construction and/or installation of the City Facilities.

SECTION 3. Term.

The term hereof shall commence as of the date hereof and shall remain in effect until the term of the Lease expires as provided by Section 4.2 thereof, provided, however, that if Lease Payments (as defined therein) due under the Lease remain unpaid at the expiration of the Lease term, then this Facilities Lease shall not terminate until the earlier of (i) September 1, 2043, (ii) the date on which the Bonds have been paid in full or (iii) the expiration of the term of any lease executed and delivered pursuant to Section 8.2(b) of the Lease, unless such term is sooner terminated as hereinafter provided.

SECTION 4. Rental.

The Lessor shall pay to the Lessee as and for rental hereunder the sum of One Dollar (\$1.00) on the date of initial issuance of the Bonds.

SECTION 5. Purpose.

The Lessor shall use the City Facilities solely for the purpose of subletting the City Facilities to the City pursuant to the Lease; provided, that in the event of default by the City under the Lease the Lessor may exercise the remedies provided in the Lease.

SECTION 6. Owner in Fee.

The Lessor covenants that it is a joint owner in fee as tenants in common (with a fifty percent ownership interest) of the Site (as described in Exhibit A hereto) upon which the City Facilities are located, subject to easements and other encumbrances which will not adversely affect the Lessee's use and occupancy of the Site.

SECTION 7. Assignments and Subleases.

Unless the Lessor shall be in default under the Lease, the Lessee may not, without the written consent of the Lessor, assign its rights hereunder or sublet the City Facilities, as contemplated by Section 5 hereof.

SECTION 8. Right of Entry.

The Lessor reserves the right for any of its duly authorized representatives to enter upon the City Facilities at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof, which right is exercisable only so long as the Lessor is not in default under the Lease.

SECTION 9. Termination.

The Lessee agrees, upon the termination hereof, to quit and surrender the City Facilities in the same good order and condition as the same was in at the time of commencement of the term hereunder (with such modifications and improvements as are contemplated by the Lease), reasonable wear and tear excepted, and agrees that any permanent improvements and structures existing upon the City Facilities at the time of the termination hereof shall remain thereon and title thereto shall vest in the Lessor.

SECTION 10. Default.

In the event the Lessee shall be in default in the performance of any obligation on its part to be performed under the terms of this Facilities Lease, which default continues for 30 days following written notice to and demand for correction thereof by the Lessor, the Lessor may exercise any and all remedies granted by law which do not adversely affect the interests of the owners of the Bonds, with the consent of the Trustee; provided that the Lessor may not terminate this Facilities Lease and shall exercise only remedies providing for specific performance hereunder; and provided further that under no circumstances shall the Lessee have the right to repossess and relet the City Facilities in the event of a default by the Lessor under the Lease.

SECTION 11. Quiet Enjoyment.

The Lessee at all times during the term hereof shall peaceably and quietly have, hold and enjoy all of the City Facilities.

SECTION 12. Waiver of Personal Liability.

All liabilities hereunder on the part of the Lessee shall be solely liabilities of the Lessee as a separate legal entity, and the Lessor hereby releases each and every member, officer and employee of the Lessee of and from any personal or individual liability under this Facilities Lease. No member, officer or employee of the Lessee shall at any time or under any circumstances be individually or personally liable hereunder for anything done or omitted to be done by the Lessee hereunder.

SECTION 13. Taxes.

The Lessor hereby agrees and covenants to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Site.

SECTION 14. Eminent Domain.

In the event the whole (or so much thereof as to render the remainder unusable for the proposes for which it was intended by the Lessor) or any part of the City Facilities is taken under the power of eminent domain, the proceeds of such proceedings thereof shall be paid to the Trustee for application in accordance with Section 4.12 of the Indenture.

SECTION 15. Title Insurance.

In the event that any proceeds are paid under the title policy delivered to the Lessor pursuant to such proceeds attributable to the City Facilities, as determined by the Lessor, shall be paid to the Trustee for application in accordance with Section 4.12 of the Indenture.

SECTION 16. Liability Insurance; Casualty Insurance; and Fire and Extended Coverage.

(a) The Lessor hereby covenants to obtain and cause to be maintained throughout the term of this Facilities Lease, a standard comprehensive general liability insurance policy or policies, and insurance against loss or damage to any part of the City Facilities by reason of fire and lightning, with extended coverage and vandalism and malicious mischief, in protection of the Lessor, the Lessee, the Trustee and their respective members, directors, officers, agents and employees (the "Insured Parties"), indemnifying said parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the operation of the Site or the City Facilities.

(b) The standard comprehensive general liability insurance policy or policies required by this Section shall have minimum liability limits of minimum liability limits of one million dollars (\$1,000,000) for personal injury or death of each person and three million dollars (\$3,000,000) for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of five hundred thousand dollars (\$500,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of three million dollars (\$3,000,000) covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance carried by the Lessor.

(c) Casualty insurance and fire and extended coverage required by this Section shall be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the City Facilities (less the cost of the land), excluding the cost of excavations, of grading and filling, and of the land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed ten percent of such amount or a comparable deductible adjusted for inflation), or, in the alternative, shall be in an amount and in a form sufficient, in the event of total or partial loss, to enable the payment of an allocable portion of the Bonds attributed to the costs of the City Facilities then outstanding. Such casualty insurance may be maintained as part of or in conjunction with any other casualty insurance carried by the Lessor.

(d) The proceeds of the liability insurance shall be applied to the payment of any claim covered by such policy. The proceeds of any casualty insurance and for any extended coverage shall be used for the repair, reconstruction or replacement of the damaged or destroyed portion of the City Facilities, and the Lessor shall hold any such proceeds separate and apart from all other funds held by the Lessor in a special fund to be designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the City Facilities to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds.

SECTION 17. Third-party Insureds.

The insurance policies required by Sections 15 and 16 hereof shall name the Lessee and the Trustee as a third-party insured and shall include endorsements making amounts payable under such policies payable to the Lessee in accordance with its interest in the City Facilities hereunder described.

SECTION 18. Partial Invalidity.

If any one or more of the agreements, conditions, covenants or terms hereof shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining agreements, conditions, covenants or terms hereof shall be affected thereby, and each provision of the Facilities Lease shall be valid and enforceable to the fullest extent permitted by law.

SECTION 19. Notices.

All approvals, authorizations, consents, demands, designations, notices, offers, requests, statements or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States registered or certified mail, return receipt requested, postage prepaid, and addressed as provided in Exhibit B hereof, with a copy to the Trustee, or to such other addresses as the respective parties may from time to time designate by notice in writing.

SECTION 20. No Merger of Interests.

The Leasehold estates under this Facilities Lease and the Lease shall not merge, whether by the exercise of any right or remedy hereunder or thereunder, by operation of law, or otherwise.

SECTION 21. Section Headings.

All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision hereof.

SECTION 22. Execution.

This Facilities Lease may be executed and entered into in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.


SECTION 23. Governing Law.

This Facilities Lease shall be governed by and construed in accordance with the laws of the State of California.

U 2731 / MAR 11 98

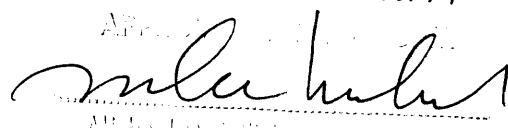
IN WITNESS WHEREOF, the parties hereto have executed and entered into the Facilities Lease by their officers thereunto duly authorized as of the day and year first above written.

CITY OF MODESTO

By 
City Manager

MODESTO PUBLIC FINANCING
AUTHORITY

By 
Chairperson

APPROVED AS TO FORM

Michael D. Milich, City Attorney

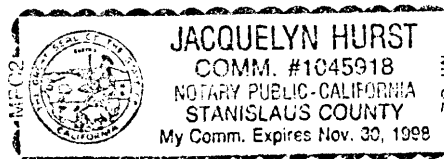
027317 MAR 11 98

State of California)
) SS
County of Stanislaus)

On March 6, 1998 before me, Jacquelyn Hurst ^{Notary} Public, personally appeared J. Edward Teves, personally known to me, or proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Jacquelyn Hurst [Seal]



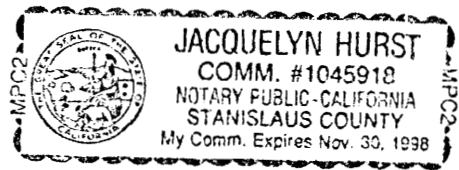
02731 / MAR 11 98

State of California)
) SS
County of Stanislaus)

On March 6 1998 before me, Jacquelyn Hurst, ^{Notary} Public, personally appeared Richard A. Law, personally known to me, or proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Jacquelyn Hurst [Seal]



U L C I / MAR 11 98

State of California)
) ss.
County of Stanislaus)

On March 9, 1998, before me, Rosemarie Havener, Notary Public
Notary Public
personally appeared Michael D. Milich
Name(s) of Signer(s)

personally known to me -OR- proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.



WITNESS my hand and official seal.

Rosemarie Havener
Signature of Notary Public

OPTIONAL

Capacity Claimed by Signer

- Individual
- Corporate Officer
Title(s): _____
- Partner -- Limited General
- Attorney-in-fact
- Trustee
- Guardian/Conservator
- Other: _____

Signer is Representing: _____
Name of Persons(s) or Entity(ies)

Attention Notary: *Although the information requested below is OPTIONAL, it could prevent fraudulent attachment of this certificate to an unauthorized document.*

**THIS CERTIFICATE
MUST BE ATTACHED
TO THE DOCUMENT
DESCRIBED AT RIGHT:**

Title or Type of Document _____
Number of Pages _____ Date of Document _____
Signer(s) Other than Named Above _____

07731 / MAR 11 98

EXHIBIT A

Description of the City Facilities

The City Facilities shall consist of the City's undivided one-half interest in a building commonly referred to as the Communications Dispatch Center, together with the City's undivided one-half interest in the Site upon which said facility is located, and including the City's interest in the use of common areas. The Communications Dispatch Center is located on a 2.9 acre site at the corner of Oakdale Road and Bridgewood Way in the City of Modesto.

Legal Description of the Site

All that land, in the County of Stanislaus, State of California, City of Modesto, and described as "Parcel 2" (attached hereto as Attachment I) and designated on that certain parcel map filed in the office of the County Recorder of Stanislaus County, California, on September 24, 1979 in volume 29 of parcel maps, at page 100.

022317 MAR 11 98

ATTACHMENT I

An undivided one-half interest in the following:
Parcel 2 as per Parcel Map filed September 24, 1979 in Volume 29 of
Parcel Maps, Page 100, Stanislaus County Records.

022317 MAR 11 98

EXHIBIT B

Notices

If to the Lessee:

Modesto Public Financing Authority
c/o City of Modesto
Finance Department
City Hall
1012 "I" Street, 2nd Floor
Modesto, California 95354

If to the Lessor:

City of Modesto
Finance Department
City Hall
1012 "I" Street, 2nd Floor
Modesto, California 95354

022317 MAR 11 98

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CERTIFICATE REGARDING LEASE/PURCHASE
AGREEMENT, SITE LEASES AND FACILITIES LEASES

I, Jean Morris, hereby certify that I am the Secretary of the Commission of the Modesto Public Financing Authority (the "Authority"), a joint exercise of powers authority organized under the laws of the State of California, and that as such I am authorized to execute this Certificate on behalf of the Authority.

I hereby further certify that there is attached hereto full, true and correct copies of the following documents:

1. Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002 (as so amended, the "1998 Lease"), each by and between the Authority and the City.
2. Site Lease (Parks Project, Police Headquarters Building and Miscellaneous Public Properties), dated as of March 1, 1998, as amended by Amendment No. 1 to Site Lease, dated October 15, 2002 (as so amended, the "Miscellaneous Site Lease"), each by and between the Authority and the City.
3. Site Lease (Parking Garage), dated as of March 1, 1998, as amended by Amendment No. 1 to Site Lease, dated June 15, 2000 (as so amended, the "Parking Garage Site Lease"), each by and between the Authority and the Redevelopment Agency of the City of Modesto.
4. Facilities Lease (Communications Dispatch Center), dated as of March 1, 1998 (the "Dispatch Lease") by and between the Authority and the City.
5. Facilities Lease (City-County Administration Building), dated as of March 1, 1998 (the "Administration Building Lease") by and between the Authority and the City-County Capital Improvements and Financing Agency.

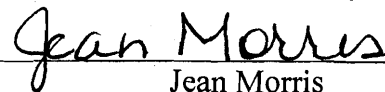
I hereby further certify that the 1998 Lease, the Miscellaneous Site Lease, the Parking Garage Site Lease, the Dispatch Lease and the Administration Building Lease have not been amended, rescinded or modified, and are now in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand as of the date set forth herein.

Dated: April 18, 2007

MODESTO PUBLIC FINANCING AUTHORITY

By:



Jean Morris
Secretary

74.

904373 MG

Stanislaus, County Recorder
Karen Mathews Co Recorder Office

DOC - 98-0022318-00
Acct 502-Fidelity National Title
Wednesday, MAR 11, 1998 08:00:00

FRE \$0.00!!
Ttl Pd \$0.00

Nbr-0000178236
ACK/R1/1-21

RECORDING REQUESTED BY:
City of Modesto, California

WHEN RECORDED MAIL TO:
BROWN & WOOD LLP
555 California Street
50th Floor
San Francisco, California 94104
Attention: Eric D. Tashman, Esq.

This document is recorded for the benefit of the City of Modesto and recording is fee-exempt under Section 27383 of the Government Code.

022318 MAR 11 98

FACILITIES LEASE
(City-County Administration Building)

by and between the

CITY-COUNTY CAPITAL IMPROVEMENTS AND FINANCING AGENCY

and the

MODESTO PUBLIC FINANCING AUTHORITY

Dated as of March 1, 1998

RECORDER'S MEMO:
POOR RECORD IS DUE TO
QUALITY OF ORIGINAL DOCUMENT

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This FACILITIES LEASE (the "Facilities Lease"), executed and entered into as of March 1, 1998, by and between the CITY-COUNTY CAPITAL IMPROVEMENTS AND FINANCING AGENCY, a joint exercise of powers agency duly organized and existing under the laws of the State of California, as lessor (the "Agency"), and the MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise of powers agency duly organized and existing under the laws of the State of California, as lessee (the "City JPA");

WITNESSETH:

WHEREAS, the City of Modesto (the "City") and the County of Stanislaus (the "County"), in conjunction with the Agency and the Redevelopment Agency of the City of Modesto (the "Redevelopment Agency"), have determined to undertake the acquisition and development of a public administration building (the "City-County Administration Building") on a site described in Exhibit A hereto (the "Site") located in downtown Modesto in which the City and County will maintain their administrative offices, together with other related improvements (collectively, the "Project");

WHEREAS, in order to implement the Project, the City, the County, the Redevelopment Agency and the Agency have entered into, among other documents, a Master Agreement (the "Master Agreement"), dated July 22, 1997, which agreement sets for the responsibilities of the parties with respect to the development of the Project; and

WHEREAS, in accordance with the Master Agreement, the Project and related improvements will be acquired, constructed and/or installed by the Agency, with the County serving as Project Administrator; and

WHEREAS, the City JPA intends to assist the City and Agency to, among other things, finance the costs of the Project through the issuance of its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "Bonds") pursuant to the terms of the Indenture of Trust (the "Indenture"), dated as of March 1, 1998, by and between the City JPA and the Harris Trust Company of California, as trustee (the "City Trustee"); and

WHEREAS, pursuant to this Facilities Lease and a Facilities Lease/Purchase Agreement, executed and entered into as of March 1, 1998, by and between the Agency and the County, the Agency proposes to lease to the City JPA and the Stanislaus County Capital Improvements Financing Authority (the "County JPA"), respectively, an undivided interest in the Site, the portions of the Project comprising the City-County Administration Building to be exclusively occupied or administered by the County and the City, as the case may be, together with non-exclusive rights to the common areas of the City-County Administration Building, as more fully described in Exhibit A attached hereto (the "County Facilities" or the "City Facilities," as applicable); and

WHEREAS, the City JPA intends to lease the City Facilities, together with certain other real property, to the City pursuant to a Lease/Purchase Agreement to be executed and entered into as of the date hereof (the "City Lease"), and payments required to be made by the City pursuant to such City Lease shall secure payment of its Bonds; and

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WHEREAS, simultaneous with the issuance of the Bonds by the City JPA, the County will cause the County JPA, pursuant to the terms of the Trust Agreement (the "County Trust Agreement"), dated as of March 1, 1998, by and between the County JPA and BNY Western Trust Company, as trustee (the "County Trustee") to execute and deliver Certificates of Participation, Series A of 1998 (Downtown Center) (the "Certificates"), evidencing proportionate interest in the Owners thereof in Lease Payments to be made by the County under the terms of the Lease Agreement, dated as of March 1, 1998, by and between the County and the County JPA, such Certificates being executed and delivered to pay the County's allocable costs related to the City-County Administration Building; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Facilities Lease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into the Facilities Lease;

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

SECTION 1. Leased Premises.

The Agency hereby leases to the City JPA (without option to purchase) and the City JPA hereby leases from the Agency, on the terms and conditions hereinafter set forth, an undivided one-half interest in the Site, and the City Facilities, as more fully described and depicted in Exhibit B hereto, which consists of approximately 79,246 square feet in the City-County Administration Building to be occupied in part by the City on an exclusive basis and in part shared with the County, together with the non-exclusive rights to the use in and to the common areas in the City-County Administration Building.

SECTION 2. City JPA Covenant to Issue Bonds.

In consideration of the lease of the City Facilities by the Agency to the City JPA as provided in Section 1 hereof, the City JPA hereby covenants to issue its Bonds and to apply or cause the proceeds thereof to be applied to pay the City's allocable cost of the acquisition, construction and/or installation of the Site and the City Facilities, together with the City's allocable costs other public capital improvements as contemplated by Section 4.5.5 of the Master Agreement.

The Agency agrees to acquire, construct, delivery and install the Project and lease the City Facilities to the Authority hereunder. The Agency agrees to cause the Project to be acquired, constructed, delivered and installed with the proceeds of the Bonds made available by the City JPA, the proceeds of the Certificates contributed by the County JPA and other funds contributed or made available to the Agency. The proceeds of the Bonds will be allocated to the cost of the City Facilities. The Agency, or its agent, will arrange for, supervise and provide for, or cause

to be supervised and provided for, the acquisition, construction, delivery and installation of the Project, which shall be completed on or before March 1, 2000.

SECTION 3. Term.

The term hereof shall commence as of the date hereof and shall remain in effect until the term of the City Lease expires as provided by Section 4.2 thereof, including any right of the extension of the term pursuant to such section; *provided, however*, that if, following an event of default under the City Lease, the City Facilities are relet in accordance with Section 8.2 of the City Lease, then this Facilities Lease shall not terminate until the expiration of the term of any lease executed and delivered pursuant to Section 8.2(b) of the City Lease.

SECTION 4. Rental.

The City JPA shall pay to the Agency as and for rental hereunder the sum of One Dollar (\$1.00) on the date of initial issuance of the Bonds.

SECTION 5. Purpose.

The City JPA shall use the City Facilities solely for the purpose of subletting the City Facilities to the City pursuant to the City Lease; *provided*, that in the event of default by the City under the City Lease the City JPA may exercise the remedies provided in the City Lease.

SECTION 6. Owner in Fee.

The Agency covenants that it is the owner in fee of the Site (as described in Exhibit A hereto) upon which the City Facilities will be located, subject to the exceptions shown on the Title Report delivered pursuant to Section 3.4.7.4 of the Master Agreement.

SECTION 7. Assignments and Subleases.

Unless the City shall be in default under the City Lease, the City JPA may not, without the written consent of the City, assign its rights hereunder or sublet the City Facilities, except as otherwise contemplated by Section 5 above.

SECTION 8. Right of Entry.

The Agency reserves the right for any of its duly authorized representatives to enter upon the City Facilities at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof, which right is exercisable only so long as the Agency is not in default under the City Lease.

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SECTION 9. Termination.

The City JPA agrees, upon the termination hereof, to quit and surrender the City Facilities in the same good order and condition as the same was in at the time of commencement of the term hereunder (with such modifications and improvements as are contemplated by the City Lease), reasonable wear and tear excepted, and agrees that any permanent improvements and structures existing upon the City Facilities at the time of the termination hereof shall remain thereon and title thereto shall vest in the Agency.

SECTION 10. Default.

In the event the City JPA shall be in default in the performance of any obligation on its part to be performed under the terms of this Facilities Lease, which default continues for 30 days following written notice to and demand for correction thereof by the Agency, the Agency may exercise any and all remedies granted by law which do not adversely affect the interests of the owners of the Bonds, with the consent of the City Trustee; *provided* that the Agency may not terminate this Facilities Lease and shall exercise only remedies providing for specific performance hereunder.

SECTION 11. Quiet Enjoyment.

The City JPA at all times during the term hereof shall peaceably and quietly have, hold and enjoy all of the City Facilities.

SECTION 12. Waiver of Personal Liability.

All liabilities hereunder on the part of the City JPA shall be solely liabilities of the City JPA as a separate legal entity, and the Agency hereby releases each and every member, officer and employee of the City JPA of and from any personal or individual liability under this Facilities Lease. No member, officer or employee of the City JPA shall at any time or under any circumstances be individually or personally liable hereunder for anything done or omitted to be done by the City JPA hereunder.

SECTION 13. Taxes.

The Agency hereby agrees and covenants to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Site.

SECTION 14. Eminent Domain.

In the event the whole (or so much thereof as to render the remainder unusable for the proposes for which it was intended by the City) or any part of the City-County Administration Building is taken under the power of eminent domain, the proceeds of such proceedings allocable to the City Facilities, as determined by the Agency, shall be paid to the City Trustee for application in accordance with Section 4.12 of the Indenture.

SECTION 15. Title Insurance.

In the event that any proceeds are paid under the title policy delivered to the Agency pursuant to Section 3.4.7.4 of the Master Agreement, such proceeds attributable to the City Facilities, as determined by the Agency, shall be paid to the City Trustee for application in accordance with Section 4.12 of the Indenture. The amount paid to the City Trustee shall equal the amount of the proceeds received by the Agency multiplied by a fraction, the numerator of which is the outstanding principal amount of the Bonds and the denominator of which is the sum of the outstanding principal amount of the Certificates and the Bonds allocable to the financing of the City-County Administration Building.

SECTION 16. Liability Insurance; Casualty Insurance; and Fire and Extended Coverage.

(a) The Agency hereby covenants to obtain and cause to be maintained throughout the term of this Facilities Lease, a standard comprehensive general liability insurance policy or policies, and insurance against loss or damage to any part of the City-County Administration Building by reason of fire and lightning, with extended coverage and vandalism and malicious mischief, in protection of the City JPA, the City, the City Trustee for the Bonds, the County JPA, the County and the Certificates Trustee and their respective members, directors, officers, agents and employees (the "Insured Parties"), indemnifying said parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the operation of the Site or the City-County Administration Building, including the City Facilities.

(b) The standard comprehensive general liability insurance policy or policies required by this Section shall have minimum liability limits of minimum liability limits of one million dollars (\$1,000,000) for personal injury or death of each person and three million dollars (\$3,000,000) for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of five hundred thousand dollars (\$500,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of three million dollars (\$3,000,000) covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance carried by the Agency, the City or the County.

(c) Casualty insurance and fire and extended coverage required by this Section shall be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Project (less the cost of the land), excluding the cost of excavations, of grading and filling, and of the land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$100,000 for any one loss, or in the case of flood or earthquake, ten percent of such amount or a comparable deductible adjusted for inflation), or, in the alternative, shall be in an amount and in a form sufficient, in the event of total or partial loss, to enable the payment of all Bonds and Certificates then outstanding. Such casualty insurance may be maintained as part of or in conjunction with any other casualty insurance carried by the Agency.

(d) The proceeds of the liability insurance shall be applied to the payment of any claim covered by such policy. The proceeds of any casualty insurance and for any extended coverage shall be used for the repair, reconstruction or replacement of the damaged or destroyed portion of the Project, and the Agency shall hold any such proceeds separate and apart from all other funds held by the Agency in a special fund to be designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Project to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds; provided, however, if the Agency determines that the repair, reconstruction or replacement is not feasible within 24 months from the date of loss, then any proceeds received as a result of damage to the City Facilities shall be paid to the City Trustee.

SECTION 17. Third-party Insureds.

The insurance policies required by Sections 15 and 16 hereof shall name the City JPA as a third-party insured and shall include endorsements making amounts payable under such policies payable to the City JPA in accordance with its interest in the Project hereunder described.

SECTION 18. Partial Invalidity.

If any one or more of the agreements, conditions, covenants or terms hereof shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining agreements, conditions, covenants or terms hereof shall be affected thereby, and each provision of the Facilities Lease shall be valid and enforceable to the fullest extent permitted by law.

SECTION 19. Notices.

All approvals, authorizations, consents, demands, designations, notices, offers, requests, statements or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States registered or certified mail, return receipt requested, postage prepaid, and addressed as provided in Exhibit C hereof, with a copy to the City Trustee, or to such other addresses as the respective parties may from time to time designate by notice in writing.

SECTION 20. No Merger of Interests.

The Leasehold estates under this Facilities Lease and the City Lease shall not merge, whether by the exercise of any right or remedy hereunder or thereunder, by operation of law, or otherwise.

SECTION 21. Section Headings.

All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision hereof.

SECTION 22. Execution.

This Facilities Lease may be executed and entered into in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

SECTION 23. Governing Law.

This Facilities Lease shall be governed by and construed in accordance with the laws of the State of California.

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IN WITNESS WHEREOF, the parties hereto have executed and entered into the Facilities Lease by their officers thereunto duly authorized as of the day and year first above written.

CITY-COUNTY CAPITAL
IMPROVEMENTS AND FINANCING
AGENCY

By *Julia A. Gray*
President

MODESTO PUBLIC FINANCING
AUTHORITY

By *Julia A. Gray*
Chairperson

Approved AS TO FORM
APPROVED AS TO LEGALITY
Michael D. Milich
Michael D. Milich, City Attorney

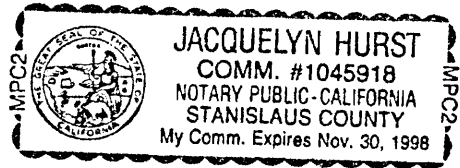
2010 MAR 11 98

State of California)
) SS
County of Stanislaus)

On March 6, 1998 before me, Jacquelyn Hurst, Notary Public, personally appeared Richard A. Lawry, personally known to me, or proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Jacquelyn Hurst [Seal]



0 2 7 0 1 0 MAR 11 98

State of California)
) ss.
County of Stanislaus)

On March 9, 1998, before me, Rosemarie Havener, Notary Public,
Notary Public
personally appeared Michael D. Milich
Name(s) of Signer(s)

personally known to me -OR- proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.



WITNESS my hand and official seal.

Rosemarie Havener
Signature of Notary Public

OPTIONAL

Capacity Claimed by Signer

- Individual
- Corporate Officer
Title(s): _____
- Partner -- Limited General
- Attorney-in-fact
- Trustee
- Guardian/Conservator
- Other: _____

Signer is Representing: _____
Name of Persons(s) or Entity(ies)

Attention Notary: Although the information requested below is OPTIONAL, it could prevent fraudulent attachment of this certificate to an unauthorized document.

**THIS CERTIFICATE
MUST BE ATTACHED
TO THE DOCUMENT
DESCRIBED AT RIGHT:**

Title or Type of Document _____
Number of Pages _____ Date of Document _____
Signer(s) Other than Named Above _____

U L 7 3 1 8 MAR 11 98

EXHIBIT A

Description of the City Facilities

The City Facilities shall consist of an undivided one-half interest in the Site (as described below) and approximately 79,246 square feet of the City-County Administration Building, such area to be exclusively occupied by the City, together with the City's interest in certain common areas in the City-County Administration Building, such joint-use area consisting of approximately 80,032 square feet.

The City Facilities are located in the City of Modesto, County of Stanislaus, described as follows:

Parcel No. 6

An undivided one-half interest in and to the following:
Lots 8 through 24 in Block 67 of the City of Modesto as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Together with the following described property:

All that portion of Lot 25 in Block 67 described as follows:
Beginning at the most easterly corner of Lot 25; thence South $46^{\circ} 27' 01''$ West along the southeasterly line of said Lot 25, a distance of 44.92 feet; thence North $43^{\circ} 32' 30''$ West, a distance of 4.91 feet; thence North $46^{\circ} 27' 30''$ East, a distance of 54.92 feet to the centerline of the alley as shown on said map of Block 67; thence South $43^{\circ} 31' 16''$ East, along said alley centerline, a distance of 4.90 feet, to the point of intersection with the northeasterly extension of the southeasterly line of said Lot 25; thence South $46^{\circ} 27' 01''$ West along said extension, a distance of 10.00 feet to the point of beginning.

Excepting therefrom the following described property:

All that portion of Lot 8 in Block 67 of the City of Modesto described as follows:
Beginning at the most Northerly Corner of said Lot 8, thence South $43^{\circ} 31' 06''$ East along the northeasterly line of said lot, a distance of 20.14 feet; thence South $46^{\circ} 27' 30''$ West a distance of 150.09 feet to the center line of said alley; thence North $43^{\circ} 31' 16''$ West along said center line a distance of 20.11 feet to the point of intersection with the southwesterly extension of the Northwesterly line of Lot 8; thence North $46^{\circ} 26' 46''$ East along said extension and said Northwesterly line of Lot 8, a distance of 150.09 feet to the point of beginning.

Also excepting therefrom the following described property:

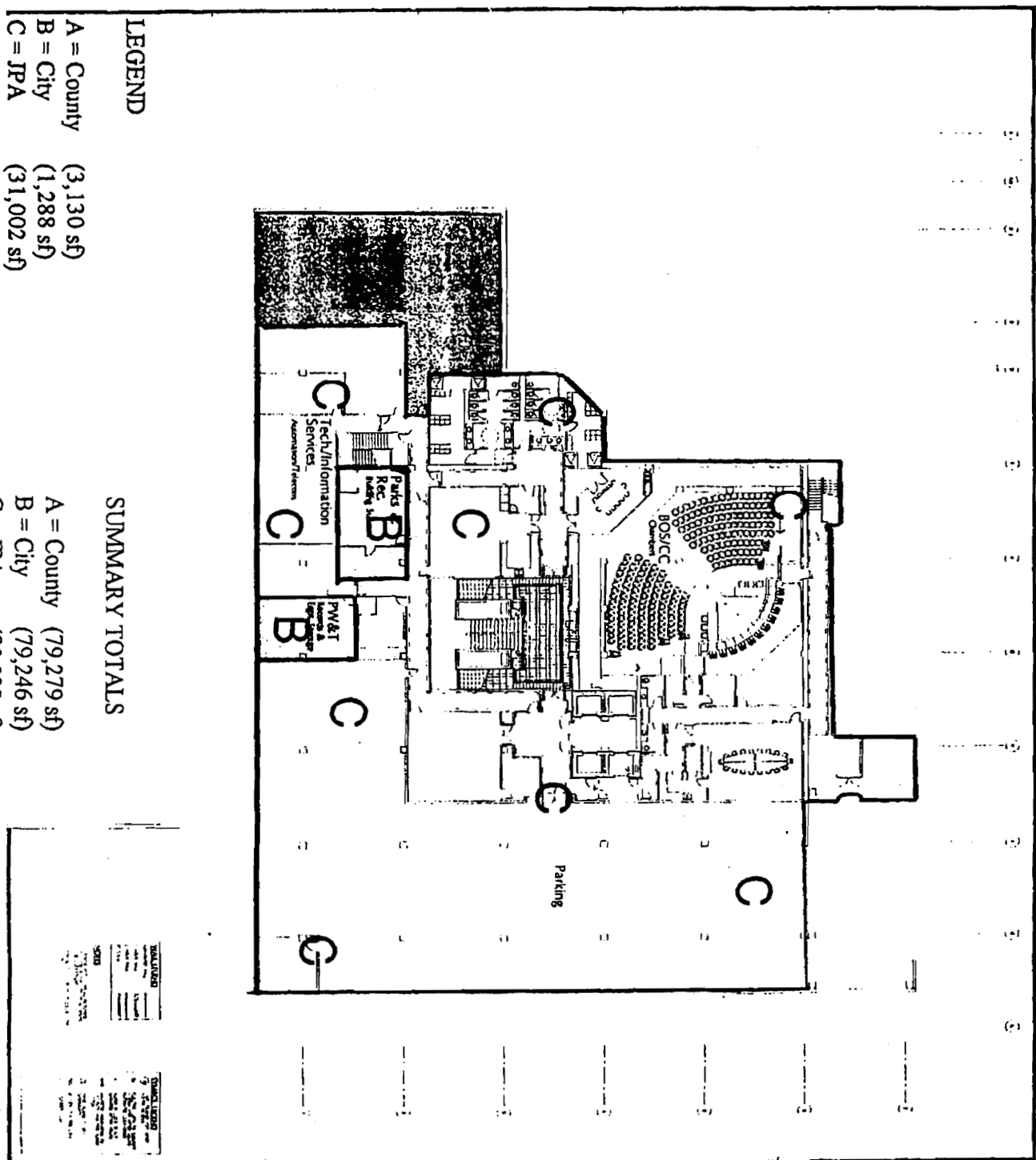
All that portion of Lots 23 and 24 in Block 67 described as follows:
Beginning at the most westerly corner of Lot 24, thence North $46^{\circ} 27' 01''$ East along the northwesterly line of said Lot 24, a distance of 95.17 feet; thence South $43^{\circ} 32' 30''$ East, a distance of 33.11 feet; thence South $46^{\circ} 27' 30''$ West, a distance of 95.18 feet to a point on the southwesterly line of Lot 23; thence North $43^{\circ} 31' 28''$ West, along said southwesterly line of Lot 23 and the southwesterly line of Lot 24 a distance of 33.10 feet to the point of beginning.

EXHIBIT B

See Attachment 1 hereto

02 11 1991 0 1 0 7 7 0

ATTACHMENT 1




LEGEND

- A = County (3,130 sf)
- B = City (1,288 sf)
- C = JPA (31,002 sf)
- D = RDA (0 sf)

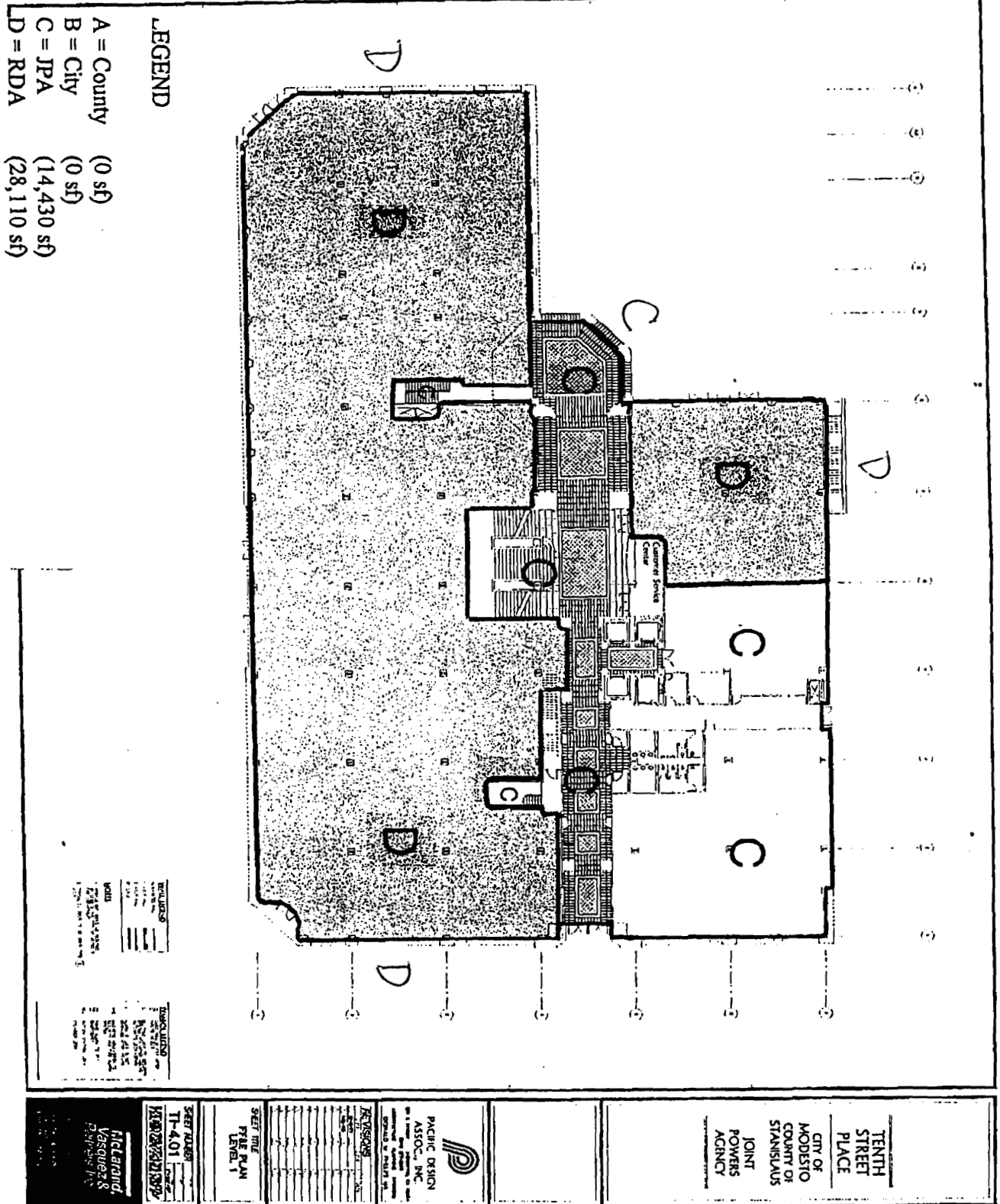
SUMMARY TOTALS

- A = County (79,279 sf)
- B = City (79,246 sf)
- C = JPA (80,032 sf)
- D = RDA (28,100 sf)

DATE	BY	DESCRIPTION
9/18/97
...
...

 <p>PACIFIC DESIGN ASSOC., INC. 1000</p>	<p>TENTH STREET PLACE</p> <p>CITY OF MODESTO COUNTY OF STANISLAUS</p> <p>JOINT POWERS AGENCY</p>	<p>SHEET TITLE PILE PLAN BASEMENT LEVEL</p>	<p>SHEET NUMBER T1-400</p>
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ATTACHMENT 1



LEGEND

A = County (0 sf)
 B = City (0 sf)
 C = JPA (14,430 sf)
 D = RDA (28,110 sf)

REVISIONS

NO.	DATE	DESCRIPTION
1	11/15/97	ISSUED FOR PERMITS
2	11/15/97	ISSUED FOR PERMITS
3	11/15/97	ISSUED FOR PERMITS
4	11/15/97	ISSUED FOR PERMITS
5	11/15/97	ISSUED FOR PERMITS
6	11/15/97	ISSUED FOR PERMITS
7	11/15/97	ISSUED FOR PERMITS
8	11/15/97	ISSUED FOR PERMITS
9	11/15/97	ISSUED FOR PERMITS
10	11/15/97	ISSUED FOR PERMITS

REVISIONS

NO.	DATE	DESCRIPTION
1	11/15/97	ISSUED FOR PERMITS
2	11/15/97	ISSUED FOR PERMITS
3	11/15/97	ISSUED FOR PERMITS
4	11/15/97	ISSUED FOR PERMITS
5	11/15/97	ISSUED FOR PERMITS
6	11/15/97	ISSUED FOR PERMITS
7	11/15/97	ISSUED FOR PERMITS
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10	11/15/97	ISSUED FOR PERMITS

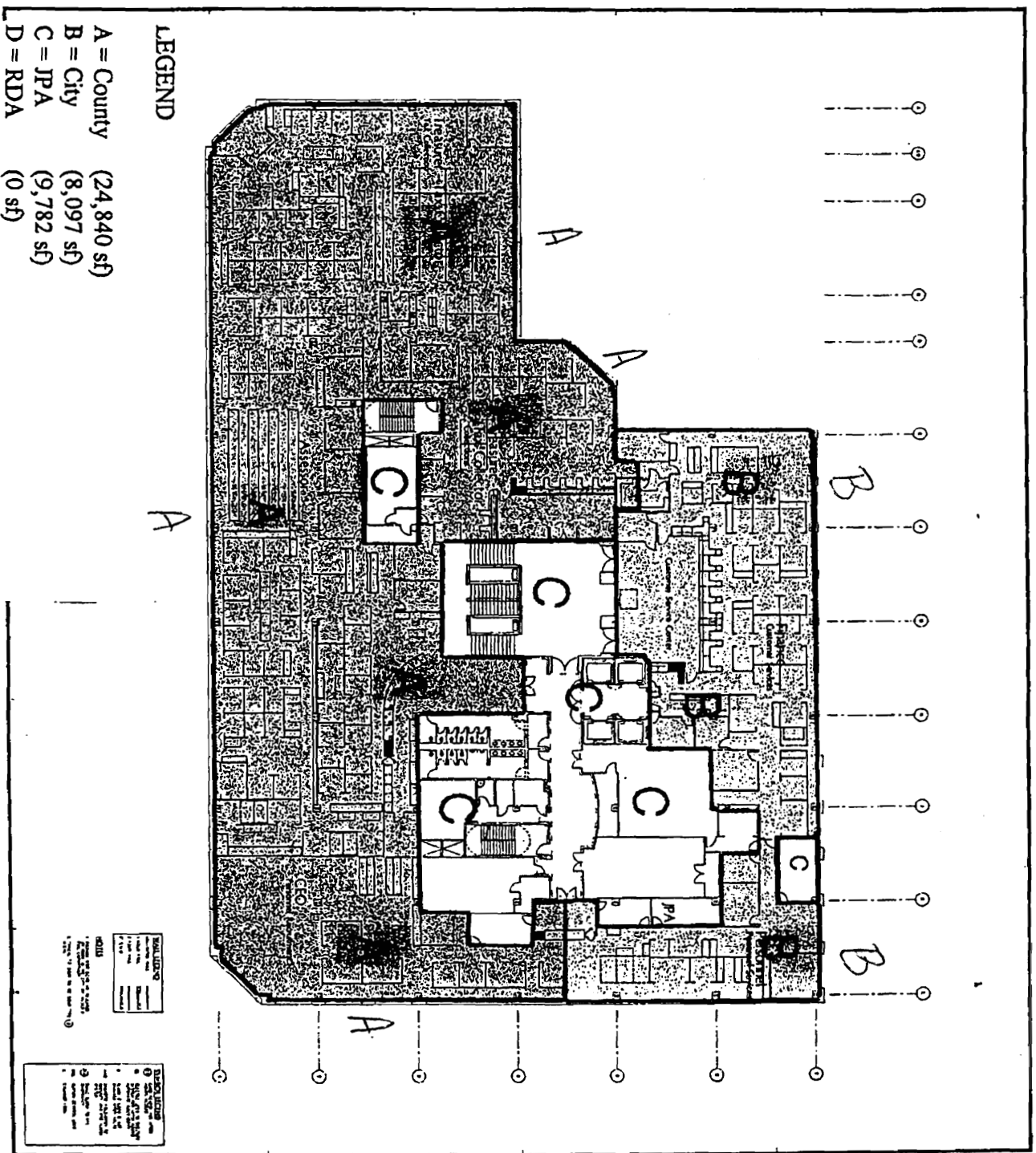
TENTH STREET PLACE
 CITY OF MODISTO COUNTY OF STANISLAUS
 JOINT POWERS AGENCY

PACIFIC DESIGN ASSOC., INC.
 ARCHITECT

McClanahan, Vasquez & Partners, Inc.
 ARCHITECT

PERMITS
 SHEET NUMBER: T-4.01
 DATE: 11/15/97

SCALE
 SHEET TITLE: FLOOR PLAN
 LEVEL: 1



LEGEND


A = County (24,840 sf)
 B = City (8,097 sf)
 C = JPA (9,782 sf)
 D = RDA (0 sf)

REVISIONS

NO.	DATE	DESCRIPTION
1	11-4-02	ISSUED FOR PERMITS

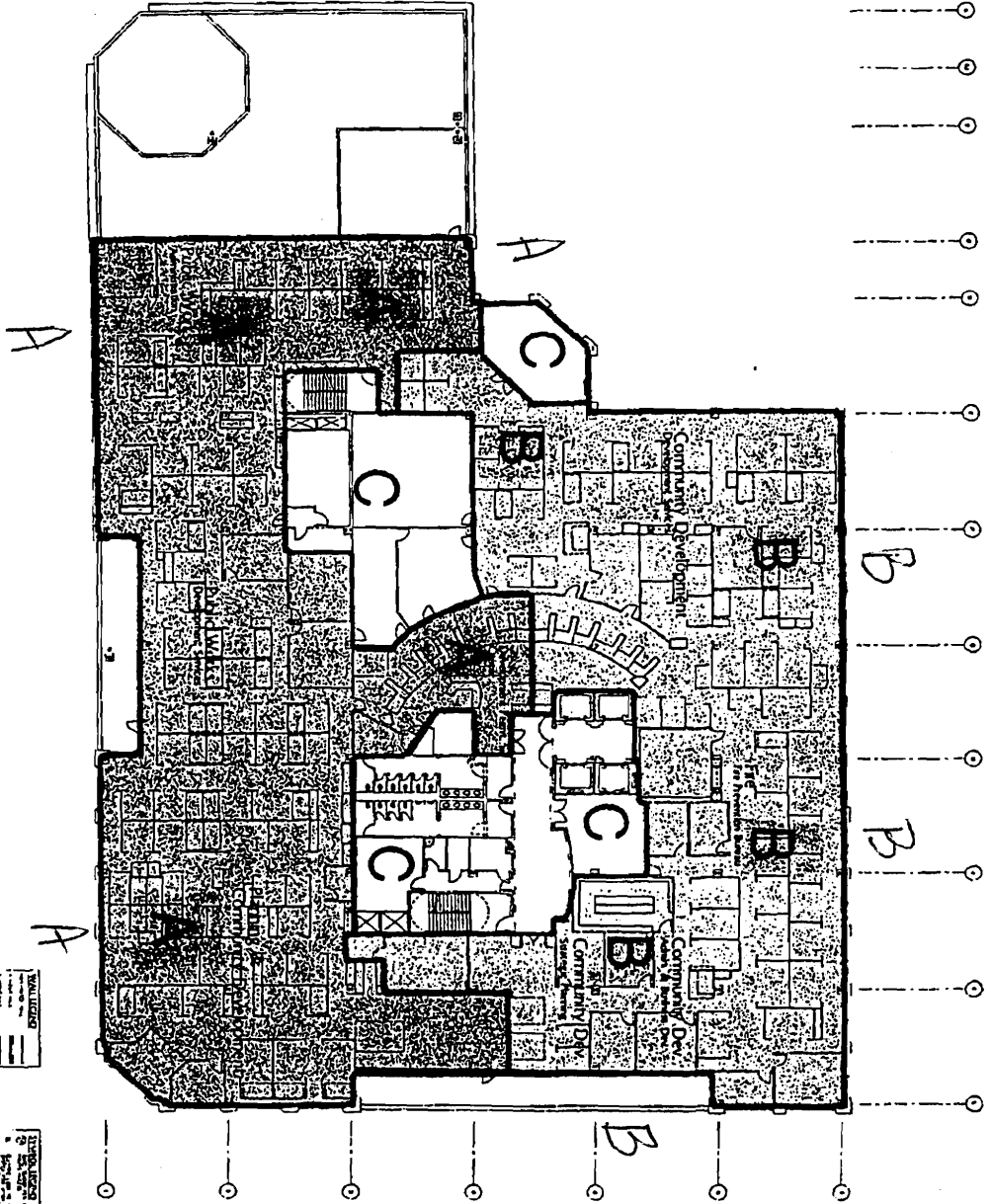
NOTES

1. ALL WORK SHALL BE IN ACCORDANCE WITH THE CITY OF MODESTO SPECIFICATIONS AND STANDARDS.
2. ALL WORK SHALL BE IN ACCORDANCE WITH THE CALIFORNIA BUILDING CODE AND ALL APPLICABLE ORDINANCES.
3. ALL WORK SHALL BE IN ACCORDANCE WITH THE CALIFORNIA ELECTRICAL CODE AND ALL APPLICABLE ORDINANCES.
4. ALL WORK SHALL BE IN ACCORDANCE WITH THE CALIFORNIA MECHANICAL CODE AND ALL APPLICABLE ORDINANCES.
5. ALL WORK SHALL BE IN ACCORDANCE WITH THE CALIFORNIA PLUMBING CODE AND ALL APPLICABLE ORDINANCES.
6. ALL WORK SHALL BE IN ACCORDANCE WITH THE CALIFORNIA FIRE CODE AND ALL APPLICABLE ORDINANCES.
7. ALL WORK SHALL BE IN ACCORDANCE WITH THE CALIFORNIA SAFETY CODE AND ALL APPLICABLE ORDINANCES.
8. ALL WORK SHALL BE IN ACCORDANCE WITH THE CALIFORNIA ENVIRONMENTAL CODE AND ALL APPLICABLE ORDINANCES.
9. ALL WORK SHALL BE IN ACCORDANCE WITH THE CALIFORNIA HEALTH CARE CODE AND ALL APPLICABLE ORDINANCES.
10. ALL WORK SHALL BE IN ACCORDANCE WITH THE CALIFORNIA LABOR CODE AND ALL APPLICABLE ORDINANCES.

 PACIFIC DESIGN ASSOC., INC. ARCHITECTS AND ENGINEERS 1000 N. G STREET, SUITE 100 STOCKTON, CA 95210 (209) 943-1111	SHEET TITLE P101 PLAN LEVEL 2	SHEET NUMBER 11-4-02	PROJECT NUMBER 11-4-02	ARCHITECT McFarland Vasquez S
	PROJECT NAME TENTH STREET PLACE CITY OF MODESTO COUNTY OF STANISLAUS JOINT POWERS AGENCY	DATE 11-4-02	DRAWN BY [Name]	CHECKED BY [Name]

LEGEND

A = County (15,846 sf)
 B = City (13,913 sf)
 C = JPA (6,806 sf)
 D = RDA (0 sf)

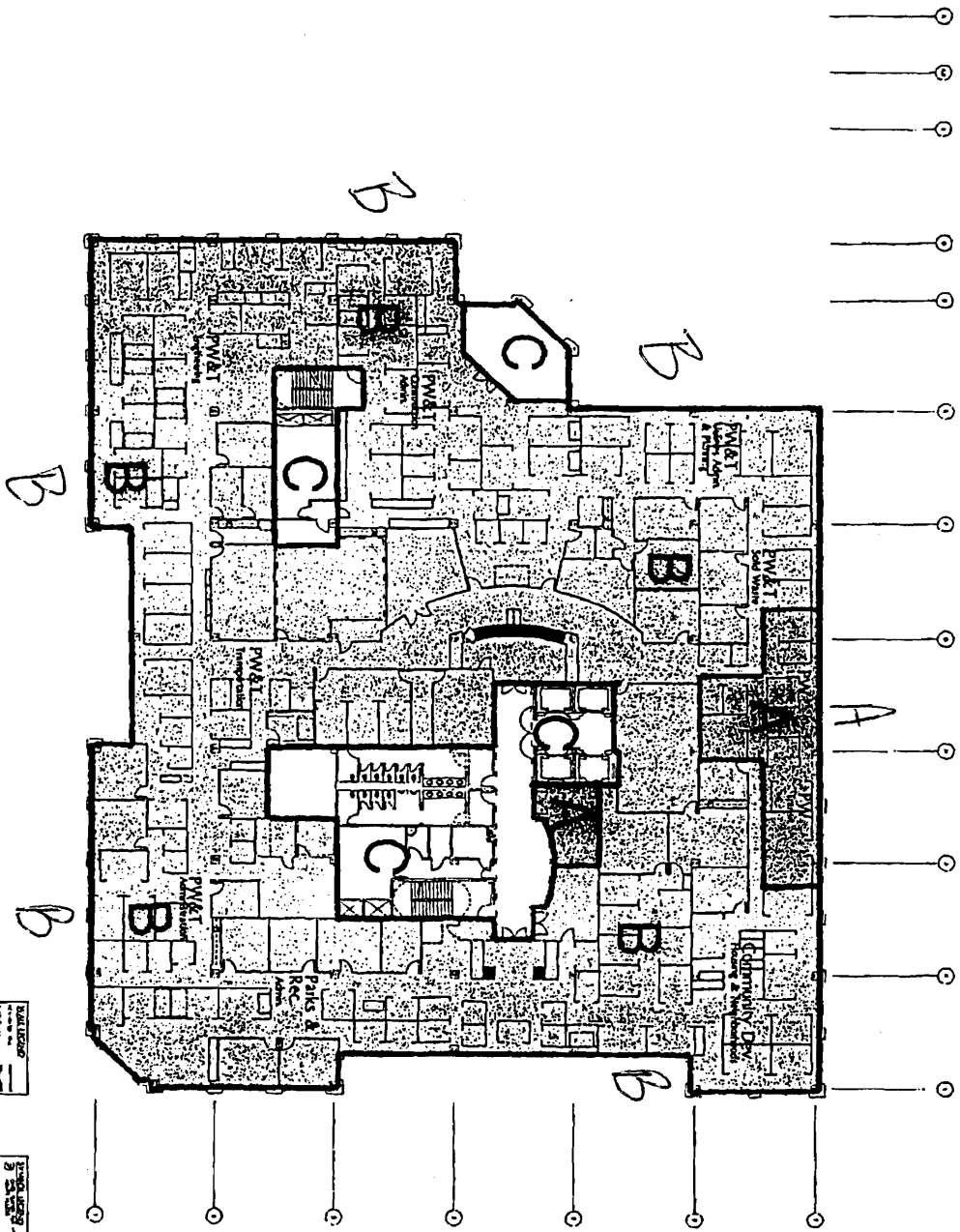


VALIDATION	
1	DATE
2	BY
3	REVISION
4	DATE
5	BY
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10	DATE
11	BY
12	REVISION
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15	REVISION
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41	BY
42	REVISION
43	DATE
44	BY
45	REVISION
46	DATE
47	BY
48	REVISION
49	DATE
50	BY

<p>TENTH STREET PLACE CITY OF MODESTO COUNTY OF STANISLAUS JOINT POWERS AGENCY</p>	<p>PACIFIC DESIGN ASSOC., INC. 201 E. 10th Street, Modesto, CA 95201 (209) 521-1111 FAX: (209) 521-1112 WWW.PACIFICDESIGN.COM</p>	<p>SHEET TITLE FILE # PLAN LEVEL #</p>	<p>SHEET NUMBER 11-403</p>	<p>McLanahan Associates, Inc.</p>
--	---	--	--------------------------------	-----------------------------------

LEGEND

A = County (1,689 sf)
 B = City (29,908 sf)
 C = JPA (4,969 sf)
 D = RDA (0 sf)




REVISIONS

NO.	DATE	DESCRIPTION
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NOTES

1. See General Notes.
2. See General Notes.
3. See General Notes.
4. See General Notes.
5. See General Notes.
6. See General Notes.
7. See General Notes.
8. See General Notes.
9. See General Notes.
10. See General Notes.

 PACIFIC DESIGN ASSOC., INC. 1000 10th Street, Suite 100 San Francisco, CA 94103 (415) 774-2200 FAX (415) 774-2201 WWW.PACIFICDESIGN.COM	SHEET TITLE FLOOR PLAN LEVEL 4
--	--------------------------------------

SHEET NUMBER	17-404
PROJECT NUMBER	17-0000000000

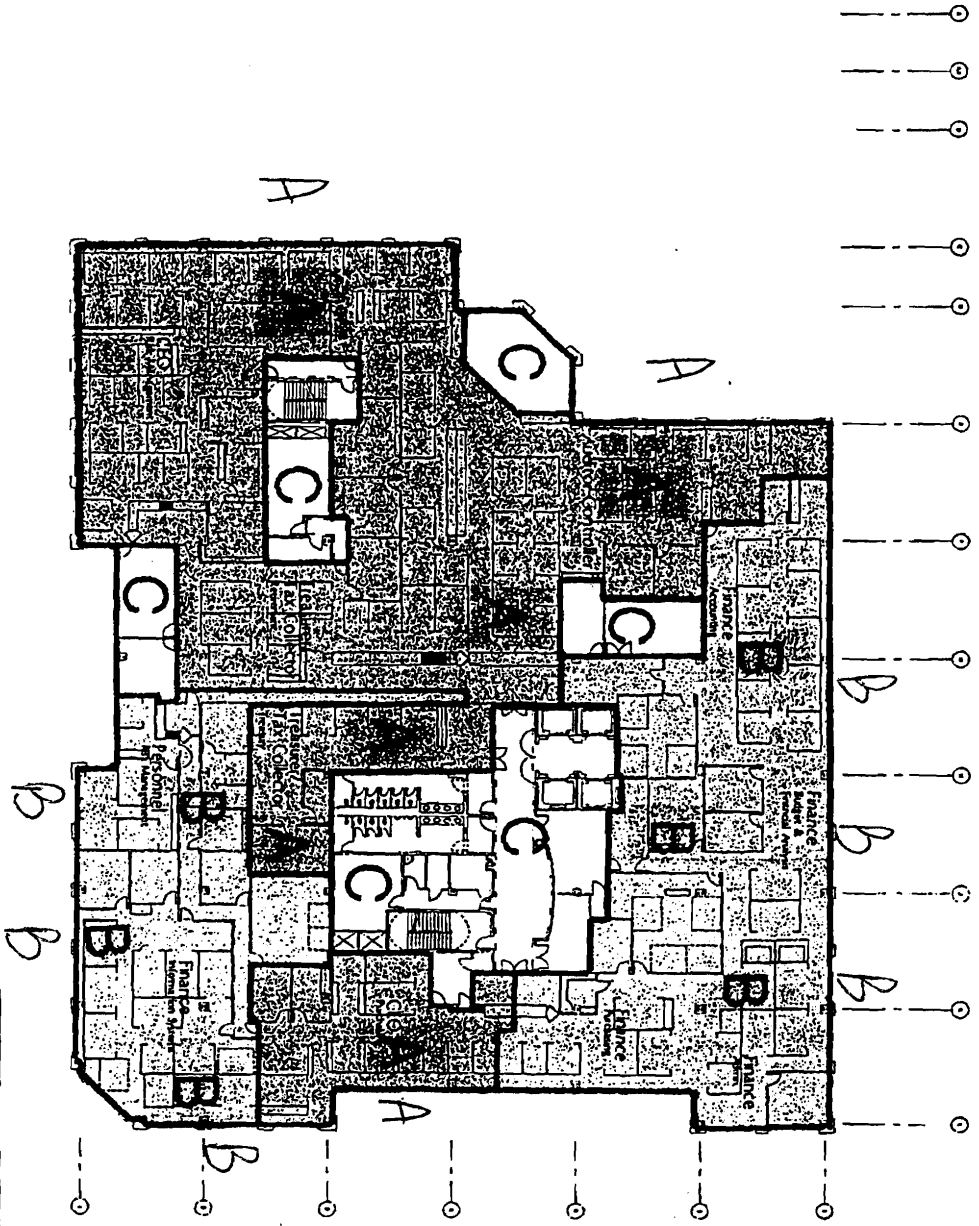
McFarland, Vasquez & Associates, Inc. 1000 10th Street, Suite 100 San Francisco, CA 94103 (415) 774-2200 FAX (415) 774-2201 WWW.MCFARLANDVAZQUEZ.COM	
---	--

 TENTH STREET PLACE CITY OF MODOSTO COUNTY OF STANISLAUS JOINT POWERS AGENCY |

ATTACHMENT 1

LEGEND

A = County (16,344 sf)
 B = City (13,528 sf)
 C = JPA (6,683 sf)
 D = RDA (0 sf)



TOTAL AREA

Zone A	16,344
Zone B	13,528
Zone C	6,683
Zone D	0
Total	36,555

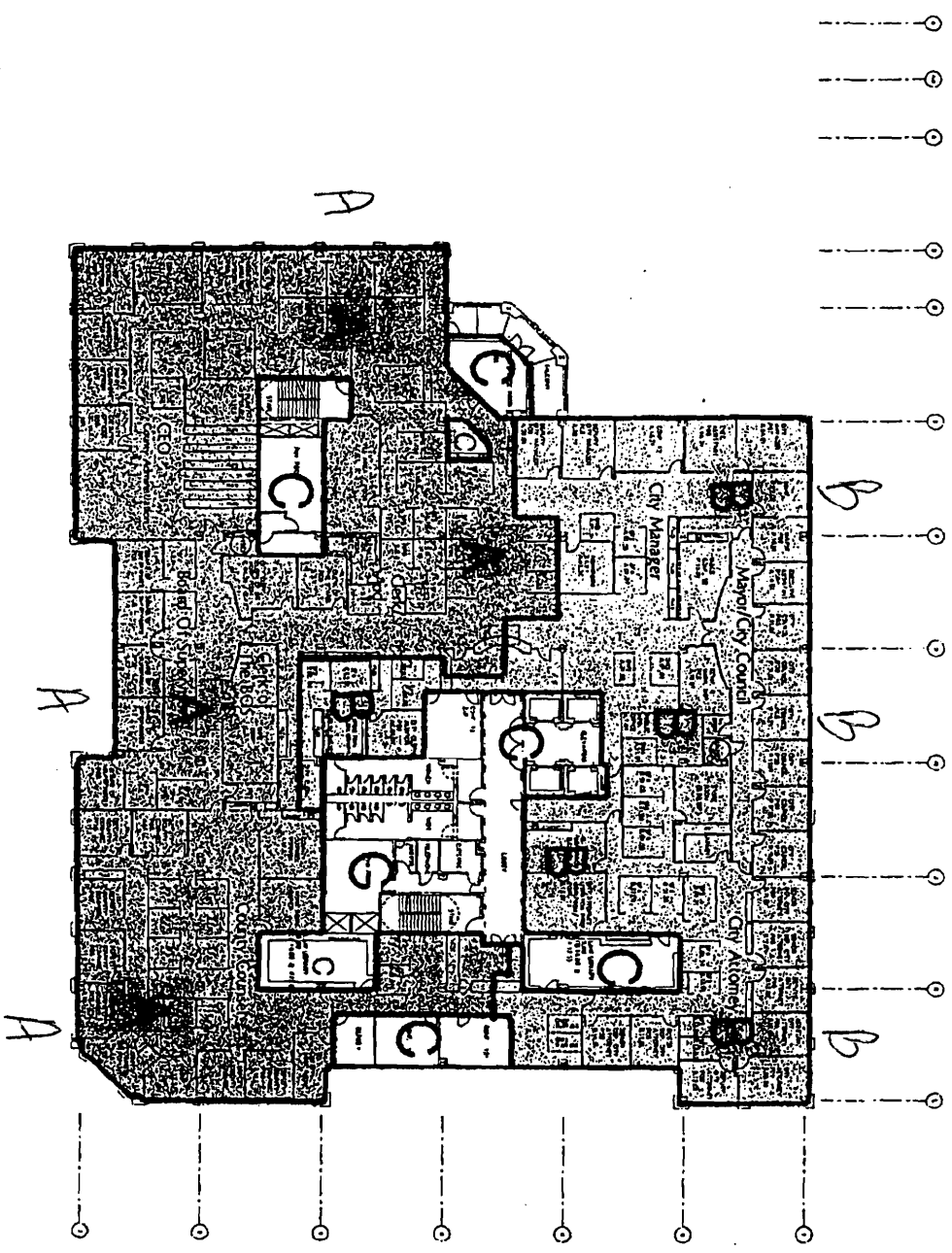
REVISIONS

NO.	DATE	DESCRIPTION
1		ISSUED FOR PERMIT
2		REVISIONS
3		REVISIONS

 PACIFIC DESIGN ASSOCIATES, INC. ARCHITECTS AND ENGINEERS 1000 B STREET, SUITE 100 OAKLAND, CALIFORNIA 94612 (415) 778-1000	TENTH STREET PLACE CITY OF MODesto COUNTY OF STANISLAUS JOINT POWERS AGENCY
PROJECT Tenth Street Place Level 8 Level 8	DATE 7-4-06
McElaind Architects	

- A = County (17,430 sf)
- B = City (12,512 sf)
- C = JPA (6,360 sf)
- D = RDA (0 sf)

LEGEND



<p>TENTH STREET PLACE CITY OF MODesto COUNTY OF STANISLAUS JOINT POWERS AGENCY</p>	<p>PACIFIC DESIGN ASSOCIATION, INC. 1000 W. 10th Street, Suite 100 Modesto, CA 95354 PHONE: 520-3333</p>	<p>SHEET TITLE FILE PLAN LEVEL: 0</p>	<p>DATE: 03/11/98 DRAWN BY: [Signature] CHECKED BY: [Signature] SCALE: AS SHOWN</p>	<p>PROJECT NUMBER 71-408 DATE: 03/11/98</p>	<p>McLarand Associates</p>
--	--	---	---	---	----------------------------

EXHIBIT C

Notices

If to the Lessee:

Modesto Public Financing Authority
c/o City of Modesto
Finance Department
City Hall
1012 "I" Street, 2nd Floor
Modesto, California 95354

If to the Lessor:

City-County Capital Improvement and Financing Agency
c/o Stanislaus County CEO's Office
1100 H Street, 2nd Floor
Modesto, California 95354

022318 MAR 11 98

AUCTION AGREEMENT

Dated as of April 1, 2007

Between

THE BANK OF NEW YORK TRUST COMPANY, N.A.,
as Trustee

and

DEUTSCHE BANK TRUST COMPANY AMERICAS,
as Auction Agent

Relating to

\$62,275,000
Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007

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Exhibit A - Form of Broker-Dealer Agreement..... A-1

AUCTION AGREEMENT

THIS AUCTION AGREEMENT, dated as of April 1, 2007 (the “Auction Agreement”), between The Bank of New York Trust Company, N.A., a national banking association, as trustee (the “Trustee”) and Deutsche Bank Trust Company Americas, a New York Banking corporation, acting, as auction agent (together with its successors and assigns, the “Auction Agent”);

WITNESSETH

WHEREAS, in order to assist the City of Modesto (the “City”) in financing certain capital improvements located within the City, concurrently with the execution and delivery of this Auction Agreement, the Modesto Public Financing Authority (the “Authority”) is causing the execution and delivery of Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the “Bonds”); and

WHEREAS, the Bonds are being executed and delivered pursuant to that certain Trust Indenture, dated as of April 1, 2007 (the “Indenture”), by and between the Authority and the Trustee; and

WHEREAS, the Bonds are initially being delivered in the form of auction rate securities, and such Bonds are referred to herein as “ARS” or “ARS Bonds”; and

WHEREAS, the Trustee is entering into this Auction Agreement as agent for the registered owners of the ARS Bonds (the “Owners”) pursuant to the Indenture; and

WHEREAS, the Auction Agent is to perform certain duties set forth herein;

NOW, THEREFORE, the Trustee and the Auction Agent hereby agree as follows:

Section 1. Definitions and Rules of Construction.

1.1. Terms Defined by Reference to the Indenture. Capitalized terms not defined herein shall have the respective meanings specified in the Indenture, including Exhibit B thereto.

1.2. Terms Defined Herein. As used herein and in the exhibits hereto, the following terms shall have the following meanings, unless the context otherwise requires:

(a) **Auction Agent Acceptance Fee** means an acceptance fee as set forth in a written agreement signed by the Auction Agent and the Authority.

(b) **Auction Agent Fee** means the fees, other than the Auction Agent Acceptance Fee, set forth in a written agreement signed by the Auction Agent and the Authority.

(c) **Authorized Officer** shall mean (i) in the case of the Auction Agent, each Director, Vice President, Assistant Vice President and Associate of the Auction Agent and every other officer or employee of the Auction Agent designated as an “Authorized Officer” for purposes hereof in a written communication to the Trustee, (ii) in the case of

the Authority, its Chief Financial Officer and every other officer or employee of the Authority designated an “Authorized Officer” for purposes hereof in a written communication delivered from the Authority to the Trustee, and (iii) in the case of the Trustee, each Senior Vice President, Vice President, Assistant Vice President, Senior Trust Officer, Trust Officer and Assistant Manager of the Trustee and every other officer or employee of the Trustee designated as an “Authorized Trustee Representative” for purposes hereof in a written communication from the Trustee to the Auction Agent.

(d) **Broker-Dealer Agreement** shall mean each agreement among the Auction Agent, a Broker-Dealer and the Authority substantially in the form attached hereto as Exhibit A.

(e) **Broker-Dealer Fee** shall represent the compensation to the Broker-Dealer for services rendered.

(f) **Broker-Dealer Fee Rate** shall mean the rate at which the Broker-Dealer is to be compensated.

(g) **Existing Holder Registry** shall mean the register maintained by the Auction Agent pursuant to Section 2.2(a)(i).

(h) **Participant** of any Person means the member of, or participant in, the Securities Depository that will act on behalf of an Existing Holder or Potential Holder.

(i) **Person** shall mean an individual, association, unincorporated organization, corporation, partnership, joint venture, business trust or a government or an agency or a political subdivision thereof, or any other entity.

1.3. Rules of Construction. Unless the context or use indicates another or different meaning or intent, the following rules shall apply to the construction of this Auction Agreement.

(a) Words importing the singular number shall include the plural number and vice versa.

(b) The captions and headings herein are solely for convenience of reference and shall not constitute a part of this Auction Agreement nor shall they affect its meaning, construction or effect.

(c) The words “herein,” “hereof,” and “hereunder” and other words of similar import refer to this Auction Agreement as a whole and not to any particular Section or other subdivision.

(d) All references herein to a particular time of day shall be to New York City time.

(e) Each reference to the “purchase,” “sale” or “holding” of ARS shall refer to beneficial ownership interests in ARS unless the context clearly requires otherwise.

Section 2. Auction.

2.1. Purpose; Appointment; Incorporation by Reference of Auction Procedures.

(a) The Indenture provides that the interest rate on the ARS Bonds for each Auction Period shall be the ARS Rate which shall be, except as otherwise provided therein, the Auction Rate that an Auction Agent appointed by the Trustee determines to have resulted from implementation of the Auction Procedures. The Trustee, at the written direction of the Borrower to the Trustee, hereby appoints Deutsche Bank Trust Company Americas as Auction Agent for purposes of the Auction Procedures and to perform such other obligations and duties as are herein or therein set forth. The Auction Agent hereby accepts such appointment as Auction Agent and agrees that, on each Auction Date, it shall follow the procedures set forth in the Auction Procedures for the purpose of, among other things, determining the ARS Rate for each Auction Period (other than the Initial Interest Period).

(b) Without prejudice to Section 5.1(a), all of the provisions contained in the Auction Procedures, provided in Exhibit B of the Indenture and other provisions relating to the Auction Procedures contained in the Indenture are incorporated herein by reference in their entirety and shall be deemed to be a part hereof to the same extent as if such provisions were fully set forth herein.

2.2. Preparation for each Auction; Maintenance of Registry of Existing Holders.

(a) (i) Prior to each Auction Date in which a Broker-Dealer will participate, the Authority shall provide the Auction Agent with a manually signed Broker-Dealer Agreement executed by each such Broker-Dealer, if not previously so provided. The Auction Agent shall maintain a current registry of Persons that are Broker-Dealers, compiled as described below, that are Holders of the Bonds (such registry being herein called the “Existing Holder Registry”). Such Persons shall constitute the Existing Holders for purposes of each Auction. The Auction Agent may conclusively rely upon, as evidence of the identities of the Existing Holders, (A) the results of each Auction, and (B) notices from any Existing Holder, the Broker-Dealer of any Existing Holder as described in the first sentence of Section 2.2(a)(iii).

(ii) The Trustee shall notify the Auction Agent when any notice of redemption or partial defeasance is sent to the Securities Depository as Holder of the Bonds not later than 11:00 a.m. on the date such notice is sent. Prior to sending the notice, the Trustee shall verify with the Auction Agent the lottery publication date to be used in the notice. In the event the Auction Agent receives from the Trustee written notice of any partial redemption or partial defeasance of any Bonds, the Auction Agent shall, at least three Business Days prior to the redemption date, or Defeasance Date (so long as the Auction Agent has been provided timely notice), as applicable, with respect to such Bonds, request the Securities Depository to notify the Auction Agent of the identities of the Participants (and the respective principal amounts) from the accounts of which Bonds have been called for redemption or partial defeasance and at least one Business Day prior to the redemption date, or defeasance date, as applicable, with respect to the Bonds being partially redeemed or defeased, the Auction Agent shall request each eligible Broker-Dealer to disclose to the Auction Agent (upon selection by such Participant of the Existing Holders whose Bonds are to be redeemed or defeased) the aggregate principal amount

of such Bonds of each such Existing Holder, if any, to be redeemed or defeased. By the close of business on the day the Auction Agent receives any notice pursuant to this paragraph (ii), the Auction Agent shall forward the contents of such notice to the related Broker-Dealer by telephone, confirmed in writing.

(iii) The Auction Agent shall register in the Existing Holder Registry a transfer of the Bonds from an Existing Holder to another Person only if (A) such transfer is pursuant to an Auction or (B) if such transfer is made other than pursuant to an Auction, the Auction Agent has been notified in writing in a notice by the Existing Holder that is the transferor, or the Broker-Dealer of such Existing Holder, of such transfer. The Auction Agent shall rescind a transfer made on the Existing Holder Registry if the Auction Agent has been notified in writing by the Broker-Dealer of any Person that (i) purchased any Bonds and the seller failed to deliver such Bonds or (ii) sold any Bonds and the purchaser failed to make payment to such Person upon delivery to the purchaser of such Bonds. The Auction Agent is not required to accept any notice of transfer or rescission delivered prior to an Auction unless it is received by the Auction Agent by 3:00 p.m. on the Business Day next preceding the applicable Auction Date.

(b) The Auction Agent may request, but shall have no duty to do so, that the Broker-Dealers, as set forth in the Broker-Dealer Agreements, provide the Auction Agent with a list of their respective customers that such Broker-Dealers believe are beneficial holders of the Bonds and the aggregate principal amount of the Bonds beneficially owned by each such customer. The Auction Agent shall treat as confidential any such information and shall not disclose any such information so provided to any Person other than the relevant Broker-Dealer, the Authority, the City, the Trustee and their respective agents; provided, however, that the Auction Agent reserves the right to disclose any such information as confidential information to its internal and external accountants, auditors and counsel, its regulators and examiners, and any other person if the Auction Agent has been advised by its counsel that it may be liable for a failure to effect such disclosure, or if it is ordered to do so by a court of competent jurisdiction or regulatory, judicial, quasi-judicial agent or authority having the authority to mandate such disclosures; provided, further, however, that the Auction Agent may refrain from making requested disclosures if in its sole discretion it receives adequate indemnity therefor.

2.3. Changes in Auction Period or Auction Date. In connection with any changes in the Auction Period or the Auction Date, the Auction Agent shall deliver to the Trustee the items referred to in Section 2.09 of the Auction Procedures.

2.4. Notices to Existing Holders. The Auction Agent shall be entitled to conclusively rely upon the address of each Existing Holder as such address is delivered by such Existing Holder in connection with any notice to Existing Holder required to be given by the Auction Agent.

2.5. Payment Defaults.

(a) The Auction Agent shall deliver a copy of any notice received by it from the Trustee to the effect that a payment default on the Bonds has occurred to the Broker-Dealers on the Business Day of the receipt thereof or as soon as practicable thereafter by telecopy or other similar means.

(b) The Auction Agent shall deliver a copy of any notice received by it from the Trustee to the effect that a payment default on the Bonds has been cured to the Broker-Dealers on the Business Day of its receipt thereof or as soon as practicable thereafter by telecopy or other similar means.

(c) If a payment default on the Bonds shall have occurred and be continuing, the Auction Procedures shall be suspended.

2.6. Broker-Dealers.

(a) If the Auction Agent is provided with a copy of a Broker-Dealer Agreement which has been signed, it shall enter into such Broker-Dealer Agreement with relating to the ARS with Banc of America Securities LLC.

(b) The Auction Agent shall from time to time enter into such other Broker-Dealer Agreements as the Authority shall request with written notice to the Trustee. The Authority shall cause to be delivered to the Auction Agent, for execution by the Auction Agent, a Broker-Dealer Agreement manually signed by such Broker-Dealer. The Auction Agent shall only be required to enter into a Broker-Dealer Agreement if such Broker-Dealer Agreement is in substantially the form attached hereto as Exhibit A and has been duly executed and delivered by the proposed Broker-Dealer.

(c) The Auction Agent shall terminate any Broker-Dealer Agreement as set forth therein if so directed by the Authority in writing with prior written notice to the Trustee.

2.7. Ownership of ARS. Neither the Authority, the City nor any Person controlled by the Authority or the City may submit any Order or Bid, directly or indirectly, in any Auction. The Auction Agent shall have no duty to monitor compliance with this Section 2.7.

2.8. Access to and Maintenance of Auction Records. The Auction Agent shall afford to the Authority, the City, the Bond Insurer and Trustee and their agents, independent public accountants and counsel, access at reasonable times during normal business hours to all books, records, documents and other information concerning the conduct and results of Auctions; provided that any such agent, accountant or counsel of the Authority, the City, the Bond Insurer or the Trustee, as applicable, shall furnish the Auction Agent with a letter from an Authorized Officer of the Authority, the City or the Trustee, as applicable, requesting that the Auction Agent afford such Person access. The Auction Agent shall maintain records relating to any Auction for a period of two years after such Auction (unless requested by the Authority to maintain such records for such longer period, then for such longer period but not in excess of a total of four years after such Auction), and such records shall, in reasonable detail, accurately and fairly reflect the actions taken by the Auction Agent hereunder. The Trustee agrees to keep any information regarding the customers of any Broker-Dealer received from the Auction Agent in connection with this Agreement or any Auction confidential and shall not disclose such information or permit the disclosure of such information without the prior written consent of the applicable Broker-Dealer to anyone except such agent, accountant or counsel engaged to audit or review the results of Auctions, or to its internal and external auditors and counsel, its regulators and examiners and any other Person if the Trustee has been advised by its counsel that it may be

liable for a failure to effect such disclosure or if ordered to do so by a court of competent jurisdiction or regulatory, judicial, quasi-judicial agent or authority having the authority to mandate such disclosure. Any such agent, accountant or counsel engaged to audit or review the results of Auctions, before having access to such information, shall agree to keep such information confidential and not to disclose such information or permit disclosure of such information without the prior written consent of the applicable Broker-Dealer, except as may otherwise be required by law. The Auction Agent shall not be responsible for any actions of the Trustee, the Authority, the City, or their respective agents, accountants or counsel for passing on confidential information as a result of access to records of the Auction Agent.

2.9. Membership in the Securities Depository. As of the date hereof, the Auction Agent is a member of, or participant in, the Securities Depository. The Auction Agent will provide the Trustee with notice at least 90 days prior to the date, if any, on which it shall resign as a member of, or participant in, the Securities Depository.

2.10. Change in Mode from an ARS Mode. Pursuant to the Indenture, the Authority may cause the Mode with respect to the Bonds to be changed from an ARS Mode to a Daily Mode, Weekly Mode, Flexible Mode, Term Rate Mode or Fixed Rate Mode. Assuming a successful change in Mode of the Bonds to a Daily Mode, Weekly Mode, Flexible Mode, Term Rate Mode or Fixed Rate Mode, and assuming the Auction Agent has not received a notice of a failed conversion from the Authority, the Auction Agent shall no longer conduct Auctions with respect to the Bonds. If, however, in such case the Auction Agent receives a notice of a failed conversion, the Auction Agent shall follow the provisions of Section 2.15(C) of the Indenture. Upon the change in Mode of the Bonds to a Daily Mode, Weekly Mode, Flexible Mode, Term Rate Mode or Fixed Rate Mode, this Agreement shall automatically terminate; provided, however, in any case, the provisions of Section 3.4 hereof shall survive any such termination.

2.11. Notice of Conversion. At least five days prior to a proposed ARS Conversion Date, the Trustee shall send a copy of any notice received pursuant to Indenture to the Securities Depository and the Auction Agent. At the expense of the Authority, the Trustee shall make available or cause to be made available to the Securities Depository such other information as the Securities Depository may reasonably require in order to effect the exchange of the Bonds bearing interest at an ARS Rate for the Bonds bearing interest at a Daily Rate, Weekly Rate, Flexible Rate, Term Rate or Fixed Rate.

2.12. Tender of the Bonds. Any Bonds to be converted to bear interest at a Daily Rate, Weekly Rate, Flexible Rate, Term Rate or Fixed Rate pursuant to Section 2.15(C) of the Indenture shall be subject to mandatory tender for purchase on the relevant Conversion Date at a price equal to the principal amount thereof plus accrued interest to the Conversion Date in accordance with Section 2.15(C) of the Indenture. The Bonds subject to mandatory tender must be presented for payment as provided in Section 4.10 of the Indenture. The Bonds which are subject to mandatory tender but are not presented for payment on the Conversion Date will be deemed to have been tendered and are subject to the provisions of Section 4.10 of the Indenture.

Section 3. The Auction Agent.

3.1. Duties and Responsibilities of the Auction Agent.

(a) The Auction Agent is acting solely as agent for the Trustee hereunder and owes no fiduciary duties to any other Person.

(b) The Auction Agent undertakes to perform such duties and only such duties as are specifically set forth in this Auction Agreement or incorporated herein by reference from the Auction Procedures or the Broker-Dealer Agreement, and no implied covenants or obligations shall be read into this Auction Agreement or the Auction Procedures against the Auction Agent by reason of anything set forth in the Official Statement or any other offering material employed in connection with the offering and sale of the Bonds bearing interest at an ARS Rate or otherwise.

(c) In the absence of willful misconduct or gross negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under this Auction Agreement. The Auction Agent shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts.

(d) The Auction Agent represents and warrants that, assuming this Auction Agreement is a legal, valid and binding agreement among the other parties hereto, this Auction Agreement is a legal, valid and binding agreement of the Auction Agent enforceable in accordance with its terms, except as such enforceability may be limited by laws relating to bankruptcy, insolvency, moratorium or similar laws affecting creditors rights generally and subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(e) The Auction Agent shall not be responsible or liable for any failure or delay in the performance of its obligation under this Auction Agreement arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including, without limitation, acts of God; earthquakes; fire; flood; wars; terrorism; similar military disturbances; sabotage; epidemic; riots; interruptions; loss or malfunctions of utilities, computer (hardware or software) or communications services; accidents; labor disputes; acts of civil or military authority or governmental action; it being understood that the Auction Agent shall use commercially reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as reasonably practicable under the circumstances.

3.2. Rights of the Auction Agent.

(a) The Auction Agent may conclusively rely and shall be fully protected in acting or refraining from acting upon any communication authorized hereby and upon any written instruction, notice, request, direction, consent, report, certificate, bond certificate or other instrument, paper or document reasonably believed by it to be genuine. The Auction Agent shall not be liable for acting upon any telephone communication authorized hereby which the Auction Agent believes in good faith to have been given by the Trustee, a Broker-Dealer, the Authority,

the City or the Securities Depository. The Auction Agent may record telephone communications with the Authority, the City, the Trustee or with the Broker-Dealers or both.

(b) The Auction Agent may consult with counsel of its choice, and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(c) The Auction Agent shall not be required to advance, expend or risk its own funds or otherwise incur or become exposed to financial liability in the performance of its duties hereunder.

(d) The Auction Agent may perform its duties and exercise its rights hereunder either directly or by or through agents or attorneys and shall not be responsible for misconduct or negligence on the part of, or for the supervision of, any agent or attorney appointed by it with due care hereunder.

(e) The Auction Agent shall have no obligation or liability in respect of the registration or exemption therefrom of the Bonds (or any beneficial ownership interest therein) under federal or state securities laws in respect of the sufficiency or the conformity of any transfer of the Bonds to the terms of the Auction Agreement, any Broker-Dealer Agreement, the Indenture or any other document contemplated by any thereof.

3.3. Auction Agent's Disclaimer. The Auction Agent and the Trustee make no representation as to the validity, adequacy or accuracy of the Broker-Dealer Agreement or the Bonds or any Official Statement or other offering material used in connection with the offer and sale of the Bonds or otherwise.

3.4. Compensation, Expenses and Indemnification of the Auction Agent. The Authority shall pay (i) the Auction Agent Acceptance Fee on the date of payment for and delivery of the ARS Bonds, (ii) the Auction Agent Fee for the ARS Bonds on the first Interest Payment Date following the Closing Date and annually thereafter, and (iii) upon request of the Auction Agent and to the extent provided in the written agreement between the Authority and the Auction Agent, pursuant to which the Auction Agent has agreed to provide its services hereunder, reasonable expenses, disbursements and advances incurred or made by the Auction Agent in accordance with this Auction Agreement and any Broker-Dealer Agreement (including the reasonable compensation, expenses and disbursements of its agents and counsel), except any expense, disbursement or advance attributable to the gross negligence or bad faith of the Auction Agent. The Auction Agent Fee represents compensation for the services of the Auction Agent in conducting Auctions for the benefit of the beneficial owners of the Bonds. The Auction Agent Fee may be adjusted from time to time with the approval of the Authority upon a written request of the Auction Agent delivered to the Authority.

The Authority shall indemnify the Auction Agent, its directors, officers, agents and employees, for, and hold it harmless against any loss, liability or expense incurred without willful misconduct or gross negligence on its part arising out of or in connection with its agency under this Auction Agreement and the Broker-Dealer Agreements, or the transactions contemplated hereby or thereby, including the costs and expenses of defending itself, its

directors, officers, agents and employees, against any claim of liability in connection with its exercise or performance of any of its duties hereunder or thereunder.

3.5. Broker-Dealer Fee. While the ARS are in an Auction Period other than a daily Auction Period on each Interest Payment Date following each Auction Date, each Broker-Dealer shall be entitled to receive an amount equal to the product of (x) .25 of 1% multiplied by (y)(A) if an Auction was held on such Auction Date, the sum of the aggregate principal amount of ARS that were (1) the subject of a valid Hold Order of an Existing Owner submitted by such Broker-Dealer, (2) the subject of a Submitted Bid of an Existing Owner submitted by such Broker-Dealer and continued to be held by such Existing Owner as a result of such Auction, (3) the subject of a Submitted Bid of a Potential Owner and were purchased by such Potential Owner as a result of such Auctions and (4) deemed to be the subject of a Hold Order by an Existing Owner that were acquired by such Existing Owner from such Broker-Dealer or (B) if an Auction was not held on such Auction Date, the aggregate principal amount of Outstanding ARS that were acquired by an Existing Owner through such Broker-Dealer, multiplied by (z) a fraction, the numerator of which is (i) if the Auction Period is seven-days, 28-days, 35-days, three months or a Special Auction Period of one hundred eighty (180) days or less, the actual number of days in the Auction Period next succeeding such Auction Date or (ii) if the Auction Period is six months or a Special Auction Period of more than one hundred eighty (180) days, the number of days in the Auction Period next succeeding such Auction Date, calculated on the basis of twelve 30 day months in a year, and in either case the denominator of which is 360.

If the ARS are in a daily Auction Period each Broker-Dealer shall be entitled to receive on each Interest Payment Date an amount equal to the sum calculated for each Auction Period in the preceding month of the product of (x) .25 of 1% multiplied by (y) the aggregate principal amount of ARS for each Auction Period that were (1) the subject of a valid Hold Order submitted by such Broker-Dealer, (2) the subject of a Submitted Bid of an Existing Owner submitted by such Broker-Dealer and continued to be held by such Existing Owner as a result of such Auction, (3) the subject of a Submitted Bid of a Potential Owner submitted by such Broker-Dealer and were purchased by such Potential Owner as a result of such Auction, (4) deemed to be the subject of a Hold Order by an Existing Owner that were acquired by such Existing Owner from such Broker-Dealer and (5) if an Auction was not held for any Auction Period, the aggregate principal amount of Outstanding ARS Bonds that were acquired by an Existing Owner through such Broker-Dealer, multiplied by (z) a fraction, the numerator of which is the number of days in the Auction Period and denominator of which is 360.

The Broker-Dealer Fee shall be calculated by the Auction Agent, which shall be conclusive absent manifest error. Such amounts shall be communicated by the Auction Agent to the Authority, the City and the Trustee by 4:00 P.M., New York City time, on the Business Day immediately preceding each Interest Payment Date. On or before 3:00 P.M. on each Interest Payment Date, the Authority shall pay to the Trustee the Broker-Dealer Fee. By 4:00 P.M. on each Interest Payment Date, the Trustee shall deliver to the Auction Agent the amount constituting the Broker-Dealer Fee, by wire transfer of immediately available funds to such account as the Auction Agent may designate. The amount constituting the Broker-Dealer Fee shall be held by the Auction Agent on behalf of the Broker-Dealer and, immediately upon receipt of such Fee, the Auction Agent shall deliver such Fee to the Broker-Dealer pursuant to the written instructions of the Broker-Dealer. If any Existing Owner who acquired ARS through a

Broker-Dealer transfers any such ARS to another Person other than pursuant to an Auction, the Broker-Dealer for the ARS so transferred shall continue to be the Broker-Dealer with respect to such ARS; provided, however, that if the transfer was effected by, or if the transferee is, another Person who has met the requirements specified in the definition of “Broker-Dealer” contained in the ARS and executed a Broker-Dealer Agreement, such Person shall be the Broker-Dealer for such ARS.

Section 4. Representations and Warranties of the Trustee. The Trustee hereby represents and warrants that:

(a) this Auction Agreement has been duly and validly authorized, executed and delivered by the Trustee and constitutes the legal, valid and binding limited obligation of the Trustee;

(b) neither the execution and delivery of this Auction Agreement, the consummation of the transactions contemplated hereby nor the fulfillment of or compliance with the terms and conditions of this Auction Agreement will conflict with, or violate or result in a breach of the terms, conditions or provisions of, or constitute a default under the organizational documents of the Trustee, any law or regulation, any order or decree of any court or public corporation having jurisdiction over such party, or any mortgage, resolution, contract, agreement or undertaking to which the Trustee is a party or by which it is bound; and

(c) any approvals, consents and orders of any governmental corporation, legislative body, board, agency or commission having jurisdiction over the Trustee which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the Trustee of its obligations under this Auction Agreement have been obtained.

Section 5. Miscellaneous.

5.1. Term of Agreement.

(a) This Auction Agreement shall remain in effect until (i) all ARS Bonds are prepaid, paid or purchased and cancelled, (ii) this Auction Agreement shall be terminated as provided in this Section 5.1, or (iii) the Auction Agent is removed as provided in this Section 5.1. The Trustee shall, upon the written direction of the Authority, remove the Auction Agent. Provided that a successor Auction Agent approved by the Bond Insurer has been appointed, the Auction Agent may terminate this Auction Agreement by giving at least ninety (90) days written notice to the Authority, the Bond Insurer and the Trustee, who shall give notice of the same to each Broker-Dealer. In the event the Auction Agent has not been compensated for its services rendered hereunder, the Auction Agent may terminate this Auction Agreement by giving at least thirty (30) days notice to the Authority, the Bond Insurer and the Trustee (who shall give notice of the same to each Broker-Dealer), and if it has not received such compensation upon the expiration of such thirty (30) days, the Auction Agent may resign even if a successor Auction Agent has not been appointed. The obligations of the Auction Agent under

Section 2 hereof shall be suspended so long as the ARS Bonds are not longer held by the Securities Depository in book-entry form.

(b) Except as otherwise provided in this Section 5.1(b), the respective rights and duties of the Trustee and the Auction Agent under this Agreement shall cease upon termination of this Agreement. The obligations of the Authority to the Auction Agent under Section 3.4 shall survive the termination of this Auction Agreement. Upon termination of this Auction Agreement, the Broker-Dealer Agreements shall automatically terminate and the Auction Agent shall (i) promptly deliver to the Authority copies of all books and records maintained by it in connection with its duties hereunder if so requested in writing, and (ii) at the request of the Trustee promptly transfer to the Trustee or any successor Auction Agent any funds deposited by the Authority with the Auction Agent pursuant to this Auction Agreement which have not previously been distributed by the Auction Agent in accordance with this Auction Agreement.

5.2. Authority's Obligations. Notwithstanding anything herein to the contrary, the Authority's payment obligations hereunder are payable as additional required payments under the Facility Lease.

5.3. Communications. Except for (a) communications authorized to be by telephone (which shall be deemed to include such other electronic means acceptable to the parties using such means) pursuant to this Auction Agreement or the Auction Procedures and (b) communications in connection with Auctions (other than those expressly required to be in writing), all notices, requests and other communications to any party hereunder shall be in writing (for the purposes of this Auction Agreement, telecopy or other electronic communication acceptable to the parties shall be deemed to be in writing) and shall be given to such party, addressed to it, at its address, telecopy number or e-mail address, if any, set forth below:

If to the Trustee,
addressed:

The Bank of New York Trust Company, N.A.
555 Kearny Street, Suite 600
San Francisco, CA 94108
Attention: Corporate Trust
Telephone: (415) 263-2418
Fax: (415) 399-1647
E-Mail: jlibunao@bankofny.com

If to the Auction Agent,
addressed:

Deutsche Bank Trust Company Americas
60 Wall Street, 27th Floor
New York, New York 10005
Attention: Kyshawn C. White
Telephone: (212) 250-6658
Fax: (212)797-8600
Email: Kyshawn.White@db.com

If to the Authority,
addressed:

Modesto Public Financing Authority
c/o City of Modesto
City Hall
1010 Tenth Street, Suite 5200
Modesto, CA 95353
Attention: Auditor and Treasurer
Telephone: (209) 577-5371
Fax: (209) 571-5880
E-Mail: wpadilla@modestogov.com

If to the Bond Insurer,
addressed:

CIFG Assurance North America, Inc.
825 Third Avenue, 6th Floor
New York, New York 10022
Attention: General Counsel
Telephone No.: 312-234-2732
Email: surveillance@cifg.com,
general.counsel@cifg.com

or such other address, telecopier number or e-mail address, if any, as such party may hereafter specify for such purpose by notice to the other parties. Each such notice, request or communication shall be effective (a) if given by telecopy, when such telecopy is transmitted to the telecopier number specified herein or (b) if given by any other means, when delivered at the address specified herein. Communications shall be given on behalf of the parties hereto by one of their respective Authorized Officers.

5.4. Entire Agreement. This Auction Agreement contains the entire agreement between the parties relating to the subject matter hereof, and there are no other representations, endorsements, promises, agreements or understandings, oral, written or inferred, between the parties hereto relating to the subject matter hereof.

5.5. Benefits, Successors and Assigns. This Auction Agreement shall be binding upon, inure to the benefit of and be enforceable by the Trustee and the Auction Agent and their respective successors and assigns. Nothing herein, express or implied, shall give to any Person, other than the Trustee, the Auction Agent, the Bond Insurer and their respective successors or assigns, any benefit of any legal or equitable right, remedy or claim hereunder, except as otherwise expressly stated, other than the rights expressly granted to the Authority herein. The Bond Insurer shall be a third-party beneficiary of this Auction Agreement. This Auction Agreement may not be assigned without the consent of the Bond Insurer.

5.6. Amendment, Waiver.

(a) This Auction Agreement shall not be deemed or construed to be modified, amended, rescinded, cancelled or waived, in whole or in part, except by written instrument signed by a duly authorized representative of the parties hereto, and consented to in writing by a duly authorized representative of the Authority and the Bond Insurer.

(b) The failure of either party hereto to exercise any right or remedy hereunder in the event of a breach hereof by the other party shall not constitute a waiver of any such right or remedy with respect to any subsequent breach.

(c) The Auction Agent may, but shall have no obligation to, execute any amendment or waiver which affects its rights, powers, immunities or indemnities hereunder.

(d) **Successor and Assigns.** This Auction Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the respective successors and permitted assigns of each of the Trustee and the Auction Agent. This Auction Agreement may not be assigned by either party hereto absent the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed, except that the Trustee may assign or transfer this Auction Agreement to a successor trustee under the Indenture without the Auction Agent's prior written consent.

5.7. **Severability.** If any clause, provision or section hereof shall be ruled invalid or unenforceable by any court of competent jurisdiction, the invalidity or unenforceability of such clause, provision or section shall not affect any of the remaining clauses, provisions or sections hereof.

5.8. **Execution in Counterparts.** This Auction Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

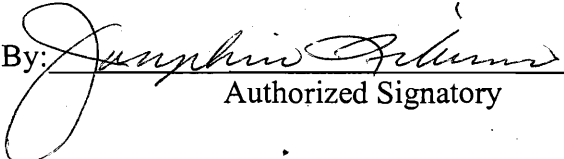
5.9. **Governing Law.** This Auction Agreement shall be governed by and construed in accordance with the laws of the State of New York (including, without limitation, Section 5-1401 of the New York General Obligations Law or any successor to such statute), without regard to conflict of laws principles. ALL ACTIONS AND PROCEEDINGS ARISING OUT OF THIS AUCTION AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY SHALL BE BROUGHT IN THE UNITED STATES DISTRICT COURT IN THE COUNTY OF NEW YORK AND, IN CONNECTION WITH ANY SUCH ACTION OR PROCEEDING SUBMIT TO THE JURISDICTION OF, AND VENUE IN, SUCH COURT. TO THE EXTENT PERMITTED BY LAW, EACH OF THE PARTIES HERETO ALSO IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF THIS AUCTION AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

5.10. **Holidays.** The Trustee shall maintain with the Auction Agent a current list of its bank holidays.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the parties hereto have caused this Auction Agreement to be duly executed and delivered by their proper and duly Authorized Officers as of the date first above written.

THE BANK OF NEW YORK TRUST
COMPANY, N.A., as Trustee

By:  _____
Authorized Signatory

DEUTSCHE BANK TRUST COMPANY
AMERICAS, as Auction Agent

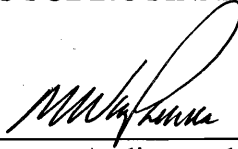
By: _____
Authorized Signatory

By: _____
Authorized Signatory

DIRECTION, ACKNOWLEDGEMENT AND AGREEMENT

The Trustee is hereby directed to appoint The Bank of New York to act as Auction Agent pursuant to this Auction Agreement. The Authority hereby acknowledges and agrees to its obligations under Sections 3.4 and 3.5 hereof and agrees that such obligations shall survive the termination of this Auction Agreement for any reason and the resignation and removal of the Auction Agent.

MODESTO PUBLIC FINANCING AUTHORITY

By:  _____
Auditor and Treasurer

IN WITNESS WHEREOF, the parties hereto have caused this Auction Agreement to be duly executed and delivered by their proper and duly Authorized Officers as of the date first above written.

THE BANK OF NEW YORK TRUST
COMPANY, N.A., as Trustee

By: _____
Authorized Signatory

DEUTSCHE BANK TRUST COMPANY
AMERICAS, as Auction Agent

By:  _____
Authorized Signatory

By:  _____
Authorized Signatory

DIRECTION, ACKNOWLEDGEMENT AND AGREEMENT

The Trustee is hereby directed to appoint The Bank of New York to act as Auction Agent pursuant to this Auction Agreement. The Authority hereby acknowledges and agrees to its obligations under Sections 3.4 and 3.5 hereof and agrees that such obligations shall survive the termination of this Auction Agreement for any reason and the resignation and removal of the Auction Agent.

MODESTO PUBLIC FINANCING AUTHORITY

By: _____
Auditor and Treasurer

Exhibit A

Form of Broker-Dealer Agreement

[See separate Broker-Dealer Agreement]

BROKER-DEALER AGREEMENT

Dated as of April 1, 2007

among

DEUTSCHE BANK TRUST COMPANY AMERICAS,
as Auction Agent

and

BANC OF AMERICA SECURITIES LLC

and

MODESTO PUBLIC FINANCING AUTHORITY
relating to

\$62,275,000
Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007

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BROKER-DEALER AGREEMENT

THIS BROKER-DEALER AGREEMENT, dated as of April 1, 2007 (this “Broker-Dealer Agreement”), among (i) DEUTSCHE BANK TRUST COMPANY AMERICAS, a New York Banking corporation, acting, as auction agent (together with its successors and assigns, the “Auction Agent”), acting solely as agent of The Bank of New York Trust Company, N.A. (the Trustee”), pursuant to authority granted to the Auction Agent in the Auction Agreement, dated as of April 1, 2007 (the “Auction Agreement”), between the Trustee and the Auction Agent, and acknowledged and agreed to by the Modesto Public Financing Authority, (ii) BANC OF AMERICA SECURITIES LLC, a Delaware limited liability company (“BD” or “Broker-Dealer”); and (iii) the MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise of powers agency duly established and existing under the laws of the State of California (the “Authority”);

WITNESSETH

WHEREAS, in order to assist the City of Modesto (the “City”) in financing certain capital improvements located within the City, concurrently with the execution and delivery of this Broker-Dealer Agreement, the Authority is causing the execution and delivery of Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the “Bonds”); and

WHEREAS, the Bonds are being executed and delivered pursuant to that certain Trust Indenture, dated as of April 1, 2007 (the “Indenture”), by and between the Authority and the Trustee; and

WHEREAS, the Bonds are initially being delivered in the form of auction rate securities, and such Bonds are referred to herein as “ARS” or “ARS Bonds”; and

WHEREAS, the Authority has appointed Banc of America Securities LLC to serve as initial Broker-Dealer for the ARS Bonds; and

WHEREAS, BD is to perform certain duties set forth herein; and

WHEREAS, the Indenture provides that initially, except as provided therein, the interest rate evidenced by the ARS Bonds will be the ARS Rate which shall be, except as otherwise provided therein, the rate per annum that the Auction Agent determines to have resulted from the implementation of the Auction Procedures (as such term is defined in the Indenture); and

WHEREAS, Deutsche Bank Trust Company Americas has been appointed as Auction Agent for purposes of the Auction Agreement, and pursuant to Section 2.6(a) of the Auction Agreement, the Authority has requested and directed the Auction Agent to execute and deliver this Broker-Dealer Agreement; and

WHEREAS, the Auction Procedures require the participation of one or more Broker-Dealers;

NOW, THEREFORE, the Auction Agent, as agent for the Trustee, BD, for the benefit of the Existing Owners and the Potential Owners (as such terms are defined in the Indenture) of the ARS, and the Authority agree as follows:

Section 1. Definitions and Rules of Construction.

1.1. Terms Defined by Reference to the Indenture. Capitalized terms not defined herein shall have the respective meanings specified in the Indenture, including Exhibit B thereto.

1.2. Terms Defined Herein. As used herein and in the exhibits hereto, the following terms shall have the following meanings, unless the context otherwise requires.

(a) **Authorized Denomination** shall mean \$25,000 and integral multiples thereof.

(b) **Authorized Officers** shall mean each Director, Vice President, Assistant Vice President and Associate of the Auction Agent and every other officer or employee of the Auction Agent designated as an “Authorized Officer” for purposes hereof in a written communication from the Auction Agent to the BD.

(c) **BD Officer** shall mean each officer or employee of BD designated as a “BD Officer” for purposes of this Broker-Dealer Agreement in a communication from BD to the Auction Agent.

(d) **Broker-Dealer Agreement** shall mean this Broker-Dealer Agreement and any substantially similar agreement among the Auction Agent, the Authority and a Broker-Dealer.

(e) **Broker-Dealer Fee** shall represent the compensation to the Broker-Dealer for services rendered.

(f) **Broker-Dealer Fee Rate** shall mean the rate at which the Broker-Dealer is to be compensated.

(g) **Person** shall mean an individual, association, unincorporated organization, corporation, partnership, joint venture, business trust or a government or an agency or a political subdivision thereof, or any other entity.

(h) **Settlement Procedures** shall mean the Settlement Procedures for the ARS Bonds and shall be substantially in the form attached hereto as Exhibit A.

(i) **Submission Processing Representation** shall have the meaning specified in Section 2.3(e).

1.3. Rules of Construction; New York City Time. Unless the context or rules indicates another or different meaning or intent, the following rules shall apply to the construction of this Broker-Dealer Agreement:

(a) Words importing the singular number shall include the plural number and vice versa.

(b) The captions and headings herein are solely for convenience of reference and shall not constitute a part of this Broker-Dealer Agreement nor shall they affect its meaning, construction or effect.

(c) The words “herein,” “hereof,” “hereto,” and “hereunder” and other words of similar import refer to this Broker-Dealer Agreement as a whole and not to any particular Section or other subdivision.

(d) All references herein to a particular time of day shall be to New York City time.

(e) Each reference to the “purchase,” “sale” or “holding” of ARS Bonds shall refer to beneficial ownership interests in ARS Bonds unless the context clearly requires otherwise.

1.4. Warranties of BD. BD hereby represents and warrants that this Broker-Dealer Agreement has been duly authorized, executed and delivered by BD and that, assuming the due authorization, execution and delivery hereof by the Auction Agent, this Broker-Dealer Agreement constitutes a valid and binding agreement of BD, enforceable against it in accordance with its terms.

Section 2. Auction.

2.1. Purpose; Incorporation by Reference of Auction Procedures and Settlement Procedures.

(a) The Auction Procedures will be followed by the Auction Agent for the purpose of determining the ARS Rate for the ARS Bonds for each Auction Period after the Initial Period. Each periodic implementation of such procedures is hereinafter referred to as an “Auction.”

(b) All of the provisions contained in the Auction Procedures and the Settlement Procedures are incorporated herein by reference in their entirety and shall be deemed to be a part of this Broker-Dealer Agreement to the same extent as if such provisions were fully set forth herein.

(c) BD agrees to act as, and assumes the obligations of, and limitations and restrictions placed upon, a Broker-Dealer under this Broker-Dealer Agreement. BD understands that other Persons meeting the requirements specified in the definition of “Broker-Dealer” contained in the Indenture may execute Broker-Dealer Agreements and participate as Broker-Dealers in Auctions. BD agrees to handle customer orders in accordance with its respective duties under applicable securities laws and rules.

(d) BD and other Broker-Dealers may participate in Auctions for their own accounts. The Authority may, however, by notice to BD and all other Broker-Dealers, prohibit all of the Broker-Dealers from submitting Bids in Auctions for their own accounts, provided that Broker-Dealers may continue to submit Hold Orders and Sell Orders. Notwithstanding the foregoing, if BD is an affiliate of the Authority, BD may not submit Bids to purchase ARS in Auctions for its own account, but may submit Hold Orders and Sell Orders in Auctions with

respect to ARS otherwise acquired for its own account. The Auction Agent shall be under no duty or liability with respect to monitoring compliance with this Section 2.1(d).

2.2. Preparation for Each Auction.

(a) Subject to the receipt by the Auction Agent of all relevant information, on each Auction Date for the ARS, the Auction Agent shall advise BD by telephone or any other electronic communication acceptable to the parties, as promptly as practicable, but in no event later than 10:30 a.m., New York City time, of the All-Hold Rate and the ARS Index.

(b) The Auction Agent from time to time may request BD to provide it with the aggregate principal amounts of the ARS specifically held by each such BD as an Existing Holder; provided, however, that BD shall not be required to provide information as to the identity of Existing Holders other than BD, or Potential Holders other than BD, in any Auction. Except as provided in the immediately preceding sentence, BD shall comply with any reasonable request for information, and the Auction Agent shall treat as confidential any such information, and shall not disclose any such information so provided to any Person other than the Trustee, the Authority, the Bond Insurer and BD; provided, however, that the Auction Agent reserves the right and is authorized to disclose any such information to its internal and external accountants, auditors and counsel, its regulators and examiners, and any other person if the Auction Agent has been advised by its counsel that it may be liable for a failure to effect such disclosure, or if (a) it is ordered to do so by a court of competent jurisdiction or a regulatory, judicial or quasi-judicial agency or authority having the authority to compel such disclosure, (b) it is advised by its counsel that its failure to do so would be unlawful or (c) the failure to do so would expose the Auction Agent to loss, liability, claim, damage or expense for which it has not received indemnity satisfactory to it.

(c) Not later than 3:00 P.M. New York City time on the Business Day preceding each Auction Date, the Auction Agent shall notify BD of any change in the aggregate principal amount of ARS, as of the opening of business on such day by delivering a notice to BD by telecopy or other electronic communication acceptable to the parties.

2.3. Auction Schedule; Method of Submission of Orders.

(a) The Auction Agent shall conduct Auctions for the ARS in accordance with the schedule set forth below. Such schedule may be changed at any time by the Auction Agent at the written direction of the Authority to reflect then currently accepted market practices for similar auctions. The Auction Agent shall give notice of any such change to BD, the Authority and the Trustee, which notice shall be given prior to the close of business on the Business Day next preceding the first Auction Date on which any such change shall be effective. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association's Early Market Close Recommendations for shortened trading days for the bond markets (the "SIFMA Recommendation") unless the Auction Agent is instructed otherwise. In the event of a SIFMA Recommendation on an Auction Date, the Submission Deadline will be 11:30 A.M. New York City time instead of 1:00 P.M. New York City time, and as a result the notice set forth in Section 2.4 will occur earlier.

Time Event	Event
As promptly as practicable, but in no event later than 10:30 a.m. New York City time.	Auction Agent advises the Broker-Dealers of the All Hold Rate and the ARS Index, as set forth in Section 2.2(a).
9:30 A.M. – 1:00 P.M. (11:00 A.M. in the case of a daily Auction Period)	Subject to a Submission Processing Representation (as defined below), Auction Agent assembles information communicated to it by Broker-Dealers as provided in Section 2.02 of Exhibit B to the Indenture. Submission Deadline is 1:00 P.M. (11:00 A.M. in the case of a daily Auction Period).
As soon as practical after 1:00 P.M. (by 11:30 A.M. in the case of a daily Auction Period)	Auction Agent makes determinations pursuant to Section 2.04(b) of Exhibit B to the Indenture.
By approximately 3:00 P.M. but not later than the close of business (by 12:00 Noon in the case of a daily Auction Period)	Submitted Bids and Submitted Sell Orders are accepted and rejected and ARS allocated as provided in Section 2.05 of Exhibit B to the Indenture. Auction Agent gives notice of the Auction results as set forth in Section 2.4(a) hereof.

Notwithstanding the above, Broker-Dealers may submit Orders to the Auction Agent after the Submission Deadline and prior to the Error Correction Deadline if the Orders were received by the Broker-Dealer from Existing Holders or Potential Holders, other than such Broker-Dealer acting for its own account, prior to the Submission Deadline and were time-stamped by such Broker-Dealer prior to the Submission Deadline. Each Order submitted to the Auction Agent after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that such Order was received by such Broker-Dealer from an Existing Owner or Potential Owner, other than such Broker-Dealer acting for its own account, prior to the Submission Deadline and was time-stamped by such Broker-Dealer prior to the Submission Deadline (the “Submission Processing Representation”).

(b) BD agrees, for the purpose of implementing the Auctions, to contact Potential Owners, including Persons that are not Existing Owners, prior to the Submission Deadline on each Auction Date to determine the principal amount of ARS, if any, that each such Potential Owner offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum requested by such Potential Owner. BD further agrees, upon request, to deliver a copy of the Auction Procedures and other relevant documents prepared for the purpose of disclosure to Potential Owners by the Authority relating to the ARS to each Potential Owner prior to such Potential Owner’s participation in any Auction.

(c) In each Auction in which BD submits one or more Orders, BD may aggregate the Orders of different Potential Owners or Existing Owners on whose behalf BD is submitting Orders; provided, however, Bids may only be aggregated if the interest rates on the Bids are the same when rounded pursuant to the provisions of the Auction Procedures. Notwithstanding the foregoing, the Auction Agent may at any time request that such Orders be separate for each different Potential Owner or Existing Owner. Each Order shall be in writing in substantially the form attached hereto as Exhibit B. In the event that BD shall have aggregated Orders of different Potential Owners or Existing Owners and the rate specified in such Bid is the Winning Bid Rate, BD shall allocate the principal amount of ARS between such Potential Owners or Existing Owners in the manner set forth in Section 2.05 of Exhibit B of the Indenture unless BD shall have received the affirmative consent of a Potential Owner or an Existing Owner to a lesser allocation. Such consent shall be obtained on a case by case basis for each Auction. BD shall keep a written record of such consent indicating the Potential Owner or Existing Owner, the Auction to which the consent applies, the name of the individual who gave the consent and the date the consent was obtained.

(d) BD shall deliver to the Auction Agent a written notice of transfers of ARS made through BD by an Existing Owner to another Person other than pursuant to an Auction. The Auction Agent is not required to accept any such notice for an Auction if it is received by it after 3:00 P.M. New York City time on the Business Day preceding such Auction.

2.4. Notices.

(a) On each Auction Date, the Auction Agent shall notify BD by telephone or other electronic communication acceptable to the parties of the results of the Auction as set forth in paragraph (a) of the Settlement Procedures. As soon as reasonably practicable thereafter, the Auction Agent shall notify BD, if so requested, in writing of the disposition of all Orders submitted by BD in the Auction held on such Auction Date.

(b) The Auction Agent shall notify BD of any change in the Auction schedule set forth in Section 2.3(a) hereof.

(c) BD shall notify each Existing Owner or Potential Owner on whose behalf BD has submitted an Order as set forth in paragraph (b) of the Settlement Procedures, and take such other action as is required of BD pursuant to the Settlement Procedures.

(d) The Auction Agent shall deliver to BD after receipt all notices and certificates which the Auction Agent is required to deliver to BD pursuant to Section 2 of the Auction Agreement at the times and in the manner set forth in the Auction Agreement.

2.5. Compensation.

(a) The initial Broker-Dealer Fee Rate shall equal .25 of 1% per annum. The Broker-Dealer Fee for the ARS shall be paid by the Authority and represents compensation for the services of the Broker-Dealer in facilitating Auctions for the benefit of the beneficial owners of the ARS Bonds. The Broker-Dealer Fee Rate may be adjusted from time to time upon the agreement of the Authority and the Broker-Dealer.

(b) While the ARS are in an Auction Period other than a daily Auction Period on each Interest Payment Date following each Auction Date, each Broker-Dealer shall be entitled to receive an amount equal to the product of (x) .25 of 1% multiplied by (y)(A) if an Auction was held on such Auction Date, the sum of the aggregate principal amount of ARS that were (1) the subject of a valid Hold Order of an Existing Owner submitted by such Broker-Dealer, (2) the subject of a Submitted Bid of an Existing Owner submitted by such Broker-Dealer and continued to be held by such Existing Owner as a result of such Auction, (3) the subject of a Submitted Bid of a Potential Owner submitted by such Broker-Dealer and were purchased by such Potential Owner as a result of such Auction and (4) deemed to be the subject of a Hold Order by an Existing Owner that were acquired by such Existing Owner from such Broker-Dealer or (B) if an Auction was not held on such Auction Date, the aggregate principal amount of Outstanding ARS that were acquired by an Existing Owner through such Broker-Dealer, multiplied by (z) a fraction, the numerator of which is (i) if the Auction Period is seven days, 28 days, 35 days, three months or a Special Auction Period of 180 days or less, the actual number of days in the Auction Period next succeeding such Auction Date or (ii) if the Auction Period is six months or a Special Auction Period of more than 180 days, the number of days in the Auction Period next succeeding such Auction Date calculated on the basis of twelve 30 day months in a year, and in either case the denominator of which is 360.

If the ARS are in a daily Auction Period each Broker-Dealer shall be entitled to receive on each Interest Payment Date an amount equal to the sum calculated for each Auction Period in the preceding month of the product of (x) .25 of 1% multiplied by (y) the aggregate principal amount of ARS for each Auction Period that were (1) the subject of a valid Hold Order submitted by such Broker-Dealer, (2) the subject of a Submitted Bid of an Existing Owner submitted by such Broker-Dealer and continued to be held by such Existing Owner as a result of such Auction, (3) the subject of a Submitted Bid of a Potential Owner submitted by such Broker-Dealer and were purchased by such Potential Owner as a result of such Auction, (4) deemed to be the subject of a Hold Order by an Existing Owner that were acquired by such Existing Owner from such Broker-Dealer and (5) if an Auction was not held for any Auction Period, the aggregate principal amount of Outstanding ARS that were acquired by an Existing Owner through such Broker-Dealer, multiplied by (z) a fraction, the numerator of which is the number of days in the Auction Period and denominator of which is 360.

The Broker-Dealer Fee shall be calculated by the Auction Agent, which shall be conclusive absent manifest error. Such amounts shall be communicated by the Auction Agent to the Authority and the Trustee by 4:00 P.M., New York City time, on the Business Day immediately preceding each Interest Payment Date. On or before 3:00 P.M. New York City time on each Interest Payment Date, the Authority shall pay to the Trustee the Broker-Dealer Fee. By 4:00 P.M. on each Interest Payment Date, the Trustee shall deliver to the Auction Agent the amount constituting the Broker-Dealer Fee, by wire transfer of immediately available funds to such account as the Auction Agent may designate. The amount constituting the Broker-Dealer Fee shall be held by the Auction Agent on behalf of the Broker-Dealer and, immediately upon receipt of such Fee, the Auction Agent shall deliver such Fee to the Broker-Dealer, pursuant to the written instructions of the Broker-Dealer. If any Existing Owner who acquired ARS through a Broker-Dealer transfers any such ARS to another Person other than through an Auction, the Broker-Dealer for the ARS so transferred shall continue to be the Broker-Dealer with respect to such ARS, provided, however, that if the transfer was effected by, or if the transferee is, another

Person who has met the requirements specified in the definition of “Broker-Dealer” contained in the ARS and executed a Broker- Dealer Agreement, such Person shall be the Broker-Dealer for such ARS.

2.6. Settlement.

(a) If any Potential Owner on whose behalf BD has submitted an Order fails to deliver funds with respect to any Auction, BD shall promptly deliver such funds to the party entitled to receive such funds. If any Existing Owner on whose behalf BD has submitted an Order fails to instruct its Agent Member to deliver ARS subject to such Order against payment therefor, BD shall instruct such Agent Member to deliver such ARS against payment therefor. The delivery of funds by BD for the purchase of ARS by a Potential Owner, as provided above, shall not relieve such Potential Owner of any liability to BD for payment for such ARS. The Auction Agent shall have no duty or liability with respect to enforcement of this Section 2.6(a).

(b) The Auction Agent, the Trustee and the Authority shall have no responsibility or liability with respect to the failure of an Existing Owner, a Potential Owner or its respective Agent Member to deliver ARS or to pay for ARS sold or purchased pursuant to the Auction Procedures or otherwise.

Section 3. The Auction Agent.

3.1. Duties and Responsibilities of the Auction Agent.

(a) The Auction Agent is acting solely as non-fiduciary agent of the Trustee and owes no duties, fiduciary or otherwise, to any other Person by reason of this Broker-Dealer Agreement or the Auction Agreement, and no implied duties, fiduciary or otherwise, shall be read into this Broker-Dealer Agreement against the Auction Agent.

(b) The Auction Agent undertakes to perform such duties and only such duties as are expressly set forth herein, or expressly incorporated herein by reference pursuant to Section 2.1(b) hereof, to be performed by it, and no implied covenants or obligations shall be read into this Broker-Dealer Agreement against the Auction Agent.

(c) In the absence of gross negligence or willful misconduct on its part the Auction Agent, whether acting directly or through agents or attorneys as provided in Section 3.2(d) hereof, shall not be liable for any action taken, suffered, or omitted or for any error of judgment made by it in the performance of its duties hereunder. The Auction Agent shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining the pertinent facts necessary to make such judgment. In no event shall the Auction Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to loss of profit), even if the Auction Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.

(d) The Auction Agent shall not be: (i) required to and does not make any representations nor have any responsibilities as to the validity, accuracy, value or genuineness of any signatures or endorsements, other than its own on any document delivered pursuant to or as contemplated by this Broker-Dealer Agreement (ii) obligated to take any legal action hereunder

that might, in its judgment, involve any expense or liability, unless it has been furnished with indemnity satisfactory to the Auction Agent; and (iii) responsible for or liable in any respect on account of the identity, authority or rights of any Person, other than the Auction Agent, executing or delivering or purporting to execute or deliver any document under this Broker-Dealer Agreement.

(e) The Auction Agent shall not be responsible or liable for any failure or delay in the performance of its obligations under this Broker-Dealer Agreement arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including without limitation: acts of God; earthquakes; fires; floods; wars; civil or military disturbances; sabotage; terrorism; epidemics; riots; interruptions, loss or malfunctions of utilities or communications service; accidents; labor disputes; or acts of civil or military authority or governmental actions; it being understood that the Auction Agent shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

(f) The Auction Agent shall have no obligation or liability with respect to the registration or exemption therefrom of the ARS (or any beneficial ownership interest therein) under federal or state securities laws or in respect of any transfer of the ARS (or any beneficial ownership interest therein) pursuant to the terms of this Broker-Dealer Agreement, the Auction Agreement, the Indenture, any other document contemplated by any of the foregoing.

3.2. Rights of the Auction Agent.

(a) The Auction Agent may conclusively rely upon, and shall be fully protected in acting or refraining from acting upon, any communication authorized hereby and upon any such written instruction, notice, request, direction, consent, report, certificate, share certificate or other instrument, paper or other document believed by it to be genuine. The Auction Agent shall not be liable for acting or refraining from acting in good faith upon any such communication made by telephone, telecopier or other electronic communication acceptable to the parties which the Auction Agent reasonably believes (or has no reason not to believe) to have been given by the particular party or parties. To the extent permitted by law, the Auction Agent may record telephone communications with the Broker-Dealers, and each of such Broker-Dealers may record telephone communications with the Auction Agent.

(b) The Auction Agent may consult with counsel of its choice and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon, if such counsel was selected by the Auction Agent with due care.

(c) The Auction Agent shall not be required to advance, expend or risk its own funds or otherwise incur or become exposed to financial liability in the performance of its duties hereunder.

(d) The Auction Agent may perform any of its duties and exercise its rights hereunder either directly or by or through agents or attorneys and the Auction Agent shall not be

responsible for any misconduct or negligence on the part of any agent or attorney appointed by it hereunder with due care.

(e) The Auction Agent shall have no obligation to monitor, or liability in respect of, the registration or exemption therefrom of the ARS Bonds (or any beneficial ownership interest therein) under any federal or state securities laws or in respect of any transfer of the ARS Bonds (or any beneficial ownership interest therein) pursuant to the terms of this or any other Broker-Dealer Agreement, the Auction Agreement, the Indenture, any other document contemplated by any thereof, or otherwise, including, but not limited to, compliance with any such laws in regards to any such registration, exemption or transfer or in respect of any of the Securities Depository's procedures applicable to transactions between itself and its Agent Members or others.

3.3. Auction Agent's Disclaimer. The Auction Agent makes no representations as to and shall have no liability with respect to the correctness of the recitals in, or the validity with respect to parties other than the Auction Agent, the accuracy, except for Section 3.6 in the Auction Agreement, or adequacy of, this Broker-Dealer Agreement, any other Broker-Dealer Agreement, the Auction Agreement, the Indenture, the ARS Bonds or any Official Statement or any other offering material used in connection with the offer and sale of the ARS Bonds or any other agreement or instrument executed in connection with the transactions contemplated herein or in any thereof.

Section 4. Disclosure.

4.1. Disclosure.

(a) The Authority agrees to supply to BD, at the Authority's expense, such number of copies of the Official Statement, dated April 11, 2007, including any amendments thereto (the "Official Statement"), as BD shall reasonably request from time to time and, upon request of BD, to amend the Official Statement so that the Official Statement will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(b) If BD determines (upon consultation and mutual agreement with the Authority) that it is necessary or desirable to use a disclosure statement (other than the Official Statement), relating specifically to the ARS Bonds (a "Disclosure Statement") in connection with the solicitation of Orders for the ARS Bonds, BD will notify the Authority, and the Authority will provide BD with a Disclosure Statement reasonably satisfactory to BD and its counsel. The Authority will supply BD, at the Authority's expense, with such number of copies of such Disclosure Statement as BD requests from time to time and will, upon request of BD, amend such Disclosure Statement (as well as the documents incorporated by reference therein) so that such Disclosure Statement will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. In connection with the use of any Disclosure Statement by BD in its solicitation of Orders for the ARS Bonds (other than the Official Statement), the Broker-Dealer may request that the Authority furnish to BD such certificates and opinions of counsel as would be customary in a public offering of the City's tax-exempt securities underwritten by BD.

Section 5. Miscellaneous.

5.1. Termination. BD may resign at any time, upon thirty (30) days' notice to the Authority, the Auction Agent and the Trustee; provided, however, that BD may suspend its duties hereunder on five (5) Business Days notice if it determines, in its reasonable judgment, that it is not advisable to attempt to Auction the ARS for any of the following reasons: (i) a pending or proposed change in applicable tax laws, (ii) hostilities involving the United States, (iii) a down-rating of the ARS, or (iv) an imposition of material restrictions on the ARS or similar obligations. The Auction Agent upon the written direction of the Authority may terminate this Broker-Dealer Agreement at any time on five (5) Business Days' notice to the other parties hereto. This Broker-Dealer Agreement shall terminate upon the resignation or removal of the BD pursuant to this Section 5.1 or termination of the Auction Agreement.

5.2. Participant. BD is and for the term of this Broker-Dealer Agreement shall remain a member of, a participant in, or an affiliate of such a member or participant in the Securities Depository; and will give the Auction Agent, each other Broker-Dealer, the Authority and the Trustee two (2) Business Days' notice if it ceases to be so or if it changes its participation or affiliation to a different Securities Depository.

5.3. Communications. Except for (i) communications authorized to be by telephone pursuant to this Broker-Dealer Agreement or the Auction Procedures and (ii) communications in connection with Auctions (other than those expressly required to be in writing) all notices, requests and other communications to any party hereunder shall be in writing (for the purposes of this Broker-Dealer Agreement telecopy or similar writing or other electronic communication acceptable to the parties shall be deemed to be in writing) and shall be given to such party, addressed to it, at its address, telecopy number or e-mail address, if any, set forth on the following page and, where appropriate, reference the particular Auction to which such notice relates.

If to BD addressed:

Banc of America Securities LLC
214 North Tryon Street
Mail Code: NC1-027-14-01
Charlotte, NC 28255
Attention: Todd Bleakney
Telephone No.: (704) 386-9028
Facsimile: (704) 388-0393
E-mail: todd.w.bleakney@bankofamerica.com

If to the Auction Agent addressed:

Deutsche Bank Trust Company Americas
60 Wall Street, 27th Floor
New York, New York 10005
Attention: Kyshawn C. White
Telephone: (212) 250-6658
Fax: (212)797-8600
Email: Kyshawn.White@db.com

If to the Authority addressed: Modesto Public Financing Authority
c/o City of Modesto
City Hall
1010 Tenth Street, Suite 5200
Modesto, CA 95353
Attention: Auditor and Treasurer
Telephone No.: (209) 577-5371
Facsimile No.: (209) 571-5880
E-Mail: wpadilla@modestogov.com

If to the Bond Insurer: CIFG Assurance North America, Inc.
825 Third Avenue, 6th Floor
New York, New York 10022
Attention: General Counsel
Telephone No.: 312-234-2732
Email: surveillance@cifg.com,
general.counsel@cifg.com

or such other address, telecopy number or e-mail address, if any, as such party may hereafter specify for such purpose by notice to the other party. Each such notice, request or communication shall be effective (i) if given by telecopier, when such telecopy is transmitted to the telecopy number specified herein or (ii) if given by any other means, when delivered at the address specified herein. Communications shall be given on behalf of BD by a BD Officer and on behalf of the Auction Agent by an Authorized Officer.

5.4. Entire Agreement. This Broker-Dealer Agreement, and the other agreements and instruments executed and delivered in connection with the issuance of the ARS, contain the entire agreement between the parties relating to the subject matter hereof, and there are no other representations, endorsements, promises, agreements or understandings, oral, written or inferred, between the parties relating to the subject matter hereof.

5.5. Benefits; Successors and Assigns. This Broker-Dealer Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the respective successors and assigns of BD and the Auction Agent. Nothing in this Broker-Dealer Agreement, express or implied, shall give to any Person, other than the Auction Agent, BD and the Bond Insurer and their respective successors and assigns, any benefit of any legal or equitable right, remedy or claim under this Broker-Dealer Agreement, other than the rights expressly granted to the Authority herein. The Bond Insurer shall be a third-party beneficiary of this Broker-Dealer Agreement. This Broker-Dealer Agreement may not be assigned without the consent of the Bond Insurer.

5.6. Amendment; Waiver.

(a) This Broker-Dealer Agreement shall not be deemed or construed to be modified, amended, rescinded, canceled or waived, in whole or in part, except by a written instrument signed by a duly authorized representative of each of the parties hereto and by the Bond Insurer.

(b) Failure of any party to this Broker-Dealer Agreement to exercise any right or remedy hereunder in the event of a breach of this Broker-Dealer Agreement by any other party shall not constitute a waiver of any such right or remedy with respect to any subsequent breach.

5.7. Severability. If any clause, provision or section of this Broker-Dealer Agreement shall be ruled invalid or unenforceable by any court of competent jurisdiction, the invalidity or unenforceability of such clause, provision or section shall not affect any of the remaining clauses, provisions or sections hereof.


5.8. Execution in Counterparts. This Broker-Dealer Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

5.9. Governing Law. This Broker-Dealer Agreement shall be governed by and construed in accordance with the laws of the State of New York (including, without limitation, Section 5-1401 of the New York General Obligations Law or any successor to such statute).

5.10. No Implied Duties. Nothing contained in this Broker-Dealer Agreement, the Indenture or the Auction Agreement shall be deemed to imply any duties, covenants or obligations on the part of the Authority not otherwise expressly set forth herein or therein.

IN WITNESS WHEREOF, the parties hereto have caused this Broker-Dealer Agreement to be duly executed and delivered by their proper and duly authorized officers as of the date first above written.

DEUTSCHE BANK TRUST COMPANY
AMERICAS, as Auction Agent

By: 
Authorized Signatory

By: 
Authorized Signatory

BANC OF AMERICA SECURITIES LLC

By: _____
Authorized Signatory

MODESTO PUBLIC FINANCING
AUTHORITY

By: _____
Auditor and Treasurer

IN WITNESS WHEREOF, the parties hereto have caused this Broker-Dealer Agreement to be duly executed and delivered by their proper and duly authorized officers as of the date first above written.

DEUTSCHE BANK TRUST COMPANY
AMERICAS, as Auction Agent

By: _____
Authorized Signatory

By: _____
Authorized Signatory

BANC OF AMERICA SECURITIES LLC

By:  _____
Authorized Signatory

MODESTO PUBLIC FINANCING
AUTHORITY

By: _____
Auditor and Treasurer

IN WITNESS WHEREOF, the parties hereto have caused this Broker-Dealer Agreement to be duly executed and delivered by their proper and duly authorized officers as of the date first above written.

DEUTSCHE BANK TRUST COMPANY
AMERICAS, as Auction Agent

By: _____
Authorized Signatory

By: _____
Authorized Signatory

BANC OF AMERICA SECURITIES LLC

By: _____
Authorized Signatory

MODESTO PUBLIC FINANCING
AUTHORITY

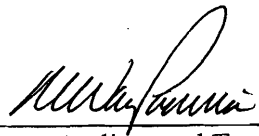
By:  _____
Auditor and Treasurer

Exhibit A

SETTLEMENT PROCEDURES FOR ARS

(a) On each Auction Date, the Auction Agent shall notify, by telephone or other electronic communication acceptable to the parties, each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of:

(i) the ARS Rate fixed for the succeeding Auction Period or, in the case of ARS in a daily Auction Period, the ARS Rate on the ARS fixed for the current Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of ARS, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of ARS, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of ARS to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of ARS to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of ARS to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such other Broker-Dealers submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted a Bid or Sell Order whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of ARS to be purchased pursuant to such Bid (including, with respect to the ARS Bonds in a daily

Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such ARS Bond) against receipt of such principal amount of ARS;

(iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of ARS to be sold pursuant to such Bid or Sell Order against payment therefor;

(iv) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order and each Potential Owner on whose behalf such Broker-Dealer submitted a Bid of the ARS Rate for the next succeeding Auction Period or, in the case of ARS in a daily Auction Period, the ARS Rate for the current Auction Period;

(v) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order of the Auction Date of the next succeeding Auction; and

(vi) advise each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the Auction Date of the next succeeding Auction.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order shall allocate any funds received by it pursuant to subparagraph (b) (ii) above, and any ARS received by it pursuant to (b) (iii) above, among the Potential Owners, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders, and any Broker-Dealer identified to it by the Auction Agent pursuant to subparagraph (a) (v) above.

(d) On the Business Day after the Auction Date or, in the case of ARS in a daily Auction Period, on such Auction Date, the Securities Depository shall execute the transactions described above, debiting and crediting the accounts of the respective Agent Members as necessary to effect the purchase and sale of ARS as determined in the Auction.

Exhibit B

ORDER

\$ _____
Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007
(Auction Rate Securities)

Attention:

Date of Auction

The undersigned Broker-Dealer places the Order listed below covering the ARS indicated (complete only one blank):

\$ _____ ARS now held by Bidder (an Existing Owner), and the Order is a (check one):

_____ Hold Order; or

_____ Bid at rate of _____%; or

_____ Sell Order.

or

\$ _____ ARS not now held by Bidder (a Potential Owner), and the Order is a Bid at a rate of _____%.

- Notes:
- (1) If one or more Orders covering in the aggregate more than the number of Outstanding ARS held by any Existing Owner are submitted, such Orders shall be considered valid in the order or priority set forth in the Auction Procedures.
 - (2) A Hold Order may be placed only by an Existing Owner covering a number of Outstanding ARS not greater than the number of Outstanding ARS currently held.
 - (3) Potential Owners may make only Bids, each of which must specify a rate. If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the rate specified.
 - (4) Bids may contain no more than three figures to the right of the decimal point.

(5) An Order must be submitted in an Authorized Denomination.

Name of Broker-Dealer: _____

By _____

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

TAX CERTIFICATE

THIS TAX CERTIFICATE (the “Tax Certificate”) is being executed by the Modesto Public Financing Authority (the “Authority”), a joint exercise of powers authority duly organized and existing under the Joint Exercise of Powers Act (commencing with Section 6500 of the Government Code of the State of California), and the City of Modesto (the “City”), a charter city and municipal organization organized and existing under the laws of the State of California, in connection with the issuance by the Authority of its \$62,275,000 aggregate principal amount of Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the “Bonds”).

WHEREAS, on February 11, 1997, the Authority issued its Lease Revenue Bonds Series 1997 (John Thurman Field Renovation Project) (the “1997 Bonds”), in the principal amount of \$3,600,000, the proceeds of which, net of issuance costs, were used to finance the rehabilitation and construction (the “1997 Project”) of the John Thurman Field baseball stadium (the “Stadium”);

WHEREAS, certain Certificates of Participation (Capital Improvement Projects), evidencing the undivided fractional interests of the owners thereof in lease payments to be made by the City to the California Public Agency Leasing Corporation pursuant to a lease agreement, were executed and delivered for the benefit of the City in 1986 (the “1986 Certificates”), to finance various governmental capital improvements of the City (the “1986 Project”); and

WHEREAS, on March 11, 1998, the Authority issued its Lease Revenue Bonds Series 1998 (Capital Improvements and Refinancing Project) (the “1998 Bonds”), in the principal amount of \$61,430,000, the proceeds of which, net of issuance costs, were used (i) to finance a portion of the acquisition and construction and installation of an administration building to be jointly used by the City and the County of Stanislaus (the “County”), the acquisition, construction, renovation and equipping of other public capital improvements of the City, including a public parking garage, a communications dispatch center and a police headquarters building (collectively, the “1998 Project” and, together with the 1997 Project, the “Prior Project”), and (ii) to advance refund the 1986 Certificates;

WHEREAS, the Authority and the City have determined to provide funds, through the issuance of the Bonds, together with certain other moneys, (i) to refinance the 1997 Project, by current refunding within 90 days of the date hereof all of the \$2,335,000 outstanding principal amount of the 1997 Bonds, as set forth in Exhibit A (the “1997 Refunded Bonds”), (ii) to refinance the 1998 Project, by advance refunding more than 90 days from the date hereof the pro rata portion of the \$59,625,000 outstanding principal amount of the 1998 Bonds allocable to the 1998 Project, as set forth in Exhibit A-3 (the “1998 Refunded Bonds”), (iii) to finance the cost of the acquisition and construction of certain public facilities located in the jurisdiction of the City (the “2007 Project” and, together with the Prior Project, the “Project”), (iv) to fund a debt service

reserve fund for the Bonds, (v) to pay CIFG Assurance North America, Inc. (the “Insurer”) a premium (the “Insurance Premium”) for a Municipal Bond Insurance Policy (the “Insurance Policy”) guaranteeing the payment of the principal of and interest on the Bonds when due, and (vi) to pay certain costs related to the issuance of the Bonds, including underwriter’s discount (“Costs of Issuance”);

WHEREAS, the Internal Revenue Code of 1986, as amended (the “Code”), the Treasury Regulations (including final, temporary and proposed regulations) promulgated thereunder and the rulings with respect thereto, impose certain limitations on the use and investment of proceeds of the Bonds and certain other moneys relating to the Bonds;

WHEREAS, certain provisions of the Code, and the Treasury Regulations promulgated thereunder and the rulings with respect thereto, set forth certain conditions under which the interest paid and to be paid on the Bonds will be excluded from gross income for federal income tax purposes; and

WHEREAS, the Authority and the City have determined to execute this Tax Certificate in order to set forth certain terms and conditions relating to the use and investment of the proceeds of the Bonds, and of certain other moneys relating to the Bonds, in order to assure that interest on the Bonds will be excluded from gross income for federal income tax purposes;

NOW, THEREFORE, pursuant to Section 1.148-2(b)(2) of the Treasury Regulations, the Authority and the City hereby certify, covenant and agree as follows:

PART A. IN GENERAL

Section 1. Purpose of Tax Certificate. The Authority and the City are executing this Tax Certificate with the understanding and acknowledgement that (a) Sidley Austin LLP (“Bond Counsel”) will rely on the representations and certifications made herein in rendering its opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, and (b) the execution of this Tax Certificate is necessary to ensure that interest on the Bonds is excluded from gross income for federal income tax purposes.

Section 2. Delivery of Bonds. The Bonds are being delivered on the date hereof to Banc of America Securities LLC, as underwriter of the Bonds (the “Underwriter”), pursuant to a negotiated sale.

Section 3. Purpose of Financing. The Bonds are being issued pursuant to the laws of the State of California and an Indenture, dated as of April 1, 2007 (the “Indenture”), by and between the Authority and The Bank of New York Trust Company, N.A., (the “Trustee”), pursuant to the City’s Resolution No. 2007-216, adopted by the City Council of the City on April 3, 2007, and the Authority’s Resolution No. 010-2007, adopted by the Commission of the Authority on April 3, 2007 (collectively, the “Resolutions”). The proceeds of the Bonds, together with certain other available funds described below, are expected to be used for the following purposes:

- (a) to current refund the 1997 Refunded Bonds;
- (b) to advance refund the 1998 Refunded Bonds;

- (c) to finance the costs of acquisition and construction of the 2007 Project;
- (d) to fund the Reserve Fund in an amount equal to the Reserve Fund Requirement;
- (e) to pay the Insurance Premium to the Insurer for the Insurance Policy to secure the payment of debt service on the Bonds; and
- (f) to pay Costs of Issuance.

The Authority and the City covenant to use the proceeds of the Bonds solely for the above-described purposes, unless an opinion of Bond Counsel is received to the effect that a use other than those described above would not adversely affect the exclusion from gross income, for federal income tax purposes, of interest on the Bonds.

Section 4. Authority and the City Reliance on Other Parties. The expectations of the Authority and the City concerning certain uses of proceeds derived from the sale of the Bonds and certain matters set forth herein are based in whole or in part upon the representations of the Underwriter, Public Financial Management, Inc., as Financial Advisor (the “Financial Advisor”), the Insurer, and Bank of America, N.A., as swap provider (the “Swap Provider”), and upon certain calculations performed by the Underwriter, as verified by The Arbitrage Group, Sugar Land, Texas, a firm of certified public accountants (the “Verification Agent”), as set forth in its Verification Report, dated April 18, 2007 (the “Verification Report”). Neither the Authority nor the City is aware of any facts or circumstances that would cause it to question the accuracy or reasonableness of the representations made in the exhibits to this Tax Certificate and in the Verification Report.

Section 5. Single Issue. All of the Bonds have been sold at substantially the same time, pursuant to the same plan of financing, and are reasonably expected to be paid from substantially the same source of funds (determined without regard to guarantees from unrelated parties). No other governmental obligations have been, or will be, sold within 15 days of the Bonds, pursuant to the same plan of financing, and are reasonably expected to be paid from substantially the same source of funds (determined without regard to guarantees from unrelated parties).

Section 6. Multipurpose Issue. For certain purposes of this Tax Certificate, the portion of the Bonds issued for the purpose of financing the costs of the acquisition, construction, equipping and improvement of the 2007 Project is referred to herein as the “Project Bonds,” the portion of the Bonds issued for the purpose of current refunding the 1997 Bonds, as set forth in Exhibit A-1, is referred to herein as the “Current Refunding Bonds,” and the portion of the Bonds issued for the purpose of advance refunding the Refunded 1998 Bonds, as set forth in Exhibit A-2, is referred to herein as the “Advance Refunding Bonds.”

Section 7. Definitions; Capitalized Terms. All capitalized terms used in this Tax Certificate and not specifically defined herein will have the meanings ascribed to such terms in the Indenture.

PART B. USE OF BOND PROCEEDS AND THE PROJECT

Section 1. Governmental Use of Proceeds. The Authority and the City represent the following with respect to the use of proceeds of the Bonds and the facilities financed or refinanced therewith:

(a) 1998 Bonds and 1998 Project. Since the date of issuance of the 1998 Bonds, (i) no more than 10% of the proceeds of the 1998 Bonds or the 1998 Project has been used, for any activities that constitute a “Private Use” (as such term is defined in subsection (d) below), and (ii) no more than 10% of the principal of or interest on the 1998 Bonds, directly or indirectly (including any underlying arrangement), has been secured by any interest in property (whether or not the Project) used for a Private Use or in payments in respect of property used for a Private Use. On and after the date hereof, (i) no more than 10% of the proceeds of the Advance Refunding Bonds and no more than 10% of the 1998 Project will be used for any activities that constitute a “Private Use” (defined in subsection (d) below), and (ii) no more than 10% of the principal of or interest on the Advance Refunding Bonds will be secured by any interest in property (whether or not the Project) used for a Private Use or in payments in respect of property used for a Private Use, or will be derived from payments in respect of property used for a Private Use.

(b) 1997 Bonds and 1997 Project. The proceeds of the 1997 Bonds were used to finance the construction of the Stadium, which has been and continues to be used in a Private Use. The Stadium, however, is not pledged, directly or indirectly, to secure the payment of the principal of and interest on the Bonds. Further, operating expenses with respect to the Stadium have, since the time the Stadium was placed in service, continued to exceed revenues received by the City with respect to the Stadium, and such relationship between revenues of the Stadium and expenses of operating the Stadium is reasonably expected by the City to continue indefinitely. Accordingly, the Authority and the City reasonably expect that no amounts with respect to the Stadium are expected to be used, directly or indirectly, to pay more than 10% of the principal of and interest on the Bonds.

(c) Project Bonds and 2007 Project. On and after the date hereof, (i) no more than 10% of the proceeds of the Project Bonds and no more than 10% of the 2007 Project will be used for any activities that constitute a “Private Use” (defined in subsection (d) below), and (ii) no more than 10% of the principal of or interest on the Project Bonds will be secured by any interest in property (whether or not the 2007 Project) used for a Private Use or in payments in respect of property used for a Private Use, or will be derived from payments in respect of property used for a Private Use.

(d) No Private Loan Financing. No more than the lesser of \$5,000,000 or 5% of the proceeds of the Bonds will be used to finance or refinance loans to any person other than to a state or local governmental unit (other than loans to finance any governmental tax or assessment of general application for a specific essential governmental function or loans which are used to acquire or carry Nonpurpose Investments (as such term is defined below in Part D below)).

(e) No Disproportionate or Unrelated Use. No more than 5% of the proceeds of each of the Project Bonds, the 1998 Bonds, the 1997 Bonds or the Project has, since the date of issuance of the 1997 Bonds and through the date hereof, been used, or will be used, on and after the date hereof, for a Private Use that is unrelated or disproportionate (within the meaning of Section 141(b)(3)(B) of the Code) to the governmental use of the proceeds of the Project Bonds, the 1998 Bonds or the 1997 Bonds, respectively (an “Unrelated or Disproportionate Use”), and no more than 5% of the principal or interest on the Project Bonds, the 1998 Bonds or the 1997 Bonds, respectively directly or under any underlying arrangement, has, since the date of issuance of the 1997 Bonds and through the date hereof, been secured, or will, on and after the date hereof, be secured, directly or indirectly, by any interest in property used for a Private Use that is an Unrelated or Disproportionate Use or in payments in respect of property used for a Private Use that is an Unrelated or Disproportionate Use, or has been or will be derived from payments in respect of payments used for a Private use that is an Unrelated or Disproportionate Use.

(f) Definition of Private Use. For purposes of this Tax Certificate, the term “Private Use” means any activity that constitutes a trade or business that is carried on by persons or entities other than governmental entities. The leasing of property financed with proceeds of the Bonds or the access of a person or entity other than a governmental unit to property or services on a basis other than as a member of the general public (“General Public Use”) will constitute a Private Use unless the Authority and the City obtain an opinion of Bond Counsel to the contrary. Use of property refinanced with proceeds of the Bonds in a trade or business constitutes General Public Use only if the property is intended to be available and is in fact reasonably available for use on the same basis by natural persons not engaged in a trade or business. As of the date hereof, no portion of the Project is leased, or is reasonably expected to be leased, by the Authority or the City (or a related party or agent) to a person or entity other than a governmental unit.

(g) Management and Service Contracts. With respect to management and service contracts, the determination of whether a particular use constitutes a Private Use under this Tax Certificate shall be determined on the basis of applying Revenue Procedure 97-13, 1997-1 C.B. 632, as amended by Revenue Procedure 2001-39, 2001-2 C.B. 38 (collectively, “Revenue Procedure 97-13”). As of the date hereof, no portion of the Project is or is reasonably expected to be subject to contracts or other arrangements with persons engaged in a trade or business (other than state or local governmental units or instrumentalities thereof) that involves the management of property or the provision of services that do not comply with the standards of Revenue Procedure 97-13.

PART C. ARBITRAGE

Section 1. Bond Proceeds and Other Moneys. On the basis of the facts, estimates and circumstances in existence on the date hereof, the Authority and the City reasonably expect the following with respect to the use of the proceeds of the Bonds and certain other moneys:

(a) Proceeds of the Bonds and Other Moneys. The total amount to be derived by the Authority from the sale of the Bonds, in the amount of \$62,067,517.37

(representing the aggregate principal amount of the Bonds of \$62,275,000, less Underwriter's discount of \$207,482.63) is expected to be needed and expended as follows:

(i) \$2,291,177.17 of the proceeds will be deposited on the date hereof in a special and irrevocable escrow fund (the "1997 Escrow Fund") established by U.S. Bank National Association, as Escrow Agent; of such amount, (A) \$2,224,319.00 will be invested in United States Treasury Certificates of Indebtedness, Notes and Bonds - State and Local Government Series, Time Deposit Series, described in 31 CFR Part 344 ("Time Deposit SLGs") set forth in Exhibit F-1 attached hereto (the "1997 Escrow Proceeds SLGS"), and (B) \$66,858.17 will be held uninvested as an initial cash deposit (the "1997 Escrow Proceeds Cash Deposit");

(ii) \$56,619,946.84 of the proceeds will be deposited on the date hereof in a special and irrevocable escrow fund (the "1998 Escrow Fund") established by The Bank of New York Trust Company, N.A., as Escrow Agent; of such amount, (A) \$56,619,945.00 will be invested in Time Deposit SLGs set forth in Exhibit F-2 attached hereto (the "1998 Escrow Proceeds SLGS" and referred to collectively with the 1997 Escrow Proceeds SLGS as the "Proceeds SLGS"), and (B) \$1.84 will be held uninvested as an initial cash deposit (the "1998 Escrow Proceeds Cash Deposit" and referred to collectively with the 1997 Escrow Proceeds Cash Deposit as the "Proceeds Cash Deposit");

(iii) \$423,201.43 of the proceeds will be deposited on the date hereof in the Costs of Issuance Fund and used to pay Costs of Issuance within one year of the date hereof;

(iv) \$182,013.43 of the proceeds will be deposited on the date hereof in the Reserve Fund to fund a portion of the initial Reserve Fund Requirement;

(v) \$151,178.50 of the proceeds will be paid on the date hereof to the Bond Insurer as the Insurance Premium to obtain the Insurance Policy; and

(vi) \$2,400,000.00 of the proceeds will be deposited on the date hereof in the Project Fund and used to finance the acquisition and construction of the 2007 Project.

(b) 1997 Reserve Fund. There is currently on deposit in the 1997 Reserve Fund the amount of \$320,484.78, which consists of proceeds derived from the sale of the 1997 Bonds. Of such amount, (i) \$159,272.89 will be deposited into the 1997 Escrow Fund and (A) \$154,786.00 will be applied to purchase Time Deposit SLGS set forth in Exhibit F-1 (the "1997 Escrow Reserve SLGS", and referred to collectively with the 1997 Escrow Proceeds SLGS as the "1997 Escrow Fund SLGS"), (B) \$4,504.89 will be held

uninvested as an initial cash deposit (the “1997 Escrow Reserve Cash Deposit”), and (ii) the balance of \$161,211.89 will be deposited in the Reserve Fund to fund a portion of the initial Reserve Fund Requirement.

(c) 1997 Sweep Account. There is currently on deposit in the sweep account created under the 1997 Indenture (the “1997 Sweep Account”) the amount of \$147.68. Such amount will be deposited into the 1997 Escrow Fund and held uninvested as an initial cash deposit (the “1997 Escrow Sweep Cash Deposit” and referred to collectively with the 1997 Escrow Proceeds Cash Deposits and the 1997 Escrow Reserve Cash Deposits as the “1997 Escrow Cash Deposit”).

(d) 1998 Reserve Fund. There is currently on deposit in the 1998 Reserve Fund the amount of \$4,981,284.38, which consists of proceeds derived from the sale of the 1998 Bonds. Of such amount, (i) \$343,650.47 will remain in the 1998 Reserve Fund as security for the 1998 Bonds not being refunded, (ii) \$662,807.31 will be deposited into the 1998 Escrow Fund and (A) \$662,807.00 will be applied to purchase the Time Deposit SLGS set forth in Exhibit F-2 (the “1998 Escrow Reserve SLGS” and referred to collectively with the 1998 Escrow Proceeds SLGS as the “1998 Escrow Fund SLGS”), and (B) \$.31 will be held uninvested as an initial cash deposit (the “1998 Escrow Reserve Cash Deposit” and referred to collectively with the 1998 Escrow Proceeds Cash Deposit as the “1998 Escrow Cash Deposit”) and (iii) the balance of \$3,974,826.60 will be deposited in the Reserve Fund to fund a portion of the initial Reserve Fund Requirement.

(e) Application of Mixed Escrow Rules to 1997 Escrow Fund. The proceeds derived from the sale of the Bonds and amounts derived from the 1997 Reserve Fund are being used on a ratable basis to purchase the 1997 Escrow Fund SLGS, which mature on May 23, 2007, as set forth in Exhibit F-1. May 23, 2007, is the single payment date out of the Escrow Fund for amounts to be used to pay the principal of and interest on and to redeem the 1997 Refunded Bonds. Accordingly, the proceeds derived from the sale of the Bonds are being used for such purpose no later than amounts derived from the 1997 Reserve Fund.

(f) Application of Mixed Escrow Rules to 1998 Escrow Fund. The proceeds derived from the sale of the Bonds and amounts derived from the 1998 Reserve Fund are being used on a ratable basis to purchase the 1998 Escrow Fund SLGS, as set forth in Exhibit F-2. Accordingly, the proceeds derived from the sale of the Bonds are being used for such purpose no later than amounts derived from the 1998 Reserve Fund.

(g) Sufficiency of the 1997 Escrow Fund. The maturing principal amount of and interest on the 1997 Escrow Fund SLGS, together with the 1997 Escrow Cash Deposit, will be sufficient to pay the interest on the 1997 Refunded Bonds as due and to redeem the 1997 Refunded Bonds on May 23, 2007 at a redemption price of 102% and to pay interest accruing as of that date.

(h) Sufficiency of the 1998 Escrow Fund. The maturing principal amount of and interest on the 1998 Escrow Fund SLGS, together with the 1998 Escrow Cash

Deposit, will be sufficient to pay the interest on the 1998 Refunded Bonds as due and to redeem the 1998 Refunded Bonds at a redemption price of 101% on September 1, 2008.

Section 2. The Refunded Bonds.

(a) The 1997 Bonds. The Authority represents the following with respect to the 1997 Bonds:

(i) Purposes and Unexpended Proceeds of the 1997 Bonds. The 1997 Bonds were issued to finance the rehabilitation and construction of the 1997 Project. Other than amounts on deposit in the 1997 Reserve Fund, all of the proceeds derived from the sale of the 1997 Bonds have been expended for the purpose for which the 1997 Bonds were issued. There are no funds, accounts or investments that were reasonably expected to be used to pay debt service on the 1997 Bonds or that were pledged as collateral for the payment of debt service on the 1997 Bonds and for which there was reasonable assurance that amounts therein or investment earnings thereon would be available to pay debt service on the 1997 Bonds if the Authority or the City encountered financial difficulties.

(ii) Purpose of Refunding. The refunding of the 1997 Refunded Bonds is being effected to enable the Authority to realize present value debt service savings and thereby enhance the ability of the Authority and the City to finance additional capital improvements based on such present value debt service savings. The refunding of the 1997 Refunded Bonds does not involve a device employed to obtain a material financial advantage apart from savings attributable to lower interest rates.

(iii) Early Redemption. The next succeeding date after the date hereof on which the 1997 Bonds are redeemable at the option of the Authority is May 23, 2007. The 1997 Refunded Bonds will be redeemed on such date at a redemption price of 102% of the principal amount of the 1997 Refunded Bonds maturing on or after that date. May 23, 2007, is the first date after the date hereof on which the Current Refunding Bonds may be redeemed at the option of the Authority, in accordance with the notice and deposit requirements of the 1997 Indenture.

(b) The 1998 Bonds. The Authority represents the following with respect to the 1998 Bonds.

(i) Purposes and Unexpended Proceeds of the 1998 Bonds. The 1998 Refunded Bonds were issued to finance the rehabilitation and construction of the 1998 Project. Other than amounts on deposit in the 1998 Reserve Fund, all of the proceeds derived from the sale of the 1998 Bonds have been expended for the purpose for which the 1998 Bonds were issued. There are no unexpended proceeds of the 1998 Bonds, nor are there any funds, accounts or investments that were reasonably expected to be used to

pay debt service on the 1998 Bonds or that were pledged as collateral for the payment of debt service on the 1998 Bonds and for which there was reasonable assurance that amounts therein or investment earnings thereon would be available to pay debt service on the 1998 Bonds if the Authority or the City encountered financial difficulties.

(ii) Purpose of Refunding. The refunding of the 1998 Refunded Bonds is being effected to enable the Authority to realize present value debt service savings and thereby enhance the ability of the Authority and the City to finance additional capital improvements based on such present value debt service savings. The refunding of the 1998 Refunded Bonds does not involve a device employed to obtain a material financial advantage apart from savings attributable to lower interest rates.

(iii) Early Redemption. The next succeeding date after the date hereof on which the 1998 Bonds are redeemable at the option of the Authority is September 1, 2008. The 1998 Refunded Bonds will be redeemed on such date at a redemption price of 101% of the principal amount of the 1998 Refunded Bonds maturing on or after that date. September 1, 2008, is the first date after the date hereof on which the 1998 Refunded Bonds may be redeemed at the option of the Authority, in accordance with the notice and deposit requirements of the 1998 Indenture.

(iv) Advance Refunding Limitation. The 1998 Bonds were issued to finance a portion of the construction of improvements of the 1998 Project and to advance refund the 1986 Certificates. As set forth in greater detail in Exhibit A-3, 94.447% of the 1998 Bonds is allocable to the 1998 Project and 5.553% of the 1998 Bonds is allocable to the advance refunding of the 1986 Certificates. Pursuant to Section 1.148-9(h)(4)(ii) of the Treasury Regulations, which permits the allocation of the various purposes of a bond issue that contains a refunding component on the basis of ratable allocations of each of the outstanding maturities of such bond issue, each maturity of the 1998 Bonds have been allocated pro rata to the 1998 Project and the advance refunding of the 1986 Certificates. The 1998 Refunded Bonds consists solely of that portion of the 1998 Bonds allocable to the 1998 Project. Accordingly, the application of proceeds of the Bonds to advance refund the 1998 Refunded Bonds constitutes the first advance refunding of original bonds issued after 1985.

Section 3. No Overburdening. The total proceeds derived by the Authority from the sale of the Bonds, and anticipated investment earnings thereon, together with other available funds described above and anticipated earnings thereon, do not exceed the total of the amounts necessary for the governmental purposes described above.

Section 4. No Sale or Disposition of the Project. Neither the Authority nor the City will sell or otherwise dispose of any portion of the Project prior to the final maturity date of the Bonds of September 1, 2033.

Section 5. No Reimbursement. No proceeds derived from the sale of the Bonds and investment earnings thereon will be used to reimburse the Authority or the City for expenditures paid prior to the date hereof.

Section 6. Expenditure, Time and Due Diligence Tests for the Project Bonds. The Authority and the City reasonably expect that at least 85% of the net sale proceeds (as such term is defined in Section 1.148-1(b) of the Treasury Regulations) of the Project Bonds will be allocated to expenditures for the 2007 Project within three years of the date hereof. The Authority and the City reasonably expect that they have incurred, or will incur, within six months of the date hereof, a substantial binding obligation (*i.e.*, not subject to contingencies within the control of either the Authority or the City, or a related party) to a third party to expend at least 5% of the net sale proceeds of the Project Bonds on the costs of the 2007 Project. The completion of the 2007 Project and the allocation of net sale proceeds of the Project Bonds to expenditures for the 2007 Project will proceed with due diligence.

Section 7. Funds and Accounts. The following represents the flow of funds under the Indenture:

(a) In General. The Indenture creates and establishes the following funds and accounts:

- (i) the Costs of Issuance Fund;
- (ii) the Project Fund;
- (iii) the Reserve Fund;
- (iv) the Revenue Fund, consisting of the Interest Account, Principal Account and Provider Payment Account;
- (v) the Insurance and Condemnation Fund;
- (vi) the Redemption Fund, and within such fund the Optional Redemption Account and Special Redemption Account;
- (vii) the Bond Purchase Fund, and within such fund the Remarketing Proceeds Account, the Liquidity Facility Account and the Authority Account; and
- (viii) the Rebate Fund.

(b) Revenue Fund. Under the Indenture, all Revenues are to be deposited in the following order of priority: (i) to the Interest Account, the amount of interest becoming due and payable on such Interest Payment Date on all Bonds and any Regular Swap Payments becoming due and payable on Swaps, until the balance in said account is equal to said amount of payments due; (ii) to the Principal Account, on or before each September 1 commencing September 1, 2007 the amount of the principal payment or Sinking Fund Installment becoming due and payable on such September 1 (or the

succeeding Interest Payment Date if September 1 is not an Interest Payment Date), until the balance in said account is equal to said amount of such principal or Sinking Fund Installment; and (iii) to the Provider Payment Account, the amount of any Extraordinary Swap Payments or other amounts with respect to Related Obligations becoming due and payable on any date; provided however that payment of such amounts shall be subordinate to all amounts becoming due and payable on all Bonds and any Regular Swap Payments becoming due and payable on Swaps.

On the fifteenth day of each month, following payment of principal of and interest on the Bonds and any Regular Swap Payments on Swaps and prior to the scheduled Base Rental Payment, any excess amount on deposit in the Revenue Fund shall be transferred to the Reserve Fund to the extent necessary to increase the amount therein to the Reserve Fund Requirement or to pay any Reserve Facility Costs then due and owing and any excess shall then be returned to the City as an excess payment of Base Rental Payments or applied to the next scheduled Base Rental Payment.

(c) Reserve Fund. The Reserve Fund will be funded on the date hereof in the amount of \$4,318,051.92, which is equal to the Reserve Fund Requirement. The Underwriter has advised in its Certificate attached hereto as Exhibit B, that (1) the Reserve Fund Requirement does not exceed the least of (i) 10% of the proceeds of the Bonds, (ii) maximum annual debt service on the Bonds, or (iii) 125% of average annual debt service on the Bonds, and (2) the funding of the Reserve Fund in an amount equal to the Reserve Fund Requirement was a condition to the issuance of the Insurance Policy and was therefore a vital factor in marketing the Bonds, facilitated the marketing of the Bonds at interest rates comparable to those of other bond issues of a similar type and purpose, and is not in excess of the amount considered necessary for such purpose. For this purpose, the term “proceeds” means the aggregate stated principal amount of the Bonds, unless there is more than a de minimis amount of original issue discount or premium (as defined in Section 1.148-1(b) of the Treasury Regulations), in which case the term “proceeds” means the “issue price” of the Bonds (determined without regard to pre-issuance accrued interest). The term “de minimis amount” means an amount of discount or premium that does not exceed 2% of the stated redemption price at maturity, plus any original issue premium attributable exclusively to reasonable underwriter’s discount.

(d) Rebate Fund. The Indenture establishes a Rebate Fund to serve as the repository for moneys to be deposited thereto and paid to the United States in order to satisfy the requirement of Section 148(f) of the Code and Sections 1.148-0 through 1.148-10 and 1.150-1 and 1.150-2 of the Treasury Regulations promulgated thereunder, to pay a portion of the investment earnings on proceeds derived from the sale of the Bonds, the investment earnings thereon, and other amounts considered to be proceeds of the Bonds, to the United States. Detailed guidelines regarding satisfaction of the such requirements are set forth in Part D of this Tax Certificate. Moneys in the Rebate Fund are neither pledged to nor expected to be used to pay debt service on the Bonds. Proceeds of the Bonds and investment earnings thereon are not expected to be held in the Rebate Fund.

(e) No Other Funds as Security. Other than the Interest Account and the Principal Account in the Revenue Fund and the Reserve Fund, there are no funds or accounts established pursuant to the Indenture, or otherwise, that are reasonably expected to be used to pay debt service on the Bonds, or to make payments to the Insurer, or that are pledged as collateral for the Bonds or the Insurance Policy, and for which there is a reasonable assurance that amounts on deposit therein will be available to pay debt service on the Bonds or to make payments to the Insurer if the Authority or the City encounters financial difficulties.

(f) No Negative Pledges. There are no amounts held under any agreement to maintain amounts at a particular level for the direct or indirect benefit of the Owners of the Bonds or guarantor of the Bonds, if any, excluding for this purpose amounts in which either the Authority or the City (or a substantial beneficiary) may grant rights that are superior to the rights of the Owners of the Bonds or guarantor of the Bonds, if any, and amounts that do not exceed reasonable needs for which they are maintained and as to which the required level is tested no more frequently than every six months and that may be spent without any substantial restriction other than a requirement to replenish the amount by the next testing date.

Section 8. Investment of Proceeds. The proceeds derived from the sale of the Bonds and other amounts described in this Tax Certificate will be invested as follows:

(a) Costs of Issuance. Proceeds derived from the sale of the Bonds deposited in the Costs of Issuance Fund to be used to pay Costs of Issuance (other than Underwriter's Discount) may be invested at an unrestricted yield until expended, for a period not to exceed 13 months from the date hereof. Investment earnings on proceeds derived from the sale of the Bonds (other than Underwriter's Discount) may be invested at an unrestricted yield for a period not to exceed one year from the date of receipt of the amount earned. Proceeds derived from the sale of the Bonds to be used to pay Underwriter's discount will be expended on the date hereof and will not be invested.

(b) 1997 Escrow Proceeds SLGS. Proceeds derived from the sale of the Bonds applied to acquire the 1997 Escrow Proceeds SLGS may be invested at an unrestricted yield until such amounts, together with the investment earnings thereon, are expended to pay debt service on the 1997 Refunded Bonds on May 23, 2007.

(c) 1998 Escrow Proceeds SLGS. Proceeds derived from the sale of the Bonds applied to acquire the 1998 Escrow Proceeds SLGS, together with the investment earnings thereon, will be invested at a yield not in excess of the yield on the Bonds until expended to pay debt service on the 1998 Refunded Bonds.

(d) 1997 Escrow Reserve SLGS. Proceeds derived from the sale of the 1997 Bonds and transferred from the 1997 Reserve Fund to the 1997 Escrow Fund and applied to purchase the 1997 Escrow Reserve SLGS shall be invested at a yield not in excess of the 1997 Bonds.

(e) 1998 Escrow Reserve SLGS. Proceeds derived from the sale of the 1998 Bonds and transferred from the 1998 Reserve Fund to the 1998 Escrow Fund and applied to purchase the 1998 Escrow Reserve SLGS shall be invested at a yield not in excess of the 1998 Bonds.

(f) 1997 Escrow Cash Deposit. Amounts deposited in the 1997 Escrow Fund as the initial 1997 Escrow Cash Deposit shall be held uninvested until applied to pay debt service on the 1997 Refunded Bonds.

(g) 1998 Escrow Cash Deposit. Amounts deposited in the 1998 Escrow Fund as the initial 1998 Escrow Cash Deposit shall be held uninvested until applied to pay debt service on the 1998 Refunded Bonds.

(h) Project Costs. Proceeds derived from the sale of the Bonds deposited in the Project Fund to be used to finance the 2007 Project and to pay a portion of the interest on the Bonds during the period in which the 2007 Project is being acquired and constructed may be invested at an unrestricted yield until expended, for a period not to exceed three years from the date hereof and, thereafter, shall be invested at a yield not in excess of the yield with respect to the Bonds plus 0.125% or in Tax-Exempt Obligations (defined in Part D of this Tax Certificate). Investment earnings on obligations acquired with such proceeds may be invested at an unrestricted yield for a period not exceeding three years from the date hereof or one year from the receipt thereof, whichever is longer, and, thereafter, shall be invested at a yield not in excess of the yield on the Bonds plus 0.125% or in Tax-Exempt Obligations (defined in Part D of this Tax Certificate).

(i) Insurance Premium. Proceeds derived from the sale of the Bonds used to pay the Insurance Premium for the Insurance Policy to the Insurer will be expended on the date hereof and will not be invested.

(j) Reserve Fund. Amounts deposited in the Reserve Fund may be invested at an unrestricted yield to the extent that such amounts do not exceed the least of (i) maximum annual debt service on the Bonds, (ii) 125% of average annual debt service on the Bonds, and (iii) 10% of the proceeds of the Bonds. Amounts in the Reserve Fund in excess of the least of such amounts will be invested at a yield not in excess of the yield on the Bonds or in Tax-Exempt Obligations (defined in Part D of this Tax Certificate).

(k) Payment of Debt Service. Amounts deposited in the Interest Account (other than Capitalized Interest), the Principal Account and the Provider Payment Account in the Revenue Fund may be invested at an unrestricted yield for a period not to exceed 13 months from the date of deposit of such amounts to such fund or account. Earnings on such amounts that are retained in such funds or accounts may be invested at an unrestricted yield for a period not to exceed one year from the date of receipt of the amount earned.

(l) Replacement Proceeds. Replacement proceeds (as such term is defined in Section 1.148-1(c) of the Treasury Regulations) may be invested at an unrestricted yield for a period of 30 days beginning on the date that the amounts are first treated as

replacement proceeds and, thereafter, shall be invested at a yield not in excess of the yield on the Bonds.

(m) Applicable Definition of Materially Higher Yield for All Replacement Proceeds. In the event that replacement proceeds arise during the term of the Bonds, then, after the expiration of the applicable periods during which amounts described in this Section 8 may be invested at an unrestricted yield, all amounts described in this Section 8 shall be invested at a composite yield not in excess of the yield on the Bonds or in Tax-Exempt Obligations (defined in Part D of this Tax Certificate).

(n) Yield Restricted Moneys. Proceeds derived from the sale of the Bonds and other amounts described in this Section, and investment earnings thereon, that may not be invested at an unrestricted yield pursuant to this Section 8, will either (i) be invested at a yield not in excess of the yield on the Bonds, or (ii) be invested in Tax-Exempt Obligations (defined in Part D of this Tax Certificate).

(o) Minor Portion. Amounts described in this Section 8 that may not be invested at an unrestricted yield as described above may be invested at an unrestricted yield to the extent such amounts do not exceed the lesser of 5% of the sale proceeds of the Bonds or \$100,000 (the “Minor Portion”).

(p) Rebate Fund. Amounts held in the Rebate Fund, to the extent funded with amounts other than proceeds derived from the sale of the Bonds and investment earnings thereon, may be invested without regard to yield.

Section 9. Yield Reduction Payments. Notwithstanding the provisions of Section 8 above that require the Authority and the City to invest proceeds derived from the sale of the Bonds and investment earnings thereon at a yield not in excess of the yield on the Bonds, the yield on certain nonpurpose investments (described below), acquired with proceeds of the Bonds, will not be considered to be higher than the applicable yield limitation described in Section 8 above if either the Authority or the City makes or causes to be made “yield reduction payments” to the United States at the time and in the amounts described in Section 1.148-5(c) of the Treasury Regulations.

(a) In General. The Treasury Regulations provide seven situations in which amounts paid to the United States (including payments of rebatable arbitrage) are treated as payments for a nonpurpose investment that reduces the yield on that investment, as follows:

(i) nonpurpose investments during one of the temporary periods available for capital projects, restricted working capital expenditures, pooled financings, or investment proceeds;

(ii) nonpurpose investments for variable yield bond issues for any computation period during which at least 5% of the value of the issue is represented by variable yield bonds;

(iii) nonpurpose investments allocable to transferred proceeds of a current refunding issue to the extent necessary to reduce the yield on such investments to the yield required by Section 148(a) of the Code;

(iv) nonpurpose investments allocable to transferred proceeds of an advance refunding issue to the extent the investment of the refunding escrow allocable to other proceeds of the issue cannot, with zero-yielding investments, meet the yield required by Section 148(a) of the Code;

(v) nonpurpose investments allocable to a reserve or replacement fund or a fund that is in excess of the sizing limits for a reasonably required reserve fund, but only to the extent that such amounts do not exceed 15% of the issue size or are not expected to pay debt service with respect to the issue;

(vi) nonpurpose investments allocable to replacement proceeds of a refunded issue as a result of the application of the universal cap to amounts in a refunding escrow; and

(vii) nonpurpose investments allocable to certain permanent funds not treated as replacement proceeds by operation of the effective date rule of Section 1.148-11(f) of the Treasury Regulations.

(b) Advance Refundings. Yield reduction payments, however, may not be used to reduce the yield on investments in the case of an advance refunding issue, except with respect to any “transferred proceeds” (within the meaning of Section 1.148-9(c)(1)(ii) of the Treasury Regulations) of the Bonds and any amounts allocated to “replacement proceeds” of the 1998 Refunded Bonds as a result of the application of the “universal cap” (described in Section 11 below) as applied to amounts in a refunding escrow.

(c) Consultation with Counsel. The Authority and the City covenant to retain and consult with a nationally recognized bond counsel prior to making any “yield reduction payments” pursuant to Section 1.148-5(c) of the Treasury Regulations.

Section 10. Yield. For purposes of this Tax Certificate, the term “yield” means as follows.

(a) In General. For purposes of calculating the yield on the Bonds, the term “yield” means the discount rate that, when used in computing the present value as of the issue date of all unconditionally payable payments of principal, interest and fees for qualified guarantees with respect to the Bonds and amounts reasonably expected to be paid as fees for qualified guarantees with respect to the Bonds, produces an amount equal to the present value, using the same discount rate, of the aggregate issue price of the Bonds as of the date hereof. The yield on investments acquired with amounts described in Section 8 above, and the yield on the Bonds, will be calculated by the use of the same frequency interval of compounding interest. For purposes of calculating the yield on investments acquired with or allocated to the proceeds of the Bonds, the term “yield” means the discount rate that, when used in computing the present value as of the date the

investment is first allocated to the proceeds of the Bonds of all unconditionally payable receipts from the investment, produces an amount equal to the present value of all unconditionally payable payments for the investment.

(b) Issue Price. For purposes of calculating the yield on the Bonds, the issue price of the Bonds (as defined in Section 1273 of the Code) is equal to the initial offering price to the public (excluding bond houses, brokers and similar persons or organizations acting in the capacity of underwriters or wholesalers) at which a substantial amount (at least 10%) of each maturity of the certificate was sold or was reasonably expected to be sold. The aggregate issue price of the Bonds, determined in accordance with the preceding sentence and shown in the certificate of the Underwriter attached hereto as Exhibit B, is \$62,275,000 (equal to \$62,275,000 face amount of the Bonds).

(c) Computation Periods. Because the Bonds are being treated as variable yield Bonds, the yield on the Bonds is computed separately for each computation period. A computation period is the period between computation dates with respect to the Bonds. The Authority and the City are hereby electing to treat September 1, 2008, as the end of its first Computation Period. After the conclusion of the first Computation Period, the Authority and the City must consistently treat either the last day of each Bond Year or the last day of each fifth Bond Year as a computation date.

(d) Qualified Guarantee – Insurance Policy. For purposes of computing the yield on the Bonds, the premium paid to obtain the Insurance Policy from the Insurer on the date hereof may be treated as additional interest on the Bonds.

(i) Representations of the Underwriter. The Underwriter has represented in its certificate attached hereto as Exhibit B that the present value of the premium paid to obtain the Insurance Policy from the Insurer is less than the present value of the interest reasonably expected to be saved as a result of obtaining the Insurance Policy (using the yield on the Bonds determined with regard to payment of the premium for the Insurance Policy as the discount factor for such purpose). The Underwriter has further advised that, to the best of its knowledge, the premium paid to obtain the Insurance Policy from the Insurer on the date hereof was determined in arm's length negotiations, was required as a condition to the issuance by the Insurer of the Insurance Policy, and represents a reasonable charge for the transfer of credit risk.

(ii) Representations of the Insurer. The Insurer has represented in its certificate attached hereto as Exhibit D that the premium paid to obtain the Insurance Policy does not include any payment for any direct or indirect services other than the transfer of credit risk. No portion of the premium paid to obtain the Insurance Policy is refundable upon the redemption of the Bonds prior to their stated maturity or mandatory redemption dates.

Other than to the Insurer for the Insurance Policy, no amount has been or will be paid by or on behalf of the Authority or the City to any entity as a payment of a “qualified guarantee” (as such term is defined in Section 1.148-4(f) of the Treasury Regulations).

(e) Qualified Hedges.

(i) General. Payments made or received by the Authority under a “**qualified hedge**” (as such term is defined in Treasury Regulation Section 1.148-4(h)(2)) relating to the Bonds will be taken into account in determining the yield on the Bonds.

(ii) Swap Agreement Entered Into Before Issue Date of the Bonds. In a certificate executed April 11, 2007 and attached hereto as Exhibit G, for purposes of satisfying the identification requirements of Section 1.148-4(h)(2)(viii) of the Treasury Regulations, the Authority represented that (1) on April 11, 2007, the Authority entered into a swap agreement with Bank of America, N.A. (the “**Counterparty**”), having an initial notional principal amount of \$61,200,000 (the “**Swap Agreement**”), evidenced by a confirmation, dated April 12, 2007; (2) under the Swap Agreement effective as of the issue date of the Bonds, the Authority will make payments to the Counterparty based on application of a fixed rate of 3.615% to the notional principal amount of the Swap Agreement, and the Counterparty will make payments to the Authority based on 63.7% of one month USD-LIBOR-BBA plus 0.154%; (3) the Swap Agreement was entered into in anticipation of the issuance of the Bonds, stating the purpose, issue price, maturity and issue date thereof, and that payments under the Swap Agreement will closely correspond in time to debt service payments with respect to the Bonds; (4) the Swap Agreement was entered into primarily to modify the Authority’s interest rate changes with respect to the portion of such Bonds, no amount is being paid by the Authority to the Counterparty to enter into the Swap Agreement and the notional principal amount of the Swap Agreement is expected to equal to a portion of the aggregate principal amount of the Bonds; and (5) the Swap Agreement is not expected to be terminated or otherwise closed substantially contemporaneously with the issuance of the Bonds.

(iii) Qualified Hedge. The Swap Agreement is a qualified hedge under Section 1.148-4(h) of the Treasury Regulation in that it satisfies each of the following requirements: (i) it is a contract that is entered into primarily to modify the Authority’s risk of interest rate changes with respect to the Bonds and it does not contain a “**significant investment element**” (i.e., an expected rate of return), (ii) it is entered into with a provider that is not a related party with respect to the Authority, (iii) it covers, in whole or in part, all of one or more groups of substantially identical bonds (i.e., all of the Bonds having the same interest rate, maturity and terms), (iv) it is based primarily on interest rate changes, (v) it does not hedge an amount larger than the Authority’s risk with respect to interest changes on the Bonds, (vi) the

payments received from the hedge provider under the contract correspond closely in time and amount to the specific interest payments being hedged on the Bonds, (vii) payments on the Swap Agreement do not begin to accrue on a date earlier than the issue date of the hedged Bonds and do not accrue longer than the hedged interest payments on the hedged Bonds, (viii) payments to the Counterparty are reasonably expected to be made from the same source of funds that, absent the Swap Agreement, will be reasonably expected to be used to pay principal of and interest on the Bonds, and (ix) pursuant to Sections 1.148-4(h)(2)(viii) and 1.148-4(h)(5)(iii) of the Treasury Regulations, the Swap Agreement has been identified by the Authority as a qualified hedge in a separate certificate, including specifically the hedge provider, the terms of the contract and the hedged bonds, the reasonably expected governmental purpose, issue price, maturity and issue date of the hedged bonds, the manner in which interest is reasonably expected to be computed and that Section 1.148-4(h)(5)(iii) applies. Further, the Authority will note the existence of the Swap Agreement on the Internal Revenue Service Form 8038-G relating to the Bonds that is to be filed with the Internal Revenue Service in accordance with Part E, Section 6 below.

(f) Yields.

(i) Bond Yield. In accordance with the above meaning of the term “yield,” (A) the yield on the Bonds has been determined by the Financial Advisor, as verified by the Verification Agent, for the first Installment Computation Period ending September 1, 2008 to be not less than 3.7024%, (B) the yield on the 1997 Bonds is not less than 6.3035%, and (C) the yield on the 1998 Bonds is not less than 5.26962%.

(ii) Escrow Securities Yield. The composite semiannual yield on the (A) 1997 Escrow Reserve SLGS has been determined by the Financial Advisor, as verified by the Verification Agent in the Verification Report, to be no greater than 4.956961%, (B) 1998 Escrow Proceeds SLGS has been determined by the Financial Advisor, as verified by the Verification Agent in the Verification Report, to be no greater than 3.699412% and (C) 1998 Escrow Reserve SLGS has been determined by the Underwriter, as verified by the Verification Agent in the Verification Report, to be no greater than 4.885091%

(g) Investments to be Acquired at Market Price. Any investments acquired with amounts that may not be invested at an unrestricted yield pursuant to Section 8 of this Part C shall be purchased at prevailing market prices and shall be limited to securities or obligations for which there is an established market or shall be Time Deposit SLGs or “Tax-Exempt Obligations” (hereinafter defined in Part D of this Tax Certificate).

(h) Investment Contract. Neither the Authority nor the City has invested any proceeds of the Bonds pursuant to an investment contract (within the meaning of Section 1.148-1(b) of the Treasury Regulations). In the event that either the Authority or

the City acquires an investment contract with any of the proceeds of the Bonds, the Authority or the City, as appropriate, and the provider of the investment contract will comply with, and will make certain representations in compliance with, Section 1.148-5(d) of the Treasury Regulations.

Section 11. Universal Cap. Notwithstanding any restrictions on the investment of proceeds of the Bonds and other amounts set forth in Section 8 of this Part C, proceeds of the Bonds and other amounts that are treated as proceeds of the Bonds are allocated and remain allocated to the Bonds, and are thereby subject to the restrictions contained in this Tax Certificate, only to the extent that the value of such proceeds does not exceed the value of the outstanding Bonds. This Section shall not apply to amounts on deposit in and allocable to the Interest Account and the Principal Account in the Revenue Fund.

Section 12. Excess Gross Proceeds. Proceeds of the Advance Refunding Bonds will not constitute excess gross proceeds (as such term is defined in Section 1.148-10(c) of the Treasury Regulations) in an amount that is greater than one percent of the sale proceeds of the Refunding Bonds. In this regard, excess gross proceeds constitutes all gross proceeds (including replacement proceeds) of the Advance Refunding Bonds, other than those that are allocable to the (i) payment of principal, interest or redemption premium on the 1998 Refunded Bonds, (ii) payment of pre-issuance accrued interest on the Advance Refunding Bonds, and interest on the Advance Refunding Bonds that accrues for a period up to the completion date of any capital project for which the 1998 Refunded Bonds were issued, plus one year, (iii) a reasonably required reserve or replacement fund for the Advance Refunding Bonds, (iv) payment of the Costs of Issuance of the Advance Refunding Bonds, (v) payment of the administrative costs allocable to repaying the 1998 Refunded Bonds, carrying and repaying the Advance Refunding Bonds, or investments of proceeds of the Advance Refunding Bonds, (vi) transferred proceeds allocable to expenditures for the governmental purpose of the 1998 Refunded Bonds, (vii) payment of interest on purpose investments, (viii) replacement proceeds in a sinking fund for the Advance Refunding Bonds, and (ix) qualified guarantee fees for the Advance Refunding Bonds or the 1998 Refunded Bonds. For purposes of this Section 11, the term “transferred proceeds” includes all unexpended proceeds of the Refunded Bonds as of the date hereof.

Section 13. First Call Date for Refunded Bonds. The Authority and the City will realize present value debt service savings (determined without regard to issuance and administrative expenses) in connection with the issuance of the Advance Refunding Bonds and the advance refunding of the 1998 Refunded Bonds. Accordingly, pursuant to Section 149(d)(3)(A)(iii) of the Code, the 1998 Refunded Bonds will be redeemed not later than the earliest date on which such 1998 Refunded Bonds may be redeemed.

Section 14. No Advance Refunding Device. The Refunded Bonds will be retired at a time no later than the Refunded Bonds would have been retired had the Bonds not been issued for the purpose of refunding the Refunded Bonds. No device has been or will be employed in connection with the issuance of the Bonds in order to obtain a material financial advantage (based on arbitrage) apart from savings attributable to lower interest rates.

Section 15. No Replacement.

(a) In General. No portion of the proceeds of the Bonds will be used as a substitute for other funds that were otherwise to be used to redeem the 1997 Refunded Bonds, the 1998 Refunded Bonds or to finance the cost of the Project and that have been or will be used to acquire, directly or indirectly, securities or obligations or other investment property producing a yield in excess of the yield on the Bonds.

(b) Safe Harbor Against Back-End Replacement Proceeds. In accordance with Section 1.148-1(c) of the Treasury Regulations regarding the safe harbor against the creation of “replacement proceeds,” as of the date hereof, the weighted average maturity of the Bonds does not exceed 120% of the remaining average reasonably expected economic life of the Project. For this purpose, less than 25% of the Bonds and the 1997 Bonds allocable to the 1997 Project and the 1998 Bonds allocable to the 1998 Project was or will be used to finance or refinance the acquisition of land, and, therefore, land was not taken into account in determining the average economic life of the Project.

Section 16. No Abusive Arbitrage Device. The Authority and the City have not and will not engage in a transaction or series of transactions enabling the Authority or the City to exploit the difference between tax-exempt and taxable interest rates to gain a material financial advantage and which increases the burden on the market for tax-exempt obligations, including selling obligations that would not otherwise be necessary or issuing obligations sooner or allowing them to remain outstanding longer than would otherwise be necessary. No device has been or will be employed in connection with the issuance of the Bonds in order to obtain a material financial advantage (based on arbitrage) apart from savings attributable to lower interest rates.

Section 17. Covenants in the Indenture. The Authority and the City has covenanted in Section 6.05 of the Indenture, that they shall make no use of the proceeds derived from the sale of the Bonds or any other moneys that would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code.

PART D. REBATE REQUIREMENT

Section 1. In General. The Authority and the City recognize that Section 148(f) of the Code, which sets forth the Rebate Requirement, requires that an amount equal to the sum of (i) the excess of the aggregate amount earned on all Nonpurpose Investments (defined below) over the amount that would have been earned if such Nonpurpose Investments had a yield equal to the yield on the Bonds, plus (ii) any income attributable to the excess described in (i), be paid to the United States. The Authority has covenanted in the Indenture, to comply with the Rebate Requirement. Accordingly, the Authority and the City covenant herein to comply with the Rebate Requirement, as set forth in Section 148(f) of the Code and the Treasury Regulations.

Section 2. Bond Year. The Authority hereby selects September 1 to be the day on which each Bond Year ends. The first Bond Year ends on September 1, 2007.

Section 3. Nonpurpose Investments. The rules contained in this Part D relate to the requirement to comply with the provisions of Section 148(f) of the Code and the Treasury

Regulations promulgated thereunder. The rules contained in this Part D will apply to the investment of Gross Proceeds, (as defined below), in any security, obligation, annuity contract or any other investment-type property (as such term is defined in Section 1.148-1(b) of the Treasury Regulations) that is not acquired to carry out the governmental purpose of the Bonds (“Nonpurpose Investments”). Nonpurpose Investments shall not include:

(a) United States Treasury Demand Deposit Securities – State and Local Government Series; and

(b) Tax-Exempt Obligations.

For purposes of this Tax Certificate, the term “Tax-Exempt Obligations” shall include only obligations the interest on which is (i) excludable from gross income for federal income tax purposes, and (ii) not treated as an item of tax preference under Section 57(a)(5) of the Code. The term “Tax-Exempt Obligation” shall, however, include an interest in a regulated investment company (within the meaning of Section 851(a) of the Code) to the extent that at least 95% of the income to the holder of the interest is interest that is excludable from gross income under Section 103(a) of the Code and not treated as an item of tax preference under Section 57(a)(5) of the Code.

Section 4. Gross Proceeds. For purposes of this Tax Certificate, the term “Gross Proceeds” means:

(a) proceeds derived from the sale of the Bonds (other than pre-issuance accrued interest, if any);

(b) amounts that are reasonably expected to be or are in fact used to pay debt service on the Bonds, including amounts on deposit in the Interest Account, the Principal Account and the Provider Payment Account in the Revenue Fund;

(c) amounts pledged as security for the payment of debt service on the Bonds;

(d) amounts treated as “transferred proceeds” of the Bonds, within the meaning of Section 1.148-1(b) of the Treasury Regulations, if any;

(e) amounts treated as “replacement proceeds” of the Bonds, within the meaning of Section 1.148-1(c) of the Treasury Regulations, if any; and

(f) investment earnings on amounts described in subsections (a)-(e) above.

Section 5. Yield. Yield, for purposes of complying with the Rebate Requirement, is to be calculated pursuant to Section 10 of Part C of this Tax Certificate. For purposes of calculating the yield on a Nonpurpose Investment, the purchase price will be the amount paid for such investment or, if different, the fair market value of such investment on the date it becomes Gross Proceeds.

Section 6. Market Price. For purposes of this Tax Certificate, the purchase price and disposition price of a Nonpurpose Investment will be the fair market value of the investment on

an established market. Accordingly, a premium may not be paid to adjust the yield on an investment, a lower interest rate than is usually paid may not adjust the yield on an investment and no transaction may result in a smaller profit or larger loss than would have resulted if the transaction had been at arm's-length and had the yield on the Bonds not been relevant to either party. In no event will the purchase price be increased by, or the disposition price be reduced by, brokerage or sales commissions, administrative expenses or similar expenses. However, pursuant to Section 1.148-5(e)(2) of the Treasury Regulations, certain "qualified administrative costs" may be taken into account in determining the yield on investments. Thus, such "qualified administrative costs" will be deemed to increase the payments for, or decrease the receipts from, the investments. "Qualified administrative costs" are reasonable, direct, administrative costs, other than carrying costs, such as separately stated brokerage or selling commissions, but not legal and accounting fees, record keeping, custody and similar costs. General overhead costs and similar indirect costs of the Authority such as employee salaries and office expenses and costs associated with computing arbitrage rebate are not qualified administrative costs.

(a) Certificate of Deposit. A certificate of deposit with a fixed interest rate, fixed principal payment schedule and a substantial penalty for early withdrawal will be deemed purchased for fair market value if the yield on the certificate of deposit is (i) not less than the yield on reasonably comparable direct obligations of the United States and (ii) not less than the highest yield published or posted by the provider on comparable certificates offered to the public.

(b) Guaranteed Investment Contracts. Investments pursuant to a guaranteed investment contract will be regarded as being made at fair market value if:

(i) the Authority or the City makes a bona fide solicitation for a guaranteed investment contract that satisfies all of the following requirements:

(A) the bid specifications are in writing and are timely forwarded to potential providers;

(B) the bid specifications include all material terms that may directly or indirectly affect the yield or the cost of the guaranteed investment contract;

(C) the bid specifications include a statement notifying potential providers that submission of a bid is a representation that the potential provider did not consult with any other potential provider about its bid, that the bid was determined without regard to any other formal or informal agreement that the potential provider has with the Authority or the City or any other person (whether or not in connection with the issuance of the Bonds), and that the bid is not being submitted solely as a courtesy to the Authority or the City or any other person for purposes of satisfying the requirements contained in Section 1.148-5(d)(6)(iii)(B)(1) or (2) of the Treasury Regulations;

(D) the terms of the bid specifications are commercially reasonable in that there is a legitimate business purpose for each term other than to increase the purchase price or reduce the yield of the guaranteed investment contracts;

(E) the terms of the solicitation take into account the City's reasonably expected deposit and drawdown schedule for the amounts to be invested;

(F) all potential providers have an equal opportunity to bid and no potential provider is given the opportunity to review other bids (*i.e.*, a "last look") before providing a bid; and

(G) at least three reasonably competitive providers are solicited for bids. A "reasonably competitive provider" is a provider that has an established industry reputation as a competitive provider of the type of guaranteed investment contracts being purchased;

(ii) The Authority or the City receives at least three bona fide bids on the guaranteed investment contract from providers that have no material financial interest in the issuance of the Bonds. The following are deemed to have a material financial interest in the execution and delivery of the Bonds:

(A) the lead underwriter in a negotiated underwriting transaction until 15 days after the issue date of the issue;

(B) any entity acting as a financial advisor with respect to the purchase of the guaranteed investment contract at the time the bid specifications are forwarded to potential providers; and

(C) a provider that is a related party to a provider that has a material financial interest in the execution and delivery of the Bonds;

(iii) At least one of the three bids received by the Authority or the City is from a reasonably competitive provider;

(iv) The winning bidder provides a certificate that lists all administrative costs that it is paying (or expects to pay) to third parties in connection with supplying the guaranteed investment contract;

(v) The Authority or the City purchases the highest yielding guaranteed investment contract for which a bona fide bid was made (determined net of broker's fees, if any); and

(vi) The Authority or the City retains the following records with the bond documents until three years after the last outstanding Bond is redeemed:

(A) a copy of the guaranteed investment contract;

(B) the receipt or other record amount actually paid by the Authority or the City for the guaranteed investment contract, including a record of any administrative costs paid by the Authority or the City, and the certification under subparagraph (iv) above;

(C) a copy of each bid that is submitted (including the name of the person and entity submitting the bid), the time and date of the bid, and the bid results; and

(D) the bid solicitation form and, if the terms of the guaranteed investment contract deviated from the bid solicitation form or a submitted bid is modified, a brief statement explaining the deviation and stating the purpose for the deviation.

(c) Investments Traded on Established Market. For other investments traded on an established market, the fair market value of the investment will be the actual price at which the investments are sold by a willing seller to a willing buyer. When an actual transaction does not occur, the fair market price will be the mean between the bid and asked prices for such obligations on the date the investment is deemed to become, or ceases to be, proceeds of the Bonds.

(d) Yield Restricted Amounts. Where amounts must be restricted to a certain yield and investments cannot be purchased on an established market or a bona fide fair market price cannot be established at a yield that does not exceed the maximum permissible yield, the Authority or the City may acquire or hold Tax-Exempt securities, currency, or Time Deposit SLGs that yield no more than the maximum permissible yield. The Authority and the City recognize that Time Deposit SLGs are available at the Bureau of the Public Debt, and that, under current Treasury Department Regulations governing SLGs, Time Deposit SLGs may not be purchased until 7 calendar days after a subscription for them is tendered and received by the Bureau of Public Debt (5 calendar days in the case of subscriptions not in excess for \$10 million). Accordingly, the Authority and the City will act promptly in subscribing for Time Deposit SLGs in the event it is determined that such restricted investments are necessary.

Section 7. Record Keeping. With respect to all Nonpurpose Investments acquired in any fund or account the Authority or the City shall record or cause to be recorded the following information: (a) purchase date, (b) purchase price, (c) information establishing that the purchase price is the fair market value as of such date (*e.g.*, the published quoted bid by a dealer in such an investment on the date of purchase), (d) any accrued interest paid, (e) face amount, (f) coupon rate, (g) periodicity of interest payments, (h) disposition price, (i) any accrued interest received, and (j) disposition date. To the extent any investment becomes a Nonpurpose Investment by becoming Gross Proceeds after it was originally purchased, it will be treated as if it were acquired at its fair market value at the time it becomes a Nonpurpose Investment.

Section 8. Retention of Records. Amounts determined to be required to be paid to the United States in compliance with the Rebate Requirement will be paid to the United States in accordance with the rules set forth in the Treasury Regulations. Records of all determinations made hereunder will be retained by the Authority or the City until six years after the complete retirement of the Bonds.

Section 9. Bona Fide Debt Service Fund Exception. As the Bonds are not private activity bonds and have an average maturity of greater than five years and a fixed rate of interest, amounts earned on moneys in the Interest Account, the Principal Account and the Provider Payment Account in the Revenue Fund shall not be taken into account for a Bond Year for purposes of complying with the Rebate Requirement.

Section 10. Expenditure Exceptions. The Rebate Requirement will be considered satisfied with respect to the Project Bonds if either the Six-Month Exception (set forth in subsection (a) below), the Eighteen-Month Exception (set forth in subsection (b) below) or the Two-Year Exception (set forth in subsection (c) below) is satisfied. The Rebate Requirement will be considered satisfied with respect to the Current Refunding Bonds if the Six-Month Exception (set forth in subsection (a) below) is satisfied. Each of these expenditure exceptions will apply separately to the Project Bonds and the Current Refunding Bonds. Accordingly, references in this Section 10 to “Bonds” shall mean “Project Bonds” or “Current Refunding Bonds,” as the case may be.

(a) Six-Month Exception. The Rebate Requirement will be considered satisfied if the following rule is met.

(i) In General. The Six-Month Exception will be treated as having been satisfied if (A) all Gross Proceeds of the Bonds are allocated to expenditures for the governmental purposes of the Bonds no later than the date that is six months after the date of issuance of the Bonds, and (B) the Rebate Requirement is satisfied with respect to (1) amounts on deposit in the Reserve Fund, (2) amounts on deposit in the Interest Account, the Principal Account and the Provider Payment Account in the Revenue Fund, (3) other Gross Proceeds that arise after six months from the date hereof but that are not reasonably anticipated to arise as of the date hereof, (4) repayment of any grants made with proceeds of the Bonds, and (5) sale or investment proceeds on payments under a purpose investment.

(ii) Gross Proceeds. For purposes of satisfying clause (i)(A) above, the term Gross Proceeds excludes (A) amounts on deposit in the Reserve Fund, (B) amounts on deposit in the Interest Account, the Principal Account and the Provider Payment Account in the Revenue Fund, (C) other Gross Proceeds that arise after six months from the date hereof but that are not reasonably anticipated to arise as of the date hereof, (D) repayment of any grants made with proceeds of the Bonds, and (E) sale or investment proceeds on payments under any purpose investment.

(iii) Additional Six Months for Non-Private Activity Bonds. The Six-Month Exception will be treated as satisfied if, in addition to satisfying clause (i)(B) of this subsection (a), all Gross Proceeds of the Bonds are expended as provided in clause (i)(A) of this subsection (a) except for an amount of Gross Proceeds that does not exceed 5% of the proceeds of the Bonds and such unexpended amount of Gross Proceeds is expended within one year from the date of issuance of the Bonds.

(b) Eighteen-Month Exception. The Rebate Requirement will be considered satisfied if the following rule is met.

(i) In General. The Eighteen-Month Exception will be treated as having been satisfied if (A) all Gross Proceeds of the Bonds (as defined in paragraph (ii) of subsection (a) above and substituting “eighteen months” for “six months” in clause (C) thereof) meet the Eighteen-Month Test, (B) the Rebate Requirement is satisfied with respect to (1) amounts on deposit in the Reserve Fund, (2) amounts on deposit in the Interest Account, the Principal Account and the Provider Payment Account in the Revenue Fund, (3) other Gross Proceeds that arise after six months from the date hereof but that are not reasonably anticipated to arise as of the date hereof, (4) repayment of any grants made with proceeds of the Bonds, and (5) sale or investment proceeds on payments under a purpose investment, and (C) all Gross Proceeds of the Bonds qualify for the three-year temporary period set forth in Section 1.148-2(e)(2) of the Treasury Regulations.

(ii) Eighteen-Month Test. The Eighteen-Month Exception will be treated as satisfied if at least 15% of the Gross Proceeds of the Bonds have been allocated to expenditures for the governmental purposes of the Bonds within six months from the date of issuance of the Bonds, at least 60% of the Gross Proceeds have been allocated to expenditures for the governmental purposes of the Bonds within one year from the date of issuance of the Bonds, and all of the Gross Proceeds of the Bonds have been expended for the governmental purposes of the Bonds within 18 months from the date of issuance of the Bonds. For purposes of determining compliance with the first two spending periods described above, the amount of investment proceeds that the Authority and the City reasonably expect to earn on the Gross Proceeds of the Bonds is \$94,862.14.

(iii) Reasonable Retainage. For purposes of paragraph (ii) of this subsection (b), all of the Gross Proceeds of the Bonds will be treated as expended for the governmental purposes of the Bonds within 18 months from the date of issuance of the Bonds if all of such proceeds are allocated to expenditures for the governmental purposes of the Bonds within 30 months from the date of issuance of the Bonds and such amounts would have been expended for such purposes within 18 months from the date of issuance of the Bonds but for a reasonable retainage (as such term is defined below in subsection (d)) that does not exceed 5% of the net sale proceeds of the

Bonds. For purposes of the preceding sentence, a reasonable retainage is an amount that is retained for reasonable business purposes relating to property financed with the proceeds of the Bonds. A reasonable retainage may include, for example, an amount retained to ensure compliance with the terms of a construction contract in circumstances in which the amount retained is not yet payable, or in which the Authority and the City reasonably determine that a dispute exists regarding either completion of construction or payment.

(iv) De Minimis Rule. The Bonds will not fail to qualify for the Eighteen-Month Exception if (i) an amount that does not exceed the lesser of 3% of the issue price of the Bonds and \$250,000 is not spent within 18 months from the date of issuance of the Bonds, and (ii) the Authority and the City continue to exercise due diligence to complete the Project.

(v) Application to Multipurpose Issues. The Eighteen-Month Exception will not apply to an issue any portion of which is treated as meeting the Two-Year Exception (defined below).

(c) Two-Year Exception. With respect to the “available construction proceeds” (defined below) of the Bonds, the Two-Year Exception will be treated as having been satisfied if the requirements of paragraphs (i) and (ii) are satisfied. This expenditure exception applies only to the Project Bonds.

(i) 75-Percent Test. This paragraph will be satisfied if the Authority and the City reasonably expect as of the issue date of the Bonds that at least 75% of the “available construction proceeds” (defined below) of the Bonds will be allocated to construction expenditures (including reconstruction and rehabilitation) with respect to property that is owned by a governmental unit or an organization described in Section 501(c)(3) of the Code and exempt from federal income tax under Section 501(a) of the Code. On the date hereof, the Authority and the City have the reasonable expectation set forth in the preceding sentence.

(ii) Two-Year Test. This paragraph (ii) will be treated as satisfied if at least 10% of the available construction proceeds of the Bonds have been allocated to expenditures for the governmental purposes of the Bonds within the six-month period beginning on the date of issuance of the Bonds, at least 45% of the available construction proceeds have been allocated to expenditures for the governmental purposes of the Bonds within the one-year period beginning on the date of issuance of the Bonds, at least 75% of the available construction proceeds of the Bonds have been allocated to expenditures for the governmental purposes of the Bonds within the 18-month period beginning on the date of issuance of the Bonds, and all of the available construction proceeds of the Bonds have been allocated to expenditures for the governmental purposes of the Bonds within the two-year period beginning on the date of issuance of the Bonds.

(iii) De Minimis Rule. The Bonds will not fail to qualify for the Two-Year Exception if (i) an amount that does not exceed the lesser of 3% of the issue price of the Bonds and \$250,000 is not spent within two years from the date of issuance of the Bonds, and (ii) the Authority and the City continue to exercise due diligence to complete the Project.

(d) Available Construction Proceeds.

(i) In General. For purposes of subsection (c) above, the term “available construction proceeds” means an amount equal to the issue price (determined in subsection 10(b) of Part C of this Tax Certificate) of the Bonds (or the portion thereof at least 75% of the available construction proceeds of which are to be used for the purposes described in paragraph (i) of subsection (c) above), plus investment earnings on the Bonds or, where applicable, the portion thereof, plus investment earnings on any reasonably required reserve or replacement fund not funded from proceeds of the Bonds, plus investment earnings on all of the above described investment earnings, minus the amount of the issue price of the Bonds (or, where applicable, the portion thereof) deposited in the Reserve Fund or to be applied to pay Costs of Issuance, minus pre-issuance accrued interest. The term “available construction proceeds,” however, will not include payments on any obligation acquired to carry out the governmental purpose of the issue or the investment earnings thereon, and (subject to paragraph iii below) will not include investment earnings on amounts on deposit in the Reserve Fund after the earlier of two years from the date hereof or the date on which construction of the Project is substantially completed.

(ii) Reasonable Retainage. For purposes of paragraph (ii) of subsection (c), all of the available construction proceeds of the Bonds will be treated as expended for the governmental purposes of the Bonds within two years from the date of issuance of the Bonds if all of such proceeds are expended for the governmental purposes of the Bonds within three years from the date of issuance of the Bonds and such amounts would have been expended for such purposes within two years from the date of issuance of the Bonds but for a reasonable retainage. For these purposes, a reasonable retainage is an amount that is retained for reasonable business purposes relating to property financed with the proceeds of the Bonds and that amount retained does not exceed 5% of the available construction proceeds of the Bonds as of the end of the fourth spending period referred to in paragraph (ii) of subsection (c) above. Reasonable retainage may include, for example, an amount retained to ensure compliance with the terms of a construction contract in circumstances in which the amount retained is not yet payable, or in which the Authority or the City reasonably determines that a dispute exists regarding either completion of construction or payment.

(iii) Investment Proceeds. For purposes of determining compliance with the first three spending periods described in subsection

(c)(ii) above, the amount of investment proceeds that the Authority and the City reasonably expect as of the date hereof to earn on the investment of the Gross Proceeds of the Bonds that constitute Available Construction Proceeds is \$119,098.52.

(e) No Penalty Election. The Authority, at the direction of the City, is not electing to have Section 148(f)(4)(C)(vii) of the Code apply to the Bonds. Accordingly, in the event the available construction proceeds of the Bonds have not been expended within the time periods described in paragraph (ii) of subsection (c) above, the Authority and the City shall comply with the Rebate Requirement, as described above.

Section 11. Engagement of Experts. The Authority and the City covenant that they will, at least one month prior to the end of each Bond Year, engage a firm competent to perform the calculations necessary to comply with the Rebate Requirement, as set forth in Section 148(f) of the Code and the Treasury Regulations.

Section 12. Survival of Defeasance. Notwithstanding anything in this Tax Certificate to the contrary, the Rebate Requirement will survive the defeasance or payment in full of the Bonds.

PART E. OTHER MATTERS

Section 1. [Reserved.]

Section 2. No Pooled Financing Bonds. No portion of the proceeds derived from the sale of the Bonds will be used, directly or indirectly, to make or finance loans to two or more ultimate borrowers. None of the Costs of Issuance with respect to the Bonds is contingent upon the occurrence of events subsequent to the date of issuance of the Bonds, and at least 95% of the Costs of Issuance will be paid within six months of the date hereof.

Section 3. No Hedge Bonds.

(a) Prior Bonds. The 1997 Bonds allocable to the 1997 Project, and the 1998 Bonds allocable to the 1998 Project, satisfied the rules of Section 149(g) of the Code in that (i) the 1997 Bonds allocable to the 1997 Project and the 1998 Bonds allocable to the 1998 Project qualified for the three-year temporary period set forth in Section 1.148-2(e)(2) of the Treasury Regulations (or applicable predecessor section), and (ii) no more than 50% of the net sale proceeds of the 1997 Bonds allocable to the 1997 Project and the 1998 Bonds allocable to the 1998 Project, and no more than 50% of the net sale proceeds of the 1997 Bonds and the 1998 Bonds were invested in Nonpurpose Investments at a substantially guaranteed yield for four years or more. Accordingly, the 1997 Bonds allocable to the 1997 Project and the 1998 Project satisfy the rules of Section 149(g) of the Code.

(b) Project Bonds. Based on the representation contained in Section 6 of Part C of this Tax Certificate, the proceeds derived from the sale of the Project Bonds qualify for a three-year temporary period for investment without yield restriction. Additionally, no more than 50% of the net sale proceeds of the Project Bonds will be invested in

Nonpurpose Investments at a substantially guaranteed yield for four years or more. Accordingly, the Project Bonds satisfy the requirements of Section 149(g) of the Code.

Section 4. No Federal Guarantee. The Authority and the City will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the Authority or the City, or take or omit to take any action, that would cause the Bonds to be considered “federally guaranteed” within the meaning of Section 149(b) of the Code. The Authority and the City have not entered into, and the Authority and the City will not enter into, any (a) long-term service contracts with any federal governmental agency, (b) service contracts with any federal governmental agency under terms that are materially different from the terms of any contracts with any persons other than federal government agencies, and (c) leases of property to any federal government agency, that would cause the Bonds to be considered “federally guaranteed” within the meaning of Section 149(b) of the Code.

Section 5. Change in Use. The Authority and the City represent, warrant and covenant that the Project will be used for governmental purposes of the Authority or the City, unless an opinion of Bond Counsel is received permitting any proposed change in use of the Project.

Section 6. Information Reporting. The Authority and the City each certify that the information required by Section 149(e) of the Code and set forth in Internal Revenue Service Form 8038-G relating to the Bonds reflects its reasonable expectations with respect to the Bonds and the proceeds thereof as of the date of this Tax Certificate. The Form 8038-G will be filed at the Internal Revenue Service Center, Ogden, Utah 84201 no later than the fifteenth day of the second calendar month following the close of the calendar year quarter in which the Bonds are issued.

Section 7. Retention of Records. The Authority and the City covenant to maintain all records relating to the Bonds and the use and expenditure of the proceeds of the Bonds, as more specifically set forth below.

(a) Types of Records Required to be Retained. The records that must be retained include, but are not limited to, the following:

(i) General. All legal and closing documents relating to the Bonds, including indentures, trust agreements, resolutions, public notices, tax certificates, opinions of counsel (issued at the time of closing or subsequently), amendments to the foregoing documents and any and all documents included in the transcript with respect to the Bonds.

(ii) Expenditure of Gross Proceeds.

(A) Documents evidencing the expenditure of proceeds from the sale of the Bonds and investment earnings thereon and the specific assets financed with such proceeds, including any declarations of official intent to reimburse expenditures, feasibility studies, projected draw schedules, requisitions and closing flow of funds memoranda;

(B) Documents setting forth all funds and accounts relating to the Bonds, including debt service funds, reserve funds, sinking funds and pledged funds, and any agreements with respect thereto;

(C) Documents pertaining to the investment of the Gross Proceeds of the Bonds, including the purchase and sale of securities, Time Deposit SLGs subscriptions, yield calculations for each class of investments, actual investment income received from the investment of proceeds, projected investment income calculations expected to be received from the investment of proceeds, guaranteed investment contracts, rebate calculations, credit enhancement, swap transactions and verification reports;

(iii) Disposition Proceeds. Documents, if any, evidencing the sale or other disposition of the financed property; and

(iv) Economic Life Data. Documents supporting the economic life of the assets financed and refinanced with proceeds of the Bonds;

(v) Allocations. Documents evidencing any allocations with respect to the Gross Proceeds of the Bonds,

(vi) Use of Financed Assets; Private Security or Payment.

(A) Documents evidencing the use and ownership of the property financed and refinanced with proceeds of the Bonds, including contracts (leases, management contracts, service contracts and otherwise) with for the use and ownership of such property; and

(B) Documents evidencing sources of payment or security for the Bonds, including liquidity covenants and negative covenants, and any agreements with respect thereto.

(vii) Tax Returns and Related Information. IRS Form 8038-G, 8038-T and 8038-R, as applicable, and information relating to the pricing of the Bonds, yield calculations, weighted average maturity calculations, other information included in the 8038 statistics report, verification reports and arbitrage rebate reports.

(viii) Required Retention Periods. The Authority and the City covenant to retain the above described records for the following applicable periods until the date that is six years after the complete retirement of the Bonds.

(b) Nonpurpose Investments. With respect to all Nonpurpose Investments acquired in any fund or account in connection with the Bonds, the following information shall be recorded and retained: (i) purchase date, (ii) purchase price, (iii) information establishing that the purchase price is the fair market value as of such date (e.g., the

published quoted bid by a dealer in such an investment on the date of purchase), (iv) any accrued interest paid, (v) face amount, (vi) coupon rate, (vii) periodicity of interest payments, (viii) disposition price, (ix) any accrued interest received, and (x) disposition date.

(c) Form of Records. The Authority and the City covenant that all records will be kept in a manner that ensures complete access thereto for the applicable above described period either in hard copy or electronic format. If the records are kept in electronic format, compliance is necessary with the requirements of Revenue Procedure 97-22, 1997-1 C.B. 652, which provides guidance for maintaining books and records by using an electronic storage system that either images their hardcopy books and records or transfers their computerized books and records to an electronic storage media (e.g., an electronic data compression system).

(d) Failure to Retain Records. The Authority and the City acknowledge that a failure to maintain material records required to be retained by this Section may result in the loss of the exclusion of interest on the Bonds from gross income for federal tax purposes, could cause additional arbitrage rebate to be owed and could impact a conduit borrower's entitlement to take certain deductions.


Section 8. Authorization to Execute Tax Certificate. The undersigned are authorized representatives of the Authority and the City and are executing this Tax Certificate for and on behalf of the Authority and City. To the best of the knowledge and belief of the undersigned, there are no other facts, estimates or circumstances that would materially change the expectations as set forth herein, and said expectations are reasonable.

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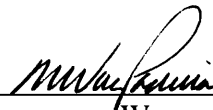
Section 9. Amendment. Notwithstanding any provision of this Tax Certificate, the Authority and the City may amend this Tax Certificate and thereby alter any actions allowed or required by this Tax Certificate if such amendment is based on a written opinion of a nationally recognized bond counsel.

Dated: April 18, 2007

**MODESTO PUBLIC FINANCING
AUTHORITY**

By: 
Wayne Padilla
Auditor and Treasurer

CITY OF MODESTO

By: 
Wayne Padilla
Finance Director/Treasurer

LIST OF EXHIBITS

Exhibit A	Refunded Bonds
Exhibit A-1	Allocation Computation for 1997 Refunded Bonds
Exhibit A-2	Allocation Computation for 1998 Refunded Bonds
Exhibit A-3	Computation of 1998 Bonds Allocable to 1998 Project
Exhibit B	Certificate of the Banc of America Securities LLC, as Underwriter
Exhibit C	Certificate of the Public Financial Management, Inc. as Financial Advisors
Exhibit D	Certificate of CIFG Assurance North America, Inc., as Insurer
Exhibit E	Form 8038-G
Exhibit F-1	1997 Escrow Securities
Exhibit F-2	1998 Escrow Securities
Exhibit G	Swap Identification Certificate
Exhibit H	Swap Certificate of PFM Asset Management LLC, as Swap Advisor
Exhibit I	Certificate of Bank of America, N.A., as Swap Provider

EXHIBIT A**REFUNDED BONDS**1997 BONDS

<u>Maturity Date (November 1)</u>	<u>Principal Amount</u>	<u>Redemption Date (May 23)</u>	<u>Redemption Price</u>
2016	\$2,335,000	2007	102%

1998 BONDS

<u>Maturity Date (September 1)</u>	<u>Principal Amount</u>	<u>Redemption Date (September 1)</u>	<u>Redemption Price</u>
2009	\$ 460,000	September 1, 2008	101%
2010	550,000	September 1, 2008	101%
2011	645,000	September 1, 2008	101%
2012	750,000	September 1, 2008	101%
2013	855,000	September 1, 2008	101%
2016*	3,270,000	September 1, 2008	101%
2020*	6,360,000	September 1, 2008	101%
2024*	9,165,000	September 1, 2008	101%
2029*	16,405,000	September 1, 2008	101%
2033*	<u>17,000,000</u>	September 1, 2008	101%
	<u>\$55,460,000</u>		

* Term Bonds

EXHIBIT A-1

Allocation Computation for 1997 Refunded Bonds

<u>2007 Bond Proceeds</u>	<u>Uses</u>	<u>Percentage of 2007 Issue</u>	
\$ 2,291,177.17	Deposit to 1997 Escrow	3.73696%	Current Refunding
56,619,946.84	Deposit to 1998 Escrow	92.34857%	Advance Refunding
<u>2,400,000.00</u>	2007 Project	3.914446%	New Money
<u>\$61,311,124.01</u>			

EXHIBIT A-2

Allocation Computation for 1998 Refunded Bonds

<u>2007 Bond Proceeds</u>	<u>Uses</u>	<u>Percentage of 2007 Issue</u>	
\$ 2,291,177.17	Deposit to 1997 Escrow	3.73696%	Current Refunding
56,619,946.84	Deposit to 1998 Escrow	92.34857%	Advance Refunding
<u>2,400,000.00</u>	2007 Project	3.914446%	New Money
<u>\$61,311,124.01</u>			

EXHIBIT A-3

Computation of 1998 Bonds Allocable to 1998 Project

1998 Par Allocation

	<u>Amount</u>	<u>Percent of Total</u>
Project Fund	\$45,812,743.79	
Capitalized Interest	\$4,442,036.81	
Total New Money Amount	50,254,780.60	94.447%
Escrow Deposit	3,358,393.51	
1986 DSRF Release	403,861.14	
Total Refunding	2,954,532.37	5.553%
Total	53,209,312.97	100.000%
1998 Par Amount	\$61,430,000.00	
Non-Refundable Par Amount	\$3,415,000.00	

Bond	Maturity	Outstanding Principal	Non-advance Refundable Par Outstanding	Advance Refunded Par	Percent Non-advance Refundable	Test
Serial	9/1/2007	405,000	405,000	0	100.0000%	TRUE
Serial	9/1/2008	450,000	450,000	0	100.0000%	TRUE
Serial	9/1/2009	490,000	30,000	460,000	6.1224%	TRUE
Serial	9/1/2010	585,000	35,000	550,000	5.9829%	TRUE
Serial	9/1/2011	685,000	40,000	645,000	5.8394%	TRUE
Serial	9/1/2012	795,000	45,000	750,000	5.6604%	TRUE
Serial	9/1/2013	910,000	55,000	855,000	6.0440%	TRUE
Term16	9/1/2014	1,025,000	60,000	965,000	5.8537%	TRUE
Term16	9/1/2015	1,155,000	65,000	1,090,000	5.6277%	TRUE
Term16	9/1/2016	1,290,000	75,000	1,215,000	5.8140%	TRUE
Term20	9/1/2017	1,435,000	80,000	1,355,000	5.5749%	TRUE
Term20	9/1/2018	1,595,000	90,000	1,505,000	5.6426%	TRUE
Term20	9/1/2019	1,765,000	100,000	1,665,000	5.6657%	TRUE
Term20	9/1/2020	1,945,000	110,000	1,835,000	5.6555%	TRUE
Term24	9/1/2021	2,130,000	120,000	2,010,000	5.6338%	TRUE
Term24	9/1/2022	2,320,000	130,000	2,190,000	5.6034%	TRUE
Term24	9/1/2023	2,520,000	140,000	2,380,000	5.5556%	TRUE
Term24	9/1/2024	2,740,000	155,000	2,585,000	5.6569%	TRUE
Term29	9/1/2025	2,965,000	165,000	2,800,000	5.5649%	TRUE
Term29	9/1/2026	3,220,000	180,000	3,040,000	5.5901%	TRUE
Term29	9/1/2027	3,480,000	195,000	3,285,000	5.6034%	TRUE
Term29	9/1/2028	3,760,000	210,000	3,550,000	5.5851%	TRUE
Term29	9/1/2029'	3,950,000	220,000	3,730,000	5.5696%	TRUE
Term33	9/1/2030	4,165,000	235,000	3,930,000	5.6423%	TRUE
Term33	9/1/2031	4,380,000	245,000	4,135,000	5.5936%	TRUE
Term33	9/1/2032	4,610,000	260,000	4,350,000	5.6399%	TRUE
Term33	9/1/2033	4,855,000	270,000	4,585,000	5.5613%	TRUE
Total		59,625,000	4,165,000	55,460,000		
Percent			6.9853%	93.0147%		
Not including 2007/2008		58,770,000	3,310,000	55,460,000		
Percent			5.6321%	94.3679%		

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CERTIFICATE OF THE UNDERWRITER

This Certificate is furnished by Banc of America Securities LLC as the Underwriter (the “**Underwriter**”) of the \$62,275,000 aggregate principal amount of Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the “**Bonds**”), being issued by the Modesto Public Financing Authority (the “**Authority**”) for the benefit of the City of Modesto (the “**City**”). Capitalized terms used herein and not otherwise defined are to be defined by reference to the Tax Certificate to which this certificate is attached (the “**Tax Certificate**”).

The undersigned does hereby certify as follows:

(A) Issue Price

1. The Underwriter reasonably expected on April 11, 2007, which is the date on which the Underwriter agreed to purchase the Bonds (the “**Sale Date**”), that the Bonds, consisting of a single maturity maturing on September 1, 2033, would be sold to the general public (excluding bond houses, brokers and similar persons or organizations acting in the capacity of underwriters or wholesalers), at their initial offering price, (the “**Initial Public Offering Price**”), as set forth on the cover page of the Official Statement of the Authority, dated April 11, 2007, with respect to the Bonds, and in Schedule 1 attached hereto.

2. The Underwriter has made a bona fide offering of all of the Bonds to the general public (excluding bond houses, brokers and similar persons or organizations acting in the capacity of underwriters or wholesalers) at prices not in excess of the Initial Public Offering Price, which is equal to \$62,275,000, representing the aggregate stated principal amount of the Bonds.

3. The Underwriter first sold, as of the Sale Date, at least 10% of the aggregate principal amount of the Bonds to the general public (excluding bond houses, brokers and similar persons or organizations acting in the capacity of underwriters or wholesalers) at prices not in excess of the Initial Public Offering Price.

4. The Initial Public Offering Price does not exceed the fair market value of the Bonds as of the Sale Date.

(B) Bond Insurance

1. The present value of the premium paid to CIFG Assurance North America, Inc. (the “**Insurer**”) to obtain a municipal bond insurance policy with respect to the Bonds (the “**Insurance Policy**”) is less than the present value of the interest reasonably expected to be saved as a result of having the Insurance Policy, using the yield on the Bonds as the discount factor for this purpose.

2. The premium paid to the Insurer obtain the Insurance Policy was determined in arm’s-length negotiations.

3. The premium paid to the Insurer obtain the Insurance Policy represents a reasonable charge for the Insurance Policy.

(C) Reserve Fund

1. The Reserve Fund Requirement of \$4,318,051.92 does not exceed the least of (i) 10% of the proceeds of the Bonds, (ii) maximum annual debt service on the Bonds, or (iii) 125% of average annual debt service on the Bonds.

2. The funding of the Reserve Fund in an amount equal to the Reserve Fund Requirement was a condition to the issuance of the Insurance Policy, and was therefore a vital factor in marketing the Bonds, facilitated the marketing of the Bonds at an interest rate comparable to that of bonds and other obligations of a similar type, and was not in excess of the amount considered necessary for such purpose.

(D) Determination of Underwriter’s Discount

An affiliate of the Underwriter is the counterparty on a variable-to-fixed interest rate swap with the Authority with respect to the Bonds (the “**Swap**”). The Swap will become effective concurrently with the conversion of the interest rate on the Bonds from a fixed interest rate to a rate determined every 7 days through an auction process, which conversion will occur on September 3, 2008. The Underwriter’s Discount was negotiated in an arm’s-length transaction with the City (as the party in interest). The amount of the Underwriter’s Discount was determined independently of the Swap. The Underwriter’s Discount is comparable to the amount the Underwriter would expect to receive from other persons to underwrite a tax-exempt bond issue substantially similar to the Bonds without regard to any interest rate swap that may be executed in connection with such other bond issue.

The undersigned recognizes that the representations set forth above will be relied upon by the Authority and the City in making certain of the representations set forth in the Tax Certificate and by Sidley Austin LLP, Bond Counsel, in rendering its opinion that the interest on the Bonds is not includable in the gross income of the owners thereof for federal income tax purposes.

Dated: April 18, 2007

BANC OF AMERICA SECURITIES LLC

By: 
Name: _____
Title: _____

**SCHEDULE 1
TO EXHIBIT B**

INITIAL PUBLIC OFFERING PRICES

<u>Maturity Date (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price (% of Par)</u>
2033	\$62,275,000	3.70%*	100.00

* Initial fixed rate from April 18, 2007 to September 3, 2008

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CERTIFICATE OF THE FINANCIAL ADVISOR

This Certificate is furnished by Public Financial Management, Inc., as financial advisor (the “**Financial Advisor**”) to the Modesto Public Financing Authority (the “**Authority**”) with respect to the issuance of the Authority’s \$62,275,000 aggregate principal amount of Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement’s Bonds, Series 2007 (the “**Bonds**”), for purposes of establishing certain matters.

Capitalized terms used and not defined herein are as defined in the Tax Certificate to which this certification is attached.

A. Insurance Policy Authority

1. The present value of the premium paid on the date hereof to CIFG Assurance North America, Inc. (the “**Insurer**”) to obtain the Insurance Policy with respect to the Bonds is less than the present value of the interest reasonably expected to be saved as a result of having the Insurance Policy, using the yield on the Bonds (taking into account the payment of the premium for the Insurance Policy) as the discount factor for purposes of computing such present value.

2. The premium paid to obtain the Insurance Policy was determined in arm’s-length negotiations and was required as a condition to the issuance by the Insurer of the Insurance Policy.

3. The premium paid to obtain the Insurance Policy represents a commercially reasonable charge for the transfer of credit risk. To the best of our knowledge, such premium does not include any direct or indirect payment for a cost, risk or other element that is not customarily borne by guarantors of tax-exempt bonds in transactions in which the guarantor has no involvement other than as guarantor, and no non-guarantee services are being provided by the Insurer.

B. Reserve Fund.

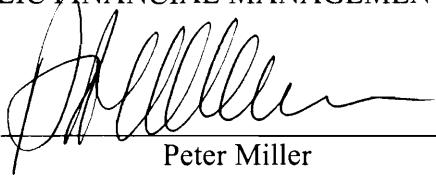
The funding of the Reserve Fund in an amount equal to the Reserve Fund Requirement (as defined in the Contract) was a condition to obtaining the Insurance Policy and was therefore a vital factor in marketing the Bonds, facilitated the marketing of the Bonds at an interest rate comparable to that of bonds and other obligations of a similar type and is not in excess of the amount considered necessary for such purpose.

The undersigned recognizes that the representations set forth above will be relied upon by the Modesto Public Financing Authority and the City of Modesto in making certain of the representations set forth in the Tax Certificate and by Sidley Austin LLP, Bond Counsel, in rendering its opinion that the interest on the Bonds is not includable in the gross income of the owners thereof for federal income tax purposes.

Dated: April 18, 2007

PUBLIC FINANCIAL MANAGEMENT, INC.

By:

A handwritten signature in black ink, appearing to read "P. Miller", written over a horizontal line.

Peter Miller
Managing Director

CERTIFICATE OF THE INSURER

(Please see attached certificate.)

TAX CERTIFICATE OF BOND INSURER

In connection with the issuance of Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 in the aggregate principal amount of \$62,275,000 (the "Bonds"), CIFG Assurance North America, Inc. ("CIFG") is issuing a bond insurance policy and endorsements thereto (the "Policy") guaranteeing the payment of principal and interest when due on the Bonds, all as more fully set out in the Policy.

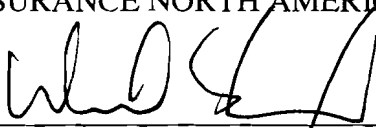
The undersigned hereby certifies that he is authorized to execute and deliver this certificate and hereby makes the following representations on behalf of CIFG:

1. The Policy is an unconditional and recourse obligation of CIFG (enforceable by or on behalf of the holders of the Bonds) to pay the scheduled payments of interest and principal on the Bonds in the event of a Nonpayment as defined in the Policy;
2. The insurance premium of \$151,178.50 was determined in arm's length negotiations in accordance with our standard procedures, is required to be paid as a condition to the issuance of the Policy and represents a reasonable charge for the transfer of credit risk;
3. No portion of such premium represents a payment for any direct or indirect services other than the transfer of credit risk, including costs of underwriting or remarketing the Bonds or the cost of insurance for casualty of Bond financed property;
4. CIFG is not a co-obligor on the Bonds and does not reasonably expect that it will be called upon to make any payment under the Policy; and
5. The Issuer is not entitled to a refund for the Policy in the event the Bonds are retired prior to their stated maturity.

Dated: April 18, 2007

CIFG ASSURANCE NORTH AMERICA, INC.

By: _____


Michael S. Knopf
Managing Director and Vice President

FORM 8038-G

(Please see attached form.)

Information Return for Tax-Exempt Governmental Obligations

► Under Internal Revenue Code section 149(e)
 ► See separate instructions.

OMB No. 1545-0720

Caution: If the issue price is under \$100,000, use Form 8038-GC.

Part I Reporting Authority If Amended Return, check here

1 Issuer's name Modesto Public Financing Authority	2 Issuer's employer identification number 94:6000374
3 Number and street (or P.O. box if mail is not delivered to street address) 1010 10th Street	Room/suite 5200 4 Report number 301
5 City, town, or post office, state, and ZIP code Modesto, California 95354	6 Date of issue April 18, 2007
7 Name of issue Lease Revenue Refunding and Capital Improvement Bonds, Series 2007	8 CUSIP number 607796AX7
9 Name and title of officer or legal representative whom the IRS may call for more information Wyne Padilla, Auditor and Treasurer	10 Telephone number of officer or legal representative (209) 577-5371

Part II Type of Issue (check applicable box(es) and enter the issue price) See instructions and attach schedule

11 <input type="checkbox"/> Education	11
12 <input type="checkbox"/> Health and hospital	12
13 <input type="checkbox"/> Transportation	13
14 <input type="checkbox"/> Public safety	14
15 <input type="checkbox"/> Environment (including sewage bonds)	15
16 <input type="checkbox"/> Housing	16
17 <input type="checkbox"/> Utilities	17
18 <input checked="" type="checkbox"/> Other. Describe ► Refinancing and financing the costs of certain public facilities	18 \$62,275,000.00
19 If obligations are TANs or RANs, check box <input type="checkbox"/> If obligations are BANs, check box <input type="checkbox"/>	
20 If obligations are in the form of a lease or installment sale, check box <input type="checkbox"/>	

Part III Description of Obligations. Complete for the entire issue for which this form is being filed.

(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21 September 1, 2033	\$62,275,000.00	\$62,275,000.00	17.0772 years	VR %

Part IV Uses of Proceeds of Issue (including underwriters' discount)

22 Proceeds used for accrued interest	22 \$0.00
23 Issue price of entire issue (enter amount from line 21, column (b))	23 \$62,275,000.00
24 Proceeds used for bond issuance costs (including underwriters' discount)	24 \$630,684.06
25 Proceeds used for credit enhancement	25 \$151,178.50
26 Proceeds allocated to reasonably required reserve of replacement fund	26 \$182,013.43
27 Proceeds used to currently refund prior issues	27 \$2,291,177.17
28 Proceeds used to advance refund prior issues	28 \$56,619,946.84
29 Total (add lines 24 through 28)	29 \$59,875,000.00
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30 \$2,400,000.00

Part V Description of Refunded Bonds (Complete this part only for refunding bonds.)

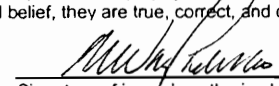
31 Enter the remaining weighted average maturity of the bonds to be currently refunded	► 5.5447 Years
32 Enter the remaining weighted average maturity of the bonds to be advance refunded	► 18.4751 Years
33 Enter the last date on which the refunded bonds will be called	► 5/23/07; 9/1/08
34 Enter the date(s) the refunded bonds were issued	► February 11, 1997, and March 11, 1998

Part VI Miscellaneous

35 Enter the amount of the state volume cap allocated to the issue under section 141(b)(5)	35
36a Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (see instructions)	36a
b Enter the final maturity date of the guaranteed investment contract	
37 Pooled financings: a Proceeds of this issue that are to be used to make loans to other governmental units	37a
b If this issue is a loan made from the proceeds of another tax-exempt issue, check box <input type="checkbox"/> and enter the name of the issuer and the date of the issue	
38 If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box <input type="checkbox"/>	
39 If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box <input type="checkbox"/>	
40 If the issuer has identified a hedge, check box <input checked="" type="checkbox"/>	

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Sign Here

 Signature of issuer's authorized representative	April 18, 2007 Date	Wayne Padilla Auditor and Treasurer Type or print name and title
--	------------------------	---

1997 ESCROW SECURITIES

<u>TYPE</u>	<u>MATURITY DATE</u>	<u>PAR AMOUNT</u>	<u>COUPON</u>
I. Bond Proceeds Escrow Securities			
SLG	5/23/2007	\$ 2,224,319.00	4.990%
SLG	9/1/2007	597,890.00	3.818
SLG	3/1/2008	327,507.00	3.780
SLG	9/1/2008	<u>55,694,548.00</u>	3.696
	Total	<u>\$56,619,945.00</u>	
II. Prior Reserve Fund Escrow Securities			
SLG	5/23/2007	\$154,768.00	4.990%
SLG	9/1/2007	4,492.00	5.040
SLG	9/1/2008	<u>658,315.00</u>	4.880
	Total	<u>\$662,807.00</u>	

1998 ESCROW SECURITIES

<u>TYPE</u>	<u>MATURITY DATE</u>	<u>PAR AMOUNT</u>	<u>COUPON</u>
I. Bond Proceeds Escrow Securities			
SLG	9/1/2007	\$ 597,890.00	3.818%
SLG	3/1/2008	327,507.00	3.780
SLG	9/1/2008	<u>55,694,548.00</u>	3.696
	Total	<u>\$56,619,945.00</u>	
II. Prior Reserve Fund Escrow Securities			
SLG	9/1/2007	\$ 4,492.00	5.040%
SLG	9/1/2008	<u>658,315.00</u>	4.880
	Total	<u>\$662,807.00</u>	

SWAP IDENTIFICATION CERTIFICATE

(Please see attached certificate.)

**CERTIFICATE OF THE MODESTO PUBLIC FINANCING AUTHORITY
AND THE CITY OF MODESTO
RE IDENTIFICATION OF VARIABLE-TO-FIXED RATE SWAP**

This certificate is being furnished by the Modesto Public Financing Authority (the "Authority") and the City of Modesto (the "City") in connection with the Authority's entering into a swap agreement (the "Swap"), hereinafter described, for purposes of satisfying the identification requirements of Section 1.148-4(h)(2)(vii) of the Treasury Regulations for treatment of the Swap as a "qualified hedge," which would enable the Authority and the City to take into account payments made or received by the Authority under the Swap, pursuant to Section 1.148-4(h)(1) of the Treasury Regulations, in determining the yield on certain bonds hereinafter described.

1. On April 11, 2007, the Authority entered into the Swap, having an original notional amount of \$61,200,000, with Bank of America, N.A. (the "Counterparty"). The Swap is evidenced by a Confirmation, dated on April 12, 2007 (the "Confirmation").

2. Under the Swap, the Authority will make payments to the Counterparty based on application of a fixed rate of 3.615% to the notional amount of the Swap, and the Counterparty will make payments to the Authority based on 63.7% of USD-LIBOR-BBA plus 0.154% (15.4 basis points) applied to the notional amount of the Swap. The Swap is to be effective on September 3, 2008, and will terminate on September 1, 2033.

3. The Swap is being entered into in anticipation of the issuance and delivery by the Authority for the benefit of the City of the Authority's Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the "Bonds"), which will be hedged with the Swap. The Bonds will have an issue price equal to \$62,275,000. The Bonds are expected to be issued on April 18, 2007. The Bonds will bear interest at an auction rate determined weekly through the implementation of auction procedures. The Bonds are intended to be variable rate debt instruments within the meaning of Section 1.1275-5 of the Treasury Regulations. The proceeds of the Bonds will be used to current refund certain outstanding bonds issued in 1997, to advance refund certain outstanding bonds issued in 1998 and to provide funds to finance capital improvements of the City. Proceeds of the Bonds will also be used to fund a debt service reserve fund and to pay costs incurred in connection with the issuance of the Bonds. The final maturity of the Bonds is reasonably expected to be September 1, 2033. Payments under the Swap will closely correspond in time to debt service payments on the Bonds.


4. The Swap has been entered into primarily to modify the Authority's risk of interest rate changes with respect to the Bonds. No payments have been or are expected to be made by the Counterparty to the Authority or by the Authority to the Counterparty in connection with the Swap except as set forth in the Swap. The notional amount of the Swap is expected to equal the principal amount of the Bonds.

5. The Swap is not expected to be terminated or otherwise closed substantially contemporaneously with the execution and delivery of the Bonds. Accordingly, the Authority has been advised by Bond Counsel that Section 1.148-4(h)(5)(iii) applies to the Swap.

6. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Confirmation.

Date: April 12, 2007

MODESTO PUBLIC FINANCING AUTHORITY

By: 

Wayne Padilla
Auditor and Treasurer

CITY OF MODESTO

By: 

Wayne Padilla
Finance Director

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

SWAP CERTIFICATE OF PFM ASSET MANAGEMENT LLC
IN CONNECTION WITH SWAP AGREEMENT

This Certificate is furnished by PFM Asset Management LLC (“**PFMAM**”), as financial advisor to the Modesto Public Financing Authority (the “**Authority**”), in connection with an interest rate swap agreement entered into pursuant to a Master Agreement, dated as of April 11, 2007, and a Confirmation, dated as of April 12, 2007 (the Master Agreement and Confirmation collectively referred to herein as the “**Swap Agreement**”), hereinafter described. The Swap Agreement is between the Authority and the Bank of America, N.A., as counterparty (the “**Counterparty**”). PFMAM understands that the Swap Agreement was entered into in connection with, and in anticipation of, the issuance by City of Modesto (the “**City**”) of its Lease Revenue Refunding and Capital Improvements Bonds, Series 2007 (the “**Bonds**”), the proceeds of which will be used (i) to current refund certain certificates of participation executed and delivered for the benefit of the City in 1997, (ii) to advance refund certain bonds issued by the City in 1998, and (iii) to provide funds directly to finance certain capital projects of the City. PFMAM understands that this Certificate is necessary to support certain conclusions of Sidley Austin LLP, as Bond Counsel, regarding the yield on the Bonds for purposes of Section 148 of the Internal Revenue Code of 1986, as amended (the “**Code**”), and the Treasury Regulations thereunder.

The undersigned HEREBY CERTIFIES as follows:

1. On April 11, 2007 the Authority entered into the Swap Agreement with the Counterparty in the initial notional amount of \$61,200,000. The Swap Agreement is scheduled to become effective on September 3, 2008, concurrently with the conversion of the interest rate on the Bonds from a fixed interest rate to a rate determined every 7 days through an auction process. The Swap Agreement is scheduled to terminate on September 1, 2033, and the Swap Agreement has a weighted average life of 16 years. We understand that the Authority is entering into the Swap Agreement to provide a hedge against interest rate changes with respect to the Bonds, and that the Authority intends to include payments made or received by the Authority under the Swap Agreement in calculating the yield on the Bonds pursuant to Section 1.148-4(h) of the Treasury Regulations.

2. Under the Swap Agreement, the Authority is required to make payments to the Counterparty semi-annually based on the application of a fixed rate of 3.615% (the “**Fixed Rate**”), multiplied by the notional amount of the Swap Agreement. In consideration for payments to be made by the Authority to the Counterparty, the Counterparty is obligated to make payments to the Authority semi-annually (on the same date as the City’s payments) based on

63.7% of USD-LIBOR-BBA (“**One Month LIBOR**”) plus .154% (15.4 basis points) applied to the notional amount of the Swap Agreement (the “**Swap Floating Rate**”). No amount is being paid by the City or the Authority to a Counterparty to enter into the Swap Agreement, and except as provided in the next sentence, no amount is being paid by the Counterparty to the City or the Authority to enter into the Swap Agreement. On the date hereof, PFMAM is being paid a swap advisory fee (the “**Swap Fee**”) of \$57,800 by the Counterparty. PFMAM understands that the Counterparty, in a separate certificate by such Counterparty, will identify its pro rata portion of the Swap Fee as an “acquisition payment” in accordance with Section 1.148-4(h) of the Treasury Regulations. PFMAM represents that the Swap Fee, translates into an increase in interest rate on the Swap Agreement of no more than .01% (1.0 basis point).

3. At the request of the City and Bond Counsel, PFMAM has analyzed the relationship between (a) a combination of the interest rates on (i) the City’s outstanding auction rate bonds, including its 2006 Water Revenue Certificates of Participation, and (ii) a proxy bond issue (the “**Proxy Bonds**”) for the period of time before the City had auction rate bonds outstanding, in order to be able to project the expected interest rates to be paid on the Bonds, and (b) One-Month LIBOR. PFMAM compared 63.7% of One-Month LIBOR plus .154% against the interest rate on both the City’s outstanding auction rate bonds and the Proxy Bonds (collectively, the “**Proxy Interest Rate**”) over 10-year period from January 1997 to April 2007 (the “**Computation Period**”). The Computation Period is a reasonable period upon which to base the herein-described analysis, and the Computation Period was not selected to affect the mathematical relationship between the Proxy Interest Rate and 63.7% of One-Month LIBOR plus .154%.

4. The Proxy Bonds were utilized in addition to the City’s outstanding auction rate bonds for purposes of the analysis described herein since the undersigned understands that the City has had a limited history of outstanding auction rate bonds, and it was thus necessary to develop our analysis over a longer time horizon to better reflect the municipal interest rate market. For the portion of the Computation Period preceding the time the City had auction rate bonds outstanding, PFMAM used as the Proxy Bonds the De Young Museum Auction Rate Bond Series 2003. This bond issue was selected as the Proxy Bonds such bond issue is similar to the Bonds in that each reflects (i) credit qualities similar to the Issuer and (ii) is supported by credit enhancement and liquidity similar to that supporting the Bonds. Though other bond issues could have been used, the undersigned does not believe that any other bond issue would provide a better approximation of the interest rate on the Bonds than the Proxy Bonds.

5. The Proxy Interest Rate was adjusted to reflect both changes in tax rates (proxy resets were adjusted, assuming the current 35% marginal tax rate) and the day-count conversion fraction (one month LIBOR is calculated on an actual/360 basis). Accordingly, the Proxy Interest Rate, in addition to including the actual interest rates on the City’s auction rate bonds, provides a reasonable proxy for the interest rates that would have been paid by the City had the Bonds been outstanding during the Computation Period before the City had any auction rate bonds outstanding. With respect to One-Month LIBOR, the undersigned used weekly levels of One-Month LIBOR from Bloomberg Reporting Service.

6. The undersigned examined the relationship between the Proxy Interest Rate and the Swap Floating Rate over the Computation Period. During the Computation Period, we

compared the average difference between the weekly Proxy Interest Rates and the weekly Swap Floating Rates for each 6-month period. For the Computation Period, the average difference during any 6-month period was .01% and the maximum absolute difference during any 6-month period was .49%. A chart showing the cumulative frequency distribution of the absolute differences between the Proxy Interest Rate and the Swap Floating Rate for each Period is attached as Schedule 1 to this Exhibit H. The chart shows that 66.5% of the time during the Computation Period the absolute difference between the Proxy Interest Rate and the Floating Rate was less than 0.25%.

7. Based upon the foregoing and (i) our knowledge of One-Month LIBOR, (ii) relevant historical market and credit conditions, and (iii) our experience as a swap advisor on comparable transactions, we reasonably expect that the Swap Floating Rate and the interest rate on the Bonds will be substantially the same, but not identical, throughout the term of the Swap Agreement. This expectation is predicated on historical market relationships and no assurance can be given that actual future results will conform to present expectations. We have discussed the above factors with the City and its Bond Counsel.

8. In arriving at the opinions stated above we have reviewed: (1) quantitative analyses related to the creation of the Proxy Interest Rate provided to us by Banc of America Securities, Inc. (the “**Underwriter**”), (3) the Certificate of Counterparty dated April 18, 2007, and (5) information contained in the Swap Agreement, and we have performed such other analyses as we have deemed necessary and appropriate for the purpose.

9. The ratio of the Authority’s reset rate on the Bonds (the “**Authority’s Reset Rate**”) and the Swap Floating Rate will vary from week to week over time and may cause a difference between the Authority’s Reset Rate for an interest rate period and the Swap Floating Rate for the same period. You should note that the future relationship between the Swap Floating Rate and the Authority’s Reset Rate may be affected by many factors, including but not limited to (A) the general level of interest rates, (B) actual and projected changes in federal income tax laws, (C) changes in California tax laws, and (D) the supply and demand for United States Treasury securities and tax-exempt obligations, including tax-exempt bonds. In addition, the future relationship between the Swap Floating Rate and the Authority’s Reset Rate may be affected by other factors that may include but are not limited to the creditworthiness of the City, the creditworthiness of credit support providers and the performance by the auction agent and the broker dealer with respect to the Bonds. There is no way to accurately predict factors that may affect the relative interest rates of the LIBOR Index as compared to the Authority’s Reset Rate in the future.

10. The Swap Agreement was negotiated at arm’s length between the Authority and the Counterparty, which is affiliated with the Underwriter.

11. The Fixed Rate is an on-market, fair market value rate, comparable to what PFMAM believes the Counterparty would have quoted to other persons to enter into a reasonably comparable interest rate swap, if any, taking into full account the size, terms and conditions of the Swap Agreement, and with an entity similarly situated to the Authority, if any, including taxable business corporations and tax-exempt issuers, taking into account the security and

sources of payment provided for payments to the Counterparty, the risk profile of the such entity, structuring, and other terms inherent under the Swap Agreement.

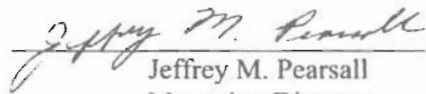
12. No portion of the amounts paid or payable by the Authority pursuant to the Swap Agreement constitutes compensation for services (including underwriting and similar services) unrelated to each Counterparty's performance under the Swap Agreement.

[SIGNATURE PAGE TO FOLLOW]

We understand that the certifications contained herein will be relied upon by the Authority in making certain of the representations contained in a tax certificate executed by the Authority in connection with the delivery of the Bonds, and further understands that Sidley Austin LLP, as Bond Counsel, may rely upon this certificate, among other things, in providing its opinion with respect to the exclusion from gross income of the interest with respect to the Bonds for federal income tax purposes. The opinions expressed herein are not to be used, circulated, quoted or otherwise referred to for any other purpose without the express written consent of undersigned. Further, the opinions expressed herein are not a guarantee of the future trading relationship of the interest rates described herein nor a projection of future tax or interest rates.

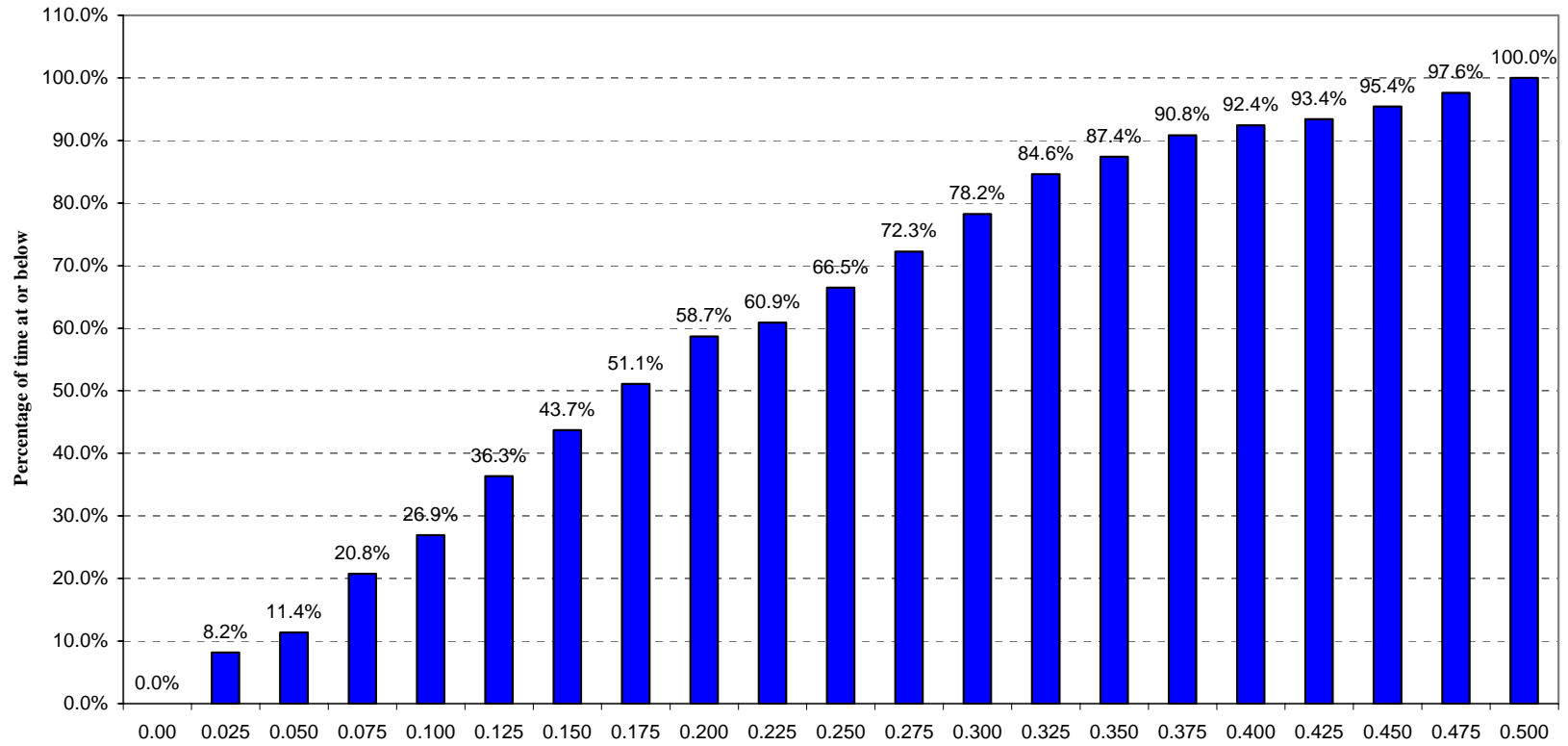
Dated: April 18, 2007

PFM ASSET MANAGEMENT LLC

By: 
Jeffrey M. Pearsall
Managing Director

**SCHEDULE 1
TO EXHIBIT H**

**Percentage of Time Absolute Value [Proxy Rate less 63.7% of LIBOR + 15.4bps]
6-month rolling average of 7-Day Data, January 1997 through February 2007**



Schedule 1 to Exhibit H

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

SWAP PROVIDER CERTIFICATE

This certificate is being delivered by Bank of America, N.A. (the “**Swap Counterparty**”), as counterparty with respect to an interest rate swap (the “**Swap**”) entered into by the Modesto Public Financing Authority (the “**Authority**”) and the Swap Counterparty under an ISDA Master Agreement, U.S. Municipal Counterparty Schedule and Credit Support Annex, dated as of April 11, 2007, and a Confirmation, dated April 12, 2007 (collectively, the “**Swap Agreement**”), with an effective date (the “**Effective Date**”) of September 3, 2008. The Swap Agreement between the Authority and the Swap Counterparty has an initial notional amount of \$61,200,000 and a termination date of September 1, 2033 (the “**Termination Date**”). Under the Swap Agreement, absent an early termination event, (i) the Authority will make payments to the Swap Counterparty based on a rate of 3.615% (the “**Fixed Rate**”) applied to the Notional Amount, and, in exchange, (ii) the Swap Counterparty will make payments to the Authority based on a floating rate (the “**Floating Rate**”) equal to 63.7% of one-month USD-LIBOR-BBA plus .154% (15.4 basis points) applied to the same Notional Amount, all as more fully described in the Swap Agreement.

We have been advised that the Authority is delivering its \$62,275,000 Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the “**Bonds**”), the interest rate on which will be determined weekly through the implementation of certain auction procedures (the “**Weekly Rate**”) and the Authority is entering into the Swap Agreement to provide a hedge against interest rate changes with respect to the Bonds. We understand that payments made and received with respect to the Swap may be taken into account in calculating the yield on the Bonds pursuant to Section 1.148-4(h) of the Treasury Regulations.

In connection with the foregoing, the Swap Counterparty represents as follows:

(1) The Floating Rate, which was used by the Swap Counterparty as the basis of the Swap Counterparty’s pricing of the Swap, was provided to the Swap Counterparty by the Authority and PFM Asset Management LLC (“**PFMAM**”), as Swap Advisor to the Authority. The Authority has indicated that PFMAM performed certain quantitative analysis to determine the Floating Rate. The Swap Counterparty has not performed an analysis of the LIBOR Rate, nor has the Swap Counterparty reviewed the quantitative analysis PFMAM used in determining the Floating Rate.

(2) The Swap Agreement was negotiated in an arm’s length transaction. The Fixed Rate is comparable to the fixed rate the Swap Counterparty would have quoted to receive from other persons to enter into a reasonably comparable interest rate swap, if any, taking into full account the terms and conditions of the Swap Agreement, and with a counterparty similarly situated to the Authority, if any, taking into full account the security and sources of payment

provided for payments to the Swap Counterparty, the risk profile of such counterparty, structuring and other terms inherent under the Swap Agreement.

(3) Amounts to be paid by the Authority under the Swap Agreement do not include any element of compensation for services rendered to or for the benefit of the Authority, including without limitation, underwriting, credit enhancement or other services rendered in connection with the delivery and sale of the Bonds or other debt instruments issued by or for the benefit of the Authority or its affiliates, other than services constituting the Swap Counterparty's performance of its obligations under the Swap Agreement.

(4) No payments have been or are expected to be made by the Swap Counterparty to the Authority or by the Authority to the Swap Counterparty in connection with the Swap Agreement except as set forth in the Swap Agreement.

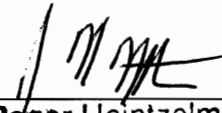
(5) Other than a swap advisory fee of \$57,800 to be paid to PFM Asset Management LLC as financial advisor to the Authority, neither the Swap Counterparty nor any of its affiliates has made or expects to make any payments to third parties for the benefit of the Authority in connection with the Swap Agreement.

The Swap Counterparty understands that the certifications contained herein will be relied upon by the Authority in making certain of the representations contained in a tax certificate executed by the Authority in connection with the issuance of the Bonds, and further understands that Sidley Austin LLP, as Bond Counsel, may rely upon this certificate, among other things, in providing its opinion with respect to the exclusion from gross income of the interest with respect to the Bonds pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). The Swap Counterparty makes no representation as to the legal sufficiency of the matters set forth herein. The opinions expressed herein are not to be used, circulated, quoted or otherwise referred to for any other purpose without the express written consent of undersigned.

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Dated: April 18, 2007

BANK OF AMERICA, N.A.

By: 
Name: **Roger Heintzelman**
Title: **Senior Vice President**

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

BOND PURCHASE CONTRACT

April 11, 2007

Modesto Public Financing Authority
1010 10th Street
Modesto, California 95354

Ladies and Gentlemen:

Banc of America Securities LLC (the "Underwriter") offers to enter into this Bond Purchase Contract (the "Purchase Contract") with the Modesto Public Financing Authority (the "Authority"), to be approved by the City of Modesto (the "City"), for the purchase by the Underwriter of the Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds Series 2007 (the "Bonds") that will be issued pursuant to the Indenture, dated as of April 1, 2007 (the "Indenture"), between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee").

This offer is made subject to the Authority's acceptance and the City's approval by execution of this Purchase Contract and delivery of the same to the Underwriter on or before 11:59 p.m. on the date hereof, and, if not so accepted and approved, will be subject to withdrawal by the Underwriter upon notice delivered to the Authority and the City at any time prior to such acceptance. Upon the Authority's acceptance and the City's approval hereof, the Purchase Contract will be binding upon the Authority, the City and the Underwriter. Capitalized terms used in this Purchase Contract and not otherwise defined herein shall have the respective meanings set forth for such terms in the Indenture.

Section 1. Purchase, Sale and Delivery. Upon the terms and conditions and upon the basis of the representations set forth in this Purchase Contract, the Underwriter agrees to purchase, and the Authority agrees to cause the sale and delivery to the Underwriter of, all (but not less than all) of the Bonds at a purchase price of \$62,067,517.37 (being an amount equal to the principal amount of the Bonds less an underwriter's discount of \$207,482.63).

In connection with the execution and delivery of the Bonds, the Trustee and Deutsche Bank Trust Company Americas, as auction agent (the "Auction Agent") will enter into an Auction Agreement, dated as of April 1, 2007 (the "Auction Agreement") providing, among other things, the auction procedures the Auction Agent will follow for the purposes of determining the Auction Rate applicable to the Bonds and the Authority and the Auction Agent will enter into a Broker-Dealer Agreement, dated as of April 1, 2007 (the "Broker-Dealer

Agreement”) with Banc of America Securities LLC, as the broker-dealer with respect to the Bonds for the purposes of conducting each Auction. The Auction Agreement and the Broker-Dealer Agreement are referred to collectively as the “Auction Rate Agreements.”

Section 2. Terms; Authorizing Instruments; Purpose.

(a) The Bonds will be dated their date of delivery and mature on September 1, 2033. The Bonds will be issued as auction rate securities and initially bear interest for the first Auction Period as shown in Exhibit A attached hereto and thereafter at the rate calculated in accordance with the Indenture. The Bonds will be special limited obligations of the Authority, payable solely from and secured solely by the Revenues. The Revenues will consist primarily of Base Rental Payments to be made by the City to the Authority for the sublease of the Leased Property pursuant to the Facility Lease, dated as of April 1, 2007, by and between the Authority and the City (the “Facility Lease”). The Authority will assign substantially all of its rights under the Facility Lease, including its right to receive Base Rental Payments, to the Trustee under and pursuant to the Indenture. In order to effectuate the sublease of the Leased Property from the Authority to the City pursuant to the Facility Lease, the Authority will sublease the Leased Property from the City pursuant to a sublease, dated as of April 1, 2007 (the “Sublease”). The Leased Property consists of certain real property, facilities and improvements leased by the Authority from the City, the Redevelopment Agency of the City of Modesto (the “Redevelopment Agency”) and the City-County Capital Improvements and Financing Agency (the “Financing Agency”) pursuant to separate site leases, each dated as of March 1, 1998 (the “City Site Lease”, the “Redevelopment Agency Site Lease” and the “Financing Agency Site Lease,” respectively, and, collectively, the “Site Leases”).

(b) The proceeds of the sale of the Bonds will be used to (1) refund all of the outstanding Modesto Public Financing Authority Lease Revenue Bonds, Series 1997 (John Thurman Field Renovation Project) (the "1997 Bonds") and partially refund the Modesto Public Financing Authority Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "1998 Bonds" and, together with the 1997 Bonds, the "Refunded Bonds") previously issued by the Authority, (2) finance the costs of certain public facilities located in the City of Modesto, (3) fund the Reserve Fund for the Bonds and (4) pay certain expenses related to the execution and delivery of the Bonds. The refunding will occur pursuant to the terms of an Escrow Agreement related to the 1997 Bonds, dated as of April 1, 2007, by and between the Authority and U.S. Bank National Association and an Escrow Agreement related to the 1998 Bonds, dated as of April 1, 2007, by and between the Authority and The Bank of New York Trust Company, N.A. (each, an "Escrow Agreement" and, collectively, the "Escrow Agreements").

(c) The payment of the principal and interest of the Bonds will be guaranteed by a financial guaranty insurance policy (the “Insurance Policy”) issued by CIFG Assurance North America, Inc. (the “Insurer”) simultaneously with the delivery of the Bonds.

Section 3. Official Statement; Continuing Disclosure.

(a) The Authority has delivered to the Underwriter the preliminary official statement, dated April 5, 2007 (the “Preliminary Official Statement”) and will deliver the final official

statement, dated the date hereof (as amended and supplemented from time to time pursuant to Section 5(i) or Section 6(i) of this Purchase Contract, the “Official Statement”) to the Underwriter pursuant to Section 4 herein.

(b) The Authority hereby authorizes the use of the Official Statement and the information contained therein by the Underwriter in connection with the public offering and the sale of the Bonds prior to the date hereof. The Authority consents to the use by the Underwriter prior to the date hereof of the Preliminary Official Statement in connection with the public offering of the Bonds. As of its date, the Preliminary Official Statement has been deemed “final” by the Authority for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), except for the omission of certain information permitted to be omitted by such Rule. Prior to the date hereof, the Authority has delivered to the Underwriter a certificate pursuant to Securities and Exchange Commission Rule 15c2-12 (“Rule 15c2-12”) relating to the Preliminary Official Statement.

(c) In connection with issuance of the Bonds, and in order to assist the Underwriter with complying with the provisions of Rule 15c2-12, the City will enter into a continuing disclosure agreement countersigned by The Bank of New York Trust Company, N.A., as dissemination agent (the “Continuing Disclosure Agreement”), under which the City will undertake to provide certain financial and operating data as required by Rule 15c2-12. The form of the Continuing Disclosure Agreement is attached as an appendix to the Preliminary Official Statement and the Official Statement.

Section 4. Agreement to Notify Underwriter Regarding Official Statement. The Authority will supply or cause to be supplied to the Underwriter the Official Statement, within seven business days of the date of this Purchase Contract and in time to accompany any confirmation that requests payment from any customer, in sufficient quantity as requested by the Underwriter to comply with Securities and Exchange Commission Rule 15c2-12(b)(4) and the rules of the Municipal Securities Rulemaking Board (the “MSRB”). The Underwriter hereby agrees that it will not send any confirmation requesting payment for the purchase of any Bonds unless the confirmation is accompanied by or preceded by the delivery of a copy of the Official Statement. The Underwriter agrees to: (i) provide the Authority with final pricing information on the Bonds on a timely basis prior to the Closing Date (as defined in Section 8 hereof), (ii) promptly file a copy of the Official Statement, including any supplements prepared by the Authority or the City, with a nationally recognized municipal securities information repository, (iii) promptly notify the Authority and the City of the end of the underwriting period (as such term is defined in Rule 15c2-12); provided, that the underwriting period will be assumed to have ended on the Closing Date unless the Underwriter shall have notified the Authority and the City in writing to the contrary; and (iv) take any and all other actions necessary to comply with applicable Securities and Exchange Commission rules and MSRB rules governing the offering, sale and delivery of the Bonds to ultimate purchasers.

Section 5. Representations, Warranties and Covenants of the City. The City hereby represents, warrants and agrees with the Underwriter that:

(a) The City is, and will be on the Closing Date, a charter city and municipal corporation, organized and existing pursuant to the Constitution and laws of the State of

California (the "State"), with the full power and authority to execute and deliver the Official Statement and to enter into the Sublease, the Facility Lease, the Continuing Disclosure Agreement and this Purchase Contract (collectively, the "2007 City Agreements" and, together with the City Site Lease, the "City Agreements").

(b) By all necessary official action of the City, the City has duly authorized and approved the execution and delivery of the City Agreements and the Official Statement and the performance by the City of the obligations on its parts contained therein; and as of the date hereof, such authorizations and approvals (the "City Resolutions") are in full force and effect and have not been amended, modified or rescinded.

(c) The execution and delivery of the 2007 City Agreements and the Official Statement and compliance with the provisions on the City's part contained herein and therein, will not in any material respect conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the City under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided in the 2007 City Agreements.

(d) The City is not in any material respect in breach of or default under any applicable law or administrative regulation of the State or the United States of America or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute a default or an event of default under any such instrument.

(e) Except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body pending or, to the best knowledge of the City, threatened against the City in any material respect affecting the existence of the City or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, execution or delivery of the Bonds or the pledge of the Base Rental Payments under the Facility Lease or in any way contesting or affecting the validity or enforceability of the City Agreements or contesting the powers of the City or its authority to enter into, adopt or perform its obligations under any of the foregoing, or which would have a material adverse effect on the City's ability to perform its obligations under the City Agreements or contesting in any way the completeness or accuracy of the Official Statement, or any amendment or supplement thereto.

(f) The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualification in effect

so long as required for distribution of the Bonds; provided, however, that in no event shall the City be required to take any action which would subject it to general or unlimited service of process in any jurisdiction in which it is not now so subject.

(g) As of the date hereof, and except for statements regarding the Insurer and DTC and excluding the information contained in the Official Statement under the captions “INTRODUCTION- The Authority” and “ABSENCE OF LITIGATION” (solely as it relates to the Authority), as to which the City does not make any representation or warranty, the Official Statement does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(h) As of the date thereof and at all times subsequent thereto to and including the date which is 25 days following the End of the Underwriting Period (as defined in subparagraph (k) hereof) for the Bonds, and except for statements regarding the Insurer and DTC and excluding the information contained in the Official Statement under the captions “INTRODUCTION- The Authority” and “ABSENCE OF LITIGATION” (solely as it relates to the Authority), as to which the City does not make any representation or warranty, the Official Statement did not and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(i) If between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Bonds, and except for statements regarding the Insurer and DTC and excluding the information contained in the Official Statement under the captions “INTRODUCTION- The Authority” and “ABSENCE OF LITIGATION” (solely as it relates to the Authority), as to which the City does not make any representation or warranty, an event occurs which would cause the information contained in the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading, the City will notify the Underwriter, and, if in the opinion of the City, the Underwriter or their respective counsel, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will forthwith prepare and furnish to the Underwriter (at the expense of the City) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to the Underwriter) which will amend or supplement the Official Statement so that it will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. For the purposes of this subsection, between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Bonds, the City will furnish such information with respect to itself as the Underwriter may from time to time reasonably request.

(j) If the information contained in the Official Statement is amended or supplemented pursuant to subparagraph (i) hereof, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date which is 25 days after the End of the

Underwriting Period for the Bonds, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein), except for statements regarding the Insurer and DTC and excluding the information contained in the Official Statement under the captions “INTRODUCTION- The Authority” and “ABSENCE OF LITIGATION” (solely as it relates to the Authority), as to which the City does not make any representation or warranty, will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(k) As used herein and for the purposes of the foregoing, the term “End of the Underwriting Period” for the Bonds shall mean the earlier of (i) the Closing Date unless the City shall have been notified in writing to the contrary by the Underwriter on or prior to the Closing Date or (ii) the date on which the End of the Underwriting Period for the Bonds has occurred under Rule 15c2-12; provided, however, that the City may treat as the End of the Underwriting Period for the Bonds the date specified as such in a notice from the Underwriter stating the date which is the End of the Underwriting Period.

(l) The financial statements of, and other financial information regarding, the City contained in the Official Statement fairly present the financial position and results of the operations of the City as of the dates and for the periods therein set forth, and, to the best of the City’s knowledge, (i) the audited financial statements have been prepared in accordance with generally accepted accounting principles consistently applied and (ii) the other financial information has been determined on a basis substantially consistent with that of the City’s audited financial statements included in the Official Statement and except as disclosed in the Official Statement or otherwise disclosed in writing to the Underwriter, there has not been any materially adverse change in the financial condition of the City since June 30, 2006 and there has been no occurrence, circumstance or combination thereof which is reasonably expected to result in any such materially adverse change.

(m) Except as disclosed in the Official Statement or otherwise disclosed in writing to the Underwriter, the City has not previously failed to comply in all material respects with any undertakings under Rule 15c2-12.

Section 6. Representations, Warranties and Covenants of the Authority. The Authority hereby represents, warrants and agrees with the Underwriter that:

(a) The Authority is a public body corporate and politic, organized and existing pursuant to the laws of the State of California, including Section 6500 et seq. of the California Government Code, as amended, and the Joint Exercise of Powers Agreement, dated as of December 1, 1989 (the “JPA Agreement”), by and between the Authority and the Industrial Development Authority of the City of Modesto with the full power and authority to execute and deliver the Official Statement and to enter into the Indenture, the Sublease, the Facility Lease, the Auction Rate Agreements, the Escrow Agreements and this Purchase Contract (collectively, the “2007 Authority Agreements” and, together with the Site Leases, the “Authority Agreements”).

(b) By all necessary official action of the Authority, the Authority has duly authorized and approved the execution and delivery of the Authority Agreements and the Official Statement and the performance by the Authority of the obligations on its parts contained therein; and as of the date hereof, such authorizations and approvals (the “Authority Resolutions” and, together with the City Resolutions, the “Resolutions”) are in full force and effect and have not been amended, modified or rescinded.

(c) The execution and delivery of the 2007 Authority Agreements and the Official Statement and compliance with the provisions on the Authority’s part contained herein and therein, will not in any material respect conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or is otherwise subject, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the Authority under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided in the 2007 Authority Agreements.

(d) The Authority is not in any material respect in breach of or default under any applicable law or administrative regulation of the State or the United States of America or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute a default or an event of default under any such instrument.

(e) Except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body pending or, to the best knowledge of the Authority, threatened against the Authority in any material respect affecting the existence of the Authority or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, execution or delivery of the Bonds or the collection of the Base Rental Payments under the Facility Lease or in any way contesting or affecting the validity or enforceability of the Authority Agreements or contesting the powers of the Authority or its authority to enter into, adopt or perform its obligations under any of the foregoing, or which would have a material adverse effect on the Authority’s ability to perform its obligations under the Authority Agreements or contesting in any way the completeness or accuracy of the Official Statement, or any amendment or supplement thereto.

(f) The Authority will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualification in effect so long as required for distribution of the Bonds; provided, however, that in no event shall the Authority be required to take any action which would subject it to general or unlimited service of process in any jurisdiction in which it is not now so subject.

(g) As of the date hereof, the information contained in the Official Statement under the captions “INTRODUCTION- The Authority” and “ABSENCE OF LITIGATION” (solely as it relates to the Authority) does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(h) As of the date thereof and at all times subsequent thereto to and including the date which is 25 days following the End of the Underwriting Period (as defined in subparagraph (k) hereof) for the Bonds, the information contained in the Official Statement under the captions “INTRODUCTION- The Authority” and “ABSENCE OF LITIGATION” (solely as it relates to the Authority) did not and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(i) If between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Bonds, an event occurs which would cause the information contained in the Official Statement under the captions “INTRODUCTION- The Authority” and “ABSENCE OF LITIGATION” (solely as it relates to the Authority), as then supplemented or amended, to contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading, the Authority will notify the Underwriter, and, if in the opinion of the Authority, the Underwriter or their respective counsel, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Authority will forthwith prepare and furnish to the Underwriter (at the expense of the Authority) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to the Underwriter) which will amend or supplement the Official Statement so that it will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. For the purposes of this subsection, between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Bonds, the Authority will furnish such information with respect to itself as the Underwriter may from time to time reasonably request.

(j) If the information contained in the Official Statement under the captions “INTRODUCTION- The Authority” and “ABSENCE OF LITIGATION” (solely as it relates to the Authority) is amended or supplemented pursuant to subparagraph (i) hereof, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date which is 25 days after the End of the Underwriting Period for the Bonds, the portions of the Official Statement so supplemented or amended will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(k) As used herein and for the purposes of the foregoing, the term “End of the Underwriting Period” for the Bonds shall mean the earlier of (i) the Closing Date unless the Authority shall have been notified in writing to the contrary by the Underwriter on or prior to the Closing Date or (ii) the date on which the End of the Underwriting Period for the Bonds has

occurred under Rule 15c2-12; provided, however, that the Authority may treat as the End of the Underwriting Period for the Bonds the date specified as such in a notice from the Underwriter stating the date which is the End of the Underwriting Period.

Section 7. Representation of the Underwriter. The Underwriter represents that the Underwriter is in compliance in all material respects with the Securities and Exchange Commission order, dated May 31, 2006, relating to Administrative Proceeding 33-8684.

Section 8. The Closing.

(a) At 8:00 a.m., San Francisco time, on April 18, 2007, or on such earlier or later date as we mutually agree upon, (the “Closing Date”) the Authority will deliver or cause to be delivered to the Underwriter, at a location or locations to be designated by the Underwriter in New York, New York, the Bonds (delivered through the Trustee via the F.A.S.T. delivery book-entry system of The Depository Trust Company, New York, New York (“DTC”)), duly executed, and at the offices of Sidley Austin LLP (“Bond Counsel”) in San Francisco, California, or such other place as we mutually agree upon, the other documents described herein. The Underwriter shall accept such delivery and pay the purchase price of the Bonds as set forth in Section 1 of this Purchase Contract in immediately available funds to the order of the Trustee, less the premium for the Insurance Policy in the aggregate amount of \$151,178.50, which the Underwriter will wire directly to the Insurer.

(b) The Bonds shall be issued in fully registered form and shall be prepared and delivered as one certificate for each maturity registered in the name of a nominee of DTC. It is anticipated that CUSIP identification numbers will be inserted on the Bonds, but neither the failure to provide such numbers nor any error with respect thereto shall constitute a cause for failure or refusal by the Underwriter to accept delivery of the Bonds in accordance with the terms of this Purchase Contract.

Section 9. Conditions to Underwriter’s Obligations. The Underwriter has entered into this Purchase Contract in reliance upon the representations and warranties of the City and the Authority contained herein and to be contained in the documents and instruments to be delivered on the Closing Date, and upon the performance by the City and the Authority of their respective obligations to be performed hereunder and under such documents and instruments to be delivered at or prior to the Closing Date. The Underwriter’s obligations under this Purchase Contract are and shall also be subject to the following conditions:

(a) The representations and warranties of the City and the Authority contained in this Purchase Contract shall be true and correct in all material respects on the date of this Purchase Contract and on and as of the Closing Date as if made on the Closing Date;

(b) As of the Closing Date, the Official Statement may not have been amended, modified or supplemented, except in any case as may have been agreed to by the Underwriter;

(c) (i) As of the Closing Date, the Resolutions, the City Agreements and the Authority Agreements shall be in full force and effect, and shall not have been amended, modified or supplemented, except as may have been agreed to by the Underwriter; and (ii) the City and the Authority shall perform or have performed all of their respective obligations

required under or specified in the Resolutions, the City Agreements and the Authority Agreements to be performed at or prior to the Closing Date;

(d) As of the Closing Date, all necessary official action of the City and the Authority relating to the City Agreements, the Authority Agreements, the Resolutions, and the Official Statement, shall have been taken and shall be in full force and effect and shall not have been amended, modified or supplemented in any material respect;

(e) Subsequent to the date of this Purchase Contract, up to and including the Closing Date, there shall not have occurred any change in or particularly affecting the City, as these matters are described in the Official Statement, which in the reasonable professional judgment of the Underwriter materially impairs the investment quality of the Bonds;

(f) As of or prior to the Closing Date, the Underwriter shall have received each of the following documents:

(1) Certified copies of the City Resolutions related to the 2007 City Agreements and the Authority Resolutions related to the 2007 Authority Agreements.

(2) The 2007 City Agreements and 2007 Authority Agreements, each duly executed on behalf of the respective parties thereto.

(3) The Insurance Policy, together with such legal opinions and certificates as may be reasonably requested by Bond Counsel, executed on behalf of the Insurer by its duly authorized officer.

(4) The Preliminary Official Statement, a certificate pursuant to Securities and Rule 15c2-12 related to the Preliminary Official Statement and the Official Statement, with the Official Statement duly executed on behalf of the City and the Authority.

(5) An approving opinion of Bond Counsel, dated the Closing Date, as to the validity of the Bonds and the exclusion of interest on the Bonds from federal gross income and State income taxation, addressed to the Authority substantially in the form attached as an appendix to the Official Statement, with a reliance letter to the Underwriter and the Insurer.

(6) A supplemental opinion of Bond Counsel, addressed to the Underwriter, to the effect that:

(i) The Bonds are not subject to registration pursuant to the registration requirements of the Securities Act of 1933, are municipal securities within the meaning of the Securities Exchange Act of 1934, as amended, and the Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939.

(ii) The Purchase Contract has been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery by the other parties thereto, constitutes the legal, valid and binding

agreement of the Authority enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought and to the limitations on legal remedies against public agencies in the State of California; and

(iii) The statements in the Official Statement under the captions "THE BONDS," "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and "TAX MATTERS" and in APPENDIX A – "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS," APPENDIX B – "ARS PROVISIONS" and APPENDIX G – "PROPOSED FORM OF OPINION OF BOND COUNSEL" to the extent they purport to summarize certain provisions of the City Agreements, the Authority Agreements, the Bonds and the opinion of such counsel, present a fair and accurate summary of such provisions and opinion for purposes of use in the Official Statement.

(7) The defeasance opinion(s) of Bond Counsel related to the Refunded Bonds, dated the Closing Date and addressed to the respective Escrow Agent, the Authority, the Underwriter and the Insurer, in form and substance acceptable to the Underwriter;

(8) The opinion of the City Attorney, dated the Closing Date and addressed to the Underwriter and the Insurer, to the effect that (i) the City is a charter city and municipal corporation organized and existing pursuant to the Constitution and laws of the State; (ii) the City Resolutions were duly adopted at meetings of the City Council which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the City Resolutions are in full force and effect and have not been modified, amended or rescinded as of the Closing Date; (iii) to the best knowledge of such counsel after reasonable investigation, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened against or affecting the City, challenging the existence of the City or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, execution or delivery of the Bonds or the pledge of the Base Rental Payments under the Facility Lease or in any way contesting or affecting the validity or enforceability of the City Agreements or contesting the powers of the City or its authority to enter into, adopt or perform its obligations under any of the foregoing, or which would have a material adverse effect on the City's ability to perform its obligations under the City Agreements or contesting in any way the completeness or accuracy of the Official Statement; (iv) the execution and delivery of the 2007 City Agreements and the Official Statement, the adoption of the City Resolutions and compliance by the City with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute, on the part of the City, a breach or default under any agreement or instrument to which the City is a party or by which it is bound or, to the best knowledge of such counsel, any existing law, regulation, court order or consent decree to which the City is subject; (v) the Official Statement has been duly authorized, executed and delivered, and the City Agreements have been duly authorized, executed and delivered by the City and,

assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding agreements of the City enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought and to the limitations on legal remedies against cities in the State of California; (vi) except as described in the Official Statement, no authorization, approval, consent or other order of the State or any other governmental authority or agency within the State having jurisdiction over the City is required for the valid authorization, execution, delivery and performance by the City of the City Agreements or for the adoption of the City Resolutions which has not been obtained; and (vii) to the best of such counsel's knowledge, the information contained in the Official Statement (except for any financial or statistical data or forecasts, estimates, projections, assumptions or expressions of opinion, and information relating to DTC, the book-entry system, the Insurer, the Insurance Policy as to which no opinion need be expressed), does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading;

(9) The opinion of counsel to the Authority, dated the Closing Date and addressed to the Underwriter and the Insurer, to the effect that (i) the Authority is a joint exercise of powers authority, duly organized and existing pursuant to the JPA Agreement and the laws of the State; (ii) the Authority Resolutions were duly adopted at meetings of the Governing Board which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the Authority Resolutions are in full force and effect and have not been modified, amended or rescinded as of the Closing Date; (iii) to the best knowledge of such counsel after reasonable investigation, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened against or affecting the Authority, challenging the existence of the Authority or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, execution or delivery of the Bonds or the collection of the Base Rental Payments under the Facility Lease or in any way contesting or affecting the validity or enforceability of the Authority Agreements or contesting the powers of the Authority or its authority to enter into, adopt or perform its obligations under any of the foregoing, or which would have a material adverse effect on the Authority's ability to perform its obligations under the Authority Agreements or contesting in any way the completeness or accuracy of the Official Statement; (iv) the execution and delivery of the Authority Agreements, the adoption of the Authority Resolutions and compliance by the Authority with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute, on the part of the Authority, a breach or default under the JPA Agreement or any other agreement or other instrument to which the Authority is a party or by which it is bound or, to the best knowledge of such counsel, any existing law, regulation, court order or consent decree to which the Authority is subject; (v) the Authority Agreements have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding agreements of the Authority enforceable in accordance with their respective terms, subject to laws relating

to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought and to the limitations on legal remedies against authorities in the State of California; (vi) except as described in the Official Statement, no authorization, approval, consent or other order of the State or any other governmental authority or agency within the State having jurisdiction over the Authority is required for the valid authorization, execution, delivery and performance by the Authority of the Authority Agreements or for the adoption of the Authority Resolutions which has not been obtained; and (vii) to the best of such counsel's knowledge, the information regarding the Authority contained in the Official Statement (except for any financial or statistical data or forecasts, estimates, projections, assumptions or expressions of opinion, information relating to DTC, the book-entry system, the Insurer, the Insurance Policy as to which no opinion need be expressed) does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading;

(10) The opinion of Counsel to the Redevelopment Agency, dated the Closing Date and addressed to the Underwriter and the Insurer, to the effect that (i) the Redevelopment Agency is a public body, corporate and politic, duly organized and existing under the laws of the State; (ii) by all necessary official action of the Redevelopment Agency, the Redevelopment Agency duly authorized and approved the execution and delivery of the Redevelopment Agency Site Lease and the performance by the Redevelopment Agency of the obligations on its parts contained therein; and as of the Closing Date, such authorizations and approvals (the "Redevelopment Agency Resolution") are in full force and effect and have not been amended, modified or rescinded; (iii) to the best knowledge of such counsel after reasonable investigation, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened against or affecting the Redevelopment Agency, challenging the existence of the Redevelopment Agency or the titles of its officers to their respective offices or in any way contesting or affecting the validity or enforceability of the Redevelopment Agency Site Lease or contesting the powers of the Redevelopment Agency or its authority to perform its obligations under the Redevelopment Agency Site Lease, or which would have a material adverse effect on the Redevelopment Agency's ability to perform its obligations under the Redevelopment Agency Site Lease; (iv) compliance by the Redevelopment Agency with the provisions of the Redevelopment Agency Site Lease, under the circumstances contemplated thereby, does not in any material respect conflict with or constitute, on the part of the Redevelopment Agency, a breach or default under any agreement or instrument to which the Redevelopment Agency is a party or by which it is bound or, to the best knowledge of such counsel, any existing law, regulation, court order or consent decree to which the Redevelopment Agency is subject; (v) the Redevelopment Agency Site Lease constitutes legal, valid and binding agreements of the Redevelopment Agency enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought and to the limitations on legal remedies against cities in the State of California; and (vi) no authorization, approval, consent or other order of the State or any other governmental authority or agency within

the State having jurisdiction over the Redevelopment Agency is required for the valid performance by the Redevelopment Agency of the Redevelopment Agency Site Lease;

(11) The opinion of counsel to the Financing Agency, dated the Closing Date and addressed to the Underwriter and the Insurer, to the effect that (i) the Financing Agency is a joint exercise of powers authority, duly organized and existing under laws of the State; (ii) by all necessary official action of the Financing Agency, the Financing Agency duly authorized and approved the execution and delivery of the Financing Agency Site Lease and the performance by the Financing Agency of the obligations on its parts contained therein; and as of the Closing Date, such authorizations and approvals (the "Financing Agency Resolution") are in full force and effect and have not been amended, modified or rescinded; (iii) to the best knowledge of such counsel after reasonable investigation, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened against or affecting the Financing Agency, challenging the existence of the Financing Agency or the titles of its officers to their respective offices or in any way contesting or affecting the validity or enforceability of the Financing Agency Site Lease or contesting the powers of the Financing Agency or its authority to perform its obligations under any of the foregoing, or which would have a material adverse effect on the Financing Agency's ability to perform its obligations under the Financing Agency Site Lease; (iv) compliance by the Financing Agency with the provisions of the Financing Agency Site Lease, under the circumstances contemplated thereby, does not in any material respect conflict with or constitute, on the part of the Financing Agency, a breach or default under any agreement or other instrument to which the Financing Agency is a party or by which it is bound or, to the best knowledge of such counsel, any existing law, regulation, court order or consent decree to which the Financing Agency is subject; (v) the Financing Agency Site Lease constitutes legal, valid and binding agreements of the Financing Agency enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought and to the limitations on legal remedies against authorities in the State of California; and (vi) no authorization, approval, consent or other order of the State or any other governmental authority or agency within the State having jurisdiction over the Financing Agency is required for the valid performance by the Financing Agency of the Financing Agency Site Lease;

(12) A certificate, dated the Closing Date, signed by a duly authorized representative of the City satisfactory to the Underwriter, in form and substance satisfactory to the Underwriter, to the effect that:

(i) the representations and warranties of the City contained in Section 5 of this Purchase Contract are accurate in all material aspects, as and if made on the Closing Date;

(ii) the City Agreements have been duly executed and delivered and each constitutes a valid and legally binding obligation of the City enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or

other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought;

(iii) the City Resolutions are in full force and effect at the Closing Date and have not been amended, modified or supplemented, except as agreed to by the City and the Underwriter;

(iv) the City has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied on or prior to the Closing Date;

(v) subsequent to the date of the Official Statement and on or prior to the date of such certificate, there has been no material adverse change in the condition (financial or otherwise) of the City, whether or not arising in the ordinary course of the operations of the City, as described in the Official Statement; and

(vi) the Official Statement does not contain any untrue or misleading statement of a material fact and does not omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading.

(13) A certificate, dated the Closing Date, signed by a duly authorized representative of the Authority satisfactory to the Underwriter, in form and substance satisfactory to the Underwriter, to the effect that:

(i) the representations and warranties of the Authority contained in Section 6 of this Purchase Contract are accurate in all material aspects, as and if made on the Closing Date;

(ii) the Authority Agreements have been duly executed and delivered and each constitutes a valid and legally binding obligation of the Authority enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought;

(iii) the Authority Resolutions are in full force and effect at the Closing Date and have not been amended, modified or supplemented, except as agreed to by the Authority and the Underwriter;

(iv) the Authority has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied on or prior to the Closing Date; and

(v) the information contained in the Official Statement under the captions "INTRODUCTION- The Authority" and "ABSENCE OF LITIGATION" (solely as it relates to the Authority) does not contain any untrue or misleading statement of a material fact and does not omit to state any material

fact necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading;

(14) A certificate, dated the Closing Date, signed by a duly authorized representative of the Redevelopment Agency satisfactory to the Underwriter, in form and substance satisfactory to the Underwriter, to the effect that:

(i) the Redevelopment Agency is a public body, corporate and politic, duly organized and existing under the laws of the State;

(ii) by all necessary official action of the Redevelopment Agency, the Redevelopment Agency duly authorized and approved the execution and delivery of the Redevelopment Agency Site Lease and the performance by the Redevelopment Agency of the obligations on its parts contained therein;

(iii) compliance with the provisions on the Redevelopment Agency's part contained in the Redevelopment Agency Site Lease do not in any material respect conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Redevelopment Agency is a party or is otherwise subject, nor does any compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the Redevelopment Agency under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided in the Redevelopment Agency Site Lease;

(iv) the Redevelopment Agency is not in any material respect in breach of or default under any applicable law or administrative regulation of the State or the United States of America or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Redevelopment Agency is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute a default or an event of default under any such instrument;

(v) there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body pending or, to the best knowledge of the Redevelopment Agency, threatened against the Redevelopment Agency in any material respect affecting the existence of the Redevelopment Agency or the titles of its officers to their respective offices or in any way contesting or affecting the validity or enforceability of the Redevelopment Agency Site Lease or contesting the powers of the Redevelopment Agency or its Redevelopment Agency to perform its obligations under the Redevelopment Agency Site Lease, or which would have a material

adverse effect on the Redevelopment Agency's ability to perform its obligations under the Redevelopment Agency Site Lease;

(vi) the Redevelopment Agency Site Lease constitutes a valid and legally binding obligation of the Redevelopment Agency enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought; and

(vii) the Redevelopment Agency Resolution is in full force and effect at the Closing Date and has not been amended, modified or supplemented;

(15) A certificate, dated the Closing Date, signed by a duly authorized representative of the Financing Agency satisfactory to the Underwriter, in form and substance satisfactory to the Underwriter, to the effect that:

(i) the Financing Agency is a joint exercise of powers Financing Agency, duly organized and existing under laws of the State;

(ii) by all necessary official action of the Financing Agency, the Financing Agency duly authorized and approved the execution and delivery of the Financing Agency Site Lease and the performance by the Financing Agency of the obligations on its parts contained therein;

(iii) compliance with the provisions on the Financing Agency's part contained in the Financing Agency Site Lease, does not in any material respect conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Financing Agency is a party or is otherwise subject, nor does any compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the Financing Agency under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided in the Financing Agency Site Lease;

(iv) the Financing Agency is not in any material respect in breach of or default under any applicable law or administrative regulation of the State or the United States of America or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Financing Agency is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute a default or an event of default under any such instrument;

(v) there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body pending or, to the best knowledge of the Financing Agency, threatened against the

Financing Agency in any material respect affecting the existence of the Financing Agency or the titles of its officers to their respective offices or in any way contesting or affecting the validity or enforceability of the Financing Agency Site Lease or contesting the powers of the Financing Agency or its Financing Agency to enter into, adopt or perform its obligations under the Financing Agency Site Lease, or which would have a material adverse effect on the Financing Agency's ability to perform its obligations under the Financing Agency Site Lease;

(vi) the Financing Agency Site Lease constitutes a valid and legally binding obligation of the Financing Agency enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought; and

(vii) the Financing Agency Resolution is in full force and effect at the Closing Date and has not been amended, modified or supplemented;

(16) A certificate of an authorized officer of the Insurer, dated the Closing Date to the effect that the information relating to the Insurer contained in the Official Statement, in so far as such statements constitute summaries of the matters referred to therein, accurately reflect and fairly present the information purported to be shown and, in so far as such statements describe the Insurer, fairly and accurately describe the Insurer, and the Insurance Policy contained in the Official Statement, as of its date and as of the Closing Date, is a true and complete copy of the form of financial guaranty insurance policy.

(17) The opinion, dated the Closing Date and addressed to the Underwriter and the Authority, of Stradling Yocca Carlson & Rauth, a Professional Corporation, disclosure counsel ("Disclosure Counsel") to the effect that:

(i) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended. No opinion is expressed with respect to the Insurance Policy; and

(ii) based on Disclosure Counsel's participation in conferences with representatives of the Underwriter, Orrick, Herrington & Sutcliffe LLP, as Underwriter's counsel ("Underwriter's Counsel"), the City, the City Attorney, the Authority, counsel to the Authority, Public Financial Management, Inc., as financial advisor, Bond Counsel and others, during which conferences the contents of the Official Statement and related matters were discussed, and in reliance thereon and on the records, documents, certificates and opinions described therein, Disclosure Counsel advises the Underwriter and the City that, during the course of its engagement as disclosure counsel on this matter, no information came to its attention that caused it to believe that the Official Statement as of its date and as of the date of such opinion (except for any financial or statistical data or forecasts, numbers, charts, estimates, projections,

assumptions or expressions of opinion, Appendices A, B, D, E, G and H or any information about book-entry, the DTC, the Insurer, the Insurance Policy included therein, as to which no opinion or view need be expressed) contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(18) The opinion of counsel of the Trustee, dated the Closing Date, addressed to the Authority and the Underwriter to the effect that:

(i) The Trustee is a national banking association duly organized, validly existing and in good standing under the laws of the United States of America, having full powers and authority and being qualified to enter into, accept and administer the trust created under the Indenture and to enter into the Indenture, the Continuing Disclosure Agreement and the Auction Agreement.

(ii) The performance by the Trustee of the duties required under the Indenture, the Continuing Disclosure Agreement and the Auction Agreement has been duly authorized by all necessary corporate action on the part of the Trustee, and under present law do not contravene any law or government regulation or order presently binding on the Trustee or contravene any law or governmental regulation or order presently binding on the Trustee or the articles of association/articles of incorporation/charter, as applicable, or the bylaws of the Trustee or contravene any provision of or constitute a default under any indenture, trust agreement, contract or other instrument to which the Trustee is a party or by which the Trustee is bound.

(iii) The performance by the Trustee of the duties required under the Indenture, the Continuing Disclosure Agreement and the Auction Agreement does not require the consent or approval of, the giving of notice to, the registration with, or the taking of any other action in respect of, any federal, state or other governmental agency or authority.

(iv) The Indenture, the Continuing Disclosure Agreement and the Auction Agreement have been duly authorized, executed and delivered by the Trustee, and, assuming due authorization, execution and delivery by the other parties thereto, the Indenture, the Continuing Disclosure Agreement and the Auction Agreement constitute legal, valid and binding agreements of the Trustee enforceable in accordance with their respective terms, subject to laws relating in bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought.

(v) The Trustee has duly authorized the execution and delivery of the Indenture, the Continuing Disclosure Agreement and the Auction Agreement.

(vi) All approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the performance by the Trustee of its duties and obligations under the Indenture, the Continuing Disclosure Agreement and the Auction Agreement have been obtained and are in full force and effect.

(19) A certificate or certificates, dated the Closing Date, in form and substance acceptable to the Underwriter, of an authorized officer of the Trustee to the effect that:

(i) The Trustee is a national banking association duly organized and validly existing under the laws of the United States of America.

(ii) The Trustee has full corporate trust powers and authority to serve as Trustee under the Indenture and to perform its obligations and duties under the Indenture, the Continuing Disclosure Agreement and the Auction Agreement, and the Indenture, the Continuing Disclosure Agreement and the Auction Agreement have been executed by a duly authorized officer of the Trustee.

(iii) The Bonds have been duly authenticated by the Trustee.

(iv) The Trustee's action in serving as Trustee under the Indenture is in full compliance with, and does not conflict with, any applicable law or governmental regulation currently in effect, and does not conflict with or violate any contract to which the Trustee is a party or any administrative or judicial decision by which the Trustee is bound.

(20) The opinion of counsel of each Escrow Agent, dated the Closing Date, addressed to the Authority, the Insurer and the Underwriter to the effect that:

(i) The respective Escrow Agent is a national banking association duly organized, validly existing and in good standing under the laws of the United States of America, having full powers and authority and being qualified to enter into the respective Escrow Agreement.

(ii) The performance by the respective Escrow Agent of the duties required under the respective Escrow Agreement has been duly authorized by all necessary corporate action on the part of the respective Escrow Agent, and under present law do not contravene any law or government regulation or order presently binding on the respective Escrow Agent or contravene any law or governmental regulation or order presently binding on the respective Escrow Agent or the articles of association/articles of incorporation/charter, as applicable, or the bylaws of the respective Escrow Agent or contravene any provision of or constitute a default under any indenture, trust agreement, contract or other instrument to which the respective Escrow Agent is a party or by which the respective Escrow Agent is bound.

(iii) The performance by the respective Escrow Agent of the duties required under the respective Escrow Agreement does not require the consent or

approval of, the giving of notice to, the registration with, or the taking of any other action in respect of, any federal, state or other governmental agency or authority.

(iv) The respective Escrow Agreement has been duly authorized, executed and delivered by the respective Escrow Agent, and, assuming due authorization, execution and delivery by the other parties thereto, the respective Escrow Agreement constitutes legal, valid and binding agreements of the respective Escrow Agent enforceable in accordance with their respective terms, subject to laws relating in bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought.

(v) The respective Escrow Agent has duly authorized the execution and delivery of the respective Escrow Agreement.

(vi) All approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the performance by the respective Escrow Agent of its duties and obligations under the respective Escrow Agreement have been obtained and are in full force and effect.

(21) A certificate or certificates, dated the Closing Date, in form and substance acceptable to the Underwriter, of an authorized officer of each Escrow Agent to the effect that:

(i) The respective Escrow Agent is a national banking association duly organized and validly existing under the laws of the United States of America.

(ii) The respective Escrow Agent has full corporate trust powers and authority to perform its obligations and duties under the respective Escrow Agreement and the respective Escrow Agreement has been executed by a duly authorized officer of the respective Escrow Agent.

(iii) The respective Escrow Agent's action in serving as the escrow agent under the respective Escrow Agreement is in full compliance with, and does not conflict with, any applicable law or governmental regulation currently in effect, and does not conflict with or violate any contract to which the respective Escrow Agent is a party or any administrative or judicial decision by which the respective Escrow Agent is bound.

(22) An arbitrage certificate relating to the Bonds duly signed on behalf of the Authority and the City.

(23) Evidence of required filings with the California Debt and Investment Advisory Commission.

(24) A copy of the executed Blanket Issuer Letter of Representations by and between the City and DTC relating to the book entry system.

(25) Evidence that insured ratings on the Bonds of “AAA” by Fitch Ratings (“Fitch”) and “AAA” Standard & Poor’s Ratings Services (“S&P”) and underlying ratings on the Bonds of “A+” by Fitch and “A” by S&P are in full force and effect on the Closing Date.

(26) A certificate of the Auction Agent, dated the Closing Date, executed by an authorized representative of the Auction Agent, to the effect that: (i) the Auction Rate Agreements have been duly authorized, executed and delivered by the Auction Agent; (ii) the Auction Agent has full power and authority to carry out its obligations under the Auction Rate Agreements; and (iii) there is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, public board or body pending or known to be threatened against or affecting the Auction Agent where an unfavorable decision, ruling or finding would adversely affect the transactions contemplated by the Auction Rate Agreements;

(27) Verification report(s) of The Arbitrage Group related to the Refunded Bonds, dated the Closing Date, addressed to the respective Escrow Agent, the Authority, the Insurer and the Underwriter, in form and substance acceptable to the Underwriter, the Authority and Bond Counsel; and

(28) Such additional legal opinions, certificates, proceedings, instruments and other documents as the Underwriter or Bond Counsel may reasonably request to evidence compliance by the City and the Authority with legal requirements, the truth and accuracy, as of the Closing Date, of the representations of the City and the Authority herein contained and of the Official Statement and the due performance or satisfaction by the City at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the City.

All of the opinions, letters, certificates, instruments and other documents mentioned in this Purchase Contract shall be deemed to be in compliance with the provisions of this Purchase Contract if, but only if, they are in form and substance satisfactory to the Underwriter. If the City or the Authority is unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds contained in this Purchase Contract or if the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter, the City nor the Authority shall be under further obligations hereunder, except that the respective obligations of the Authority, the City and the Underwriter set forth in Section 12 of this Purchase Contract shall continue in full force and effect.

Section 10. Conditions to the Authority’s and the City’s Obligations. The performance by the Authority and the City of their respective obligations under this Purchase Contract are conditioned upon: (i) the performance by the Underwriter of its obligations hereunder and (ii) receipt by the Authority and the City of opinions addressed to the Authority

and the City, and receipt by the Underwriter of opinions addressed to the Underwriter, and the delivery of certificates being delivered on the Closing Date by persons and entities other than the City and the Authority.

Section 11. Termination Events. The Underwriter shall have the right to terminate the Underwriter's obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the Bonds by notifying the City of its election to do so if, after the execution hereof and prior to the Closing: (1) the marketability of the Bonds or the market price thereof, in the reasonable opinion of the Underwriter, has been materially and adversely affected by any decision issued by a court of the United States (including the United States Tax Court) or of the State of California, by any ruling or regulation (final, temporary or proposed) issued by or on behalf of the Department of the Treasury of the United States, the Internal Revenue Service, or other governmental agency of the United States, or any governmental agency of the State of California, or by a tentative decision or announcement by any member of the House Ways and Means Committee, the Senate Finance Committee, or the Conference Committee with respect to contemplated legislation or by legislation enacted by, pending in, or favorably reported to either the House of Representatives or either House of the Legislature of the State of California, or formally proposed to the Congress of the United States by the President of the United States or to the Legislature of the State of California by the Governor of the State of California in an executive communication, affecting the tax status of the City or the Authority, its property or income, its obligations (including the Bonds) or the interest thereon or any tax exemption granted or authorized by the Internal Revenue Code of 1986, as amended; (2) the United States shall have become engaged in new hostilities which have resulted in a declaration of war or a national emergency, or there shall have occurred any other outbreak or escalation or re-escalation of hostilities, or a local, national or international calamity or crisis, financial or otherwise, the effect of such outbreak, calamity or crisis being such as, in the reasonable opinion of the Underwriter, would affect materially and adversely the ability of the Underwriter to market the Bonds; (3) there shall have occurred a general suspension of trading on the New York Stock Exchange or the declaration of a general banking moratorium by the United States, New York State or California State authorities; (4) a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission shall be issued or made to the effect that the execution and delivery of the Bonds is or would be in violation of any provision of the Securities Act of 1933, as then in effect, or of the Securities Exchange Act of 1934, as then in effect, or of the Trust Indenture Act of 1939, as then in effect; (5) legislation shall be enacted by the House of Representatives or the Senate of the Congress of the United States of America, or a decision by a court of the United States of America shall be rendered, or a ruling or regulation by or on behalf of the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made or proposed to the effect that the Bonds are not exempt from registration, qualification or other similar requirements of the Securities Act of 1933, as then in effect, or of the Trust Indenture Act of 1939, as then in effect; (6) in the reasonable judgment of the Underwriter, the market price of the Bonds, or the market price generally of obligations of the general character of the Bonds, might be materially and adversely affected because additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange; (7) the Comptroller of the Currency, The New York Stock Exchange, or other national securities exchange, or any governmental authority, shall impose, as to the Bonds or obligations of the general character of the Bonds, any material restrictions not now in force, or

increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, or financial responsibility requirements of the Underwriter; (8) a general banking moratorium shall have been established by federal, New York or State authorities; (9) any legislation, ordinance, rule or regulation shall be introduced in or be enacted by any governmental body, department or agency in the State or a decision of a court of competent jurisdiction within the State shall be rendered, which, in the reasonable opinion of the Underwriter, after consultation with the City, materially adversely affects the market price of the Bonds; (10) any federal or California court, authority or regulatory body shall take action materially and adversely affecting the collection or pledge of the Base Rental Payments under the Facility Lease; (11) any event occurring, or information becoming known which, in the reasonable opinion of the Underwriter, makes untrue in any material respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading; or (12) the withdrawal or downgrading of the rating of the Bonds to less than “AAA” by Fitch or less than “AAA” by S&P.

Section 12. Payment of Expenses.

(a) The Underwriter shall be under no obligation to pay, and the City shall pay the following expenses incident to the performance of the City’s obligations hereunder:

- (i) the fees and disbursements of Bond Counsel and Disclosure Counsel;
- (ii) the cost of printing and delivering the Bonds, the Preliminary Official Statement, the Official Statement (and any amendment or supplement prepared pursuant to Section 5 or 6 of this Purchase Contract);
- (iii) the fees and disbursements of accountants, advisers and of any other experts or consultants retained by the Authority or the City;
- (iv) the premium for the Insurance Policy; and
- (v) any other expenses and costs of the Authority or the City incident to the performance of its obligations in connection with the authorization, issuance and sale of the Bonds, including, but not limited to, out of pocket expenses and regulatory expenses, and any other expenses agreed to by the parties.

(b) The Underwriter shall pay all expenses incurred by them in connection with the public offering and distribution of the Bonds including, but not limited to:

- (i) all advertising expenses in connection with the offering of the Bonds; and
- (ii) the fees and expenses of Underwriter’s Counsel;
- (iii) all out-of-pocket disbursements and expenses incurred by the Underwriter in connection with the offering and distribution of the Bonds, except as provided in (a) above or as otherwise agreed to by the Underwriter and the City.

Section 13. Notices. Any notice or other communication to be given to the Authority or the City under this Purchase Contract may be given by delivering the same in writing to the address set forth on the first page of this Purchase Contract, and any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to Banc of America Securities LLC, CA5-801-18-36, 600 Montgomery Street, Suite 1800, San Francisco, California 94111-2719, Attention: Scott Nagelson, Principal.

Section 14. Survival of Representations, Warranties, Agreements. All of the representations, warranties and agreements of the City and the Authority contained in this Purchase Contract shall remain operative and in full force and effect regardless of: (a) any investigations made by or on behalf of the Underwriter or (b) delivery of and payment for the Bonds pursuant to this Purchase Contract. The agreements contained in this Section and in Section 12 shall survive any termination of this Purchase Contract.

Section 15. Benefit; No Assignment. This Purchase Contract is made solely for the benefit of the City, the Authority and the Underwriter (including its successors and assigns), and no other person shall acquire or have any right hereunder or by virtue hereof. The rights and obligations created by this Purchase Contract are not subject to assignment by the Underwriter, the Authority or the City without the prior written consent of the other party hereto.

Section 16. Severability. In the event that any provision of this Purchase Contract is held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of this Purchase Contract.


Section 17. Counterparts. This Purchase Contract may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute the Purchase Contract by signing any such counterpart.

Section 18. Governing Law. The validity, interpretation and performance of this Purchase Contract shall be governed by the laws of the State of California.

Section 19. Effectiveness. This Purchase Contract shall become effective upon the execution of the acceptance hereof by an authorized officer of the Authority and approved by an authorized officer of the City, and shall be valid and enforceable as of the time of such acceptance and approval.

Very truly yours,

BANC OF AMERICA SECURITIES LLC

By:  _____
Principal

Accepted:

MODESTO PUBLIC FINANCING AUTHORITY

By: _____
Auditor and Treasurer

Approved:

CITY OF MODESTO

By: _____
Director of Finance/Treasurer

Section 19. Effectiveness. This Purchase Contract shall become effective upon the execution of the acceptance hereof by an authorized officer of the Authority and approved by an authorized officer of the City, and shall be valid and enforceable as of the time of such acceptance and approval.

Very truly yours,

BANC OF AMERICA SECURITIES LLC

By: _____
Principal

Accepted:

MODESTO PUBLIC FINANCING AUTHORITY

By:  _____
Auditor and Treasurer

Approved:

CITY OF MODESTO

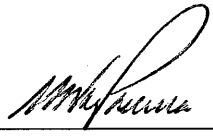
By:  _____
Director of Finance/Treasurer

EXHIBIT A

TERM OF THE BONDS

The initial Auction Rate for the Bonds is 3.70%.

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 5, 2007

NEW ISSUE - FULL BOOK-ENTRY ONLY

RATINGS: (Insured) Fitch: AAA; S&P: AAA
(Underlying) Fitch: A+; S&P: A
(See "RATINGS" herein)

In the opinion of Sidley Austin LLP, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

\$62,125,000*

**MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007**

Dated: Date of Delivery

Price: 100%

Due: September 1, 2033

The Lease Revenue Refunding and Capital Improvement Refunding and Capital Improvement Bonds, Series 2007 are being issued pursuant to an Indenture, dated as of April 1, 2007, by and between the Modesto Public Financing Authority and The Bank of New York Trust Company, N.A., as Trustee, in order to provide funds to (i) refund certain bonds previously issued by the Authority, (ii) finance the costs of certain public facilities located in the City of Modesto, (iii) fund the Reserve Fund for the Bonds and (iv) pay the costs of issuance of the Bonds, as more fully described herein.

The Bonds are being initially issued as Auction Rate Securities in denominations of \$25,000 or any integral multiple thereof and will initially bear interest at ARS Rates for the Initial Period and thereafter for generally successive 7-day Auction Periods. Each ARS Rate will, except in certain cases, be equal to the annual interest rate that results from the implementation of the ARS provisions described in Appendix B hereto. At the election of the City, the Auction Period for the Bonds may be changed or the Bonds may be converted to a Mode other than the ARS Mode as described herein. While the Bonds are in the ARS Mode, a Beneficial Owner may sell, transfer or dispose of a Bond only in accordance with the ARS Provisions. *This Official Statement describes the Bonds only while they are in the ARS Mode.*

The Bonds are being issued in book-entry form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers of interests in the Bonds will not receive certificates representing their beneficial ownership of the Bonds. Principal of, redemption premium, if any, and interest on the Bonds are payable directly by the Trustee to DTC, which is obligated in turn to remit such principal, redemption premium, if any, and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as described herein.

The Bonds are subject to optional redemption, mandatory sinking fund redemption and extraordinary redemption prior to their maturity as described herein. The Bonds will not be subject to optional tender, nor will they be purchased in the event sufficient clearing bids do not exist in any Auction, although they will be subject to mandatory purchase upon conversion to another Mode.

The Bonds are special obligations of the Authority, payable solely from and secured solely by a pledge of Revenues that consist primarily of: (i) Base Rental Payments to be received by the Authority from the City pursuant to a Facility Lease, dated as of April 1, 2007, by and between the Authority and the City and (ii) Swap Revenues received by the Authority. As described herein, the Revenues are also pledged, on a parity with the pledge thereof to secure payment of the Bonds and to secure the payment of Regular Swap Payments.

The Base Rental Payments are calculated to be sufficient to pay the principal of and interest on the Bonds when due as well as any Regular Swap Payments required to be made by the Authority. The obligation of the City to make Base Rental Payments is a general fund obligation of the City, subject to abatement and to certain other conditions of the Facility Lease.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by CIFG Assurance North America, Inc.



The Bonds are special limited obligations of the Authority payable solely from and secured solely by the Revenues pledged in the Indenture. The Bonds are not a debt of the Authority, the City, the State of California or any of its political subdivisions except the Authority to the extent described herein. Neither the Authority, the City, the State nor any of its political subdivisions, except the Authority to the extent described herein, is liable thereon. In no event shall the Bonds or any interest or redemption premium thereon be payable out of any funds or properties other than those of the Authority as set forth in the Indenture. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limit or restriction. Neither the members of the Authority, the City Council of the City or any members executing the Bonds are personally liable on the Bonds by reason of their issuance.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT INTENDED TO BE A SUMMARY OF THE SECURITY FOR OR THE TERMS OF THE BONDS. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION. CAPITALIZED TERMS USED ON THIS COVER PAGE NOT OTHERWISE DEFINED SHALL HAVE THE MEANINGS SET FORTH HEREIN.

The Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval of validity by Sidley Austin LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by Orrick Herrington & Sutcliffe LLP; for the Authority and the City by the City Attorney and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel; for the Trustee by its General Counsel; and for the Bond Insurer by its General Counsel. It is anticipated that the Bonds, in book-entry form will be available for delivery to DTC or its agent on or about April 18, 2007.

Banc of America Securities LLC

Dated: April __, 2007

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of any such jurisdiction.

\$62,125,000*
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

<i>Length of Initial Auction Rate Period</i>	<i>Initial Auction Date</i>	<i>Initial Interest Payment Date</i>	<i>Auction Day Generally</i>	<i>Auction Period Generally</i>	<i>Interest Payment Day Generally</i>	<i>CUSIP*</i>
504 days	September 2, 2008	September 1, 2007	Tuesday	7-Day	Wednesday	

The Bonds will bear interest from the date of original delivery through the Initial Auction Date set forth above at the rate established by Banc of America Securities LLC, Underwriter for the Bonds, prior to the date of delivery. Thereafter, the Bonds will bear interest for generally successive 7-day Auction Periods, until the Auction Period is changed or the Bonds are converted to a different Mode, as described herein. Interest will be payable on the Initial Interest Payment Date set forth above and thereafter on the day following the end of each Auction Period for the Bonds unless the Auction Period is changed to a daily Auction Period or a Special Auction Period of more than 182 days or unless a different Mode is applicable to the Bonds.

Deutsche Bank Trust Company Americas will act as the Auction Agent and Banc of America Securities LLC will act as the Broker-Dealer for the Bonds.

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. Copyright© 2007 Standard & Poor's, a Division of the McGraw Hill Companies, Inc. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. The Authority, the City and the Underwriter take no responsibility for the accuracy of such numbers.

MODESTO PUBLIC FINANCING AUTHORITY

1010 10th Street
P.O. Box 642
Modesto, California 95353
(209) 577-5369
TDD (209) 526-9211 Hearing and Speech Impaired Only

CITY COUNCIL

Jim Ridenour, Mayor
Brad Hawn, Vice Mayor
Bob Dunbar
Janice Keating
Garrad Marsh
Will O'Bryant
Kristin Olsen

CITY OFFICIALS

George W. Britton, City Manager
Susana Alcala Wood, City Attorney
Wayne Padilla, Finance Director/Treasurer
Gregory M. Baird, Deputy Director of Finance

SPECIAL SERVICES

Bond Counsel

Sidley Austin LLP
San Francisco, California

Financial Advisor

Public Financial Management, Inc.
San Francisco, California

Auction Agent

Deutsche Bank Trust Company Americas
New York, New York

Trustee

The Bank of New York Trust Company, N.A.
San Francisco, California

Verification Agent

The Arbitrage Group
Sugar Land, Texas

Disclosure Counsel

Stradling Yocca Carlson & Rauth,
a Professional Corporation
Newport Beach, California

All the information which the Modesto Public Financing Authority and the City of Modesto intend to present investors regarding the City and the Bonds is contained in this Official Statement. While the City maintains an internet website for various purposes, none of the information on that website is intended to assist investors in making any investment decision, or to provide any continuing information, with respect to the Bonds or any other obligations of the City. Moreover, none of the information on the website is incorporated herein by reference. No dealer, broker, salesperson or other person has been authorized by the Authority, the City, the Bond Insurer or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, the City, the Bond Insurer or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Bond Insurer since the date hereof. All summaries of documents contained herein are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

**CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS IN
THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute "Forward-Looking Statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" and other similar words and include, but are not limited to, statements that describe possible future revenues and expenses of the City.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. While the City has agreed to provide certain on-going financial and operating data (see "CONTINUING DISCLOSURE" and Appendix F hereto), it does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which statements are based change.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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\$62,125,000*
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information concerning the offering by the Modesto Public Financing Authority (the “Authority”) of its Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the “Bonds”). This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Descriptions and summaries of various documents set forth herein do not purport to be comprehensive or definitive, and references made to each such document for complete details of all terms and conditions thereof. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. See Appendix A — “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS — Definitions” and Appendix B — “ARS PROVISIONS.”

General

The Bonds are being issued by the Authority in order to provide funds to (i) refund certain bonds previously issued by the Authority, (ii) finance the costs of certain public facilities located in the City of Modesto (the “City”), (iii) fund the Reserve Fund for the Bonds and (iv) pay the costs of issuance of the Bonds, as more fully described herein. See “THE REFUNDING PLAN,” “THE PROJECT” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The Authority issued its Lease Revenue Bonds Series 1997 (John Thurman Field Renovation Project) in 1997 in an aggregate principal amount of \$3,600,000 (the “Series 1997 Bonds”) for the primary purpose of financing the rehabilitation and construction of the John Thurman Field baseball stadium. In 1998 the Authority issued its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refunding Project) (the “Series 1998 Bonds”) in an aggregate principal amount of \$61,430,000 for the primary purposes of providing funds to finance a portion of the 1998 Leased Property (as hereinafter defined) and refunding the City’s outstanding 1986 Certificates of Participation. A portion of the proceeds derived from the sale of the Bonds will be applied to the refunding of all of the Series 1997 Bonds and a portion of the Series 1998 Bonds. See “THE REFUNDING PLAN.”

In connection with the issuance of the Series 1998 Bonds, each of (i) the City, (ii) the Redevelopment Agency of the City of Modesto (the “Redevelopment Agency”) and (iii) the City-County Capital Improvements and Financing Agency (the “City-County JPA”) leased its respective interest in certain real property, facilities and/or improvements to the Authority pursuant to separate leases (collectively, the “1998 Site Leases”), each dated as of March 1, 1998. The Authority in turn leased such real property, facilities and/or improvements, together with the improvements that were to be constructed thereon, as applicable (collectively, the “1998 Leased Property”), to the City pursuant to the terms of the Lease/Purchase Agreement, dated as of March 1,

** Preliminary, subject to change.*

1998, as amended by and between the Authority and the City (the “1998 Lease”). The City is required pursuant to the 1998 Lease to make payments in consideration of the use and possession of the 1998 Leased Property (the “1998 Lease Payments”). 1998 Lease Payments were designed to be sufficient in both time and amount to pay, when due, the principal of and interest on the Series 1998 Bonds. Thus, as a result of the refunding of a portion of the Series 1998 Bonds with the proceeds of the Bonds, the amount of the 1998 Lease Payments will be reduced.

In connection with the issuance of the Bonds, the City will sublease substantially all of the 1998 Leased Property to the Authority pursuant to the terms of a Sublease dated as of April 1, 2007 by and between the Authority and the City; and the Authority will in turn sublease that property, together with any improvements to be constructed thereon, as applicable (collectively, the “Leased Property”), back to the City pursuant to the terms of the Facility Lease, dated as of April 1, 2007 by and between the Authority and the City (the “Facility Lease”). The City is required pursuant to the Facility Lease to make payments in consideration of the use and possession of the Leased Property (the “Base Rental Payments”).

The Facility Lease is subordinate to the 1998 Facility Lease. Thus, if the City defaults on its payment obligations under the 1998 Lease, thereby causing a default under the Facility Lease, the Owners of the 1998 Bonds would be entitled to receive the benefit of any available City funds payable as 1998 Lease Payments before the owners of the Bonds would be entitled to receive such funds in connection with the City’s payment of the Base Rental Payments securing the Bonds. Moreover, if an event should occur that results in an abatement of the City’s obligation to make payments under the 1998 Lease and the Facility Lease (see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Abatement” and “RISK FACTORS — Abatement Risk”) any available insurance or condemnation proceeds would be applied first to make payments to the owners of the 1998 Bonds.

Authority for Issuance

The Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985 (Article 4, commencing with Section 6584, of Chapter 5, Division 7, Title 1 of the California Government Code), as amended from time to time (the “Bond Law”), resolutions adopted by the governing board of the Authority and the City Council of the City, and an Indenture, dated as of April 1, 2007 (the “Indenture”), by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the “Trustee”).

The Bonds

The Bonds will be dated as of the date on which they are issued and will mature on September 1, 2033 (the “Maturity Date”). The Bonds will be initially issued in denominations of \$25,000 and any integral multiple thereof as Auction Rate Securities (“ARS”) and will initially bear interest at ARS Rates determined in accordance with the ARS Provisions set forth in the Indenture. When they bear interest at ARS Rates, the Bonds are referred to “ARS Bonds.” See Appendix B — “ARS PROVISIONS.” The Bonds are subject to mandatory tender for purchase upon conversion to a Mode other than the ARS Mode; and they are also subject to optional redemption, mandatory sinking fund redemption and special mandatory redemption prior to the Maturity Date as described herein. See “THE BONDS.”

Security and Sources of Payment for the Bonds

The Bonds are special limited obligations of the Authority payable solely from and secured solely by the Revenues (as hereinafter defined) pledged therefor in the Indenture. The Revenues consist primarily of: (i) Base Rental Payments payable by the City, as sublessee, to the Authority, as sublessor, for the use and possession of the Leased Property and (iii) the Swap Revenues (as hereinafter defined).

The Leased Property consists of: (i) the Redevelopment Agency's parking garage (the "Parking Garage"), which is located at the corner of 11th and K Streets and which contains approximately 700 parking spaces in a five story structure, (ii) the City's one-half interest in the City-County JPA's administration building (the "City-County Administration Building"), which is located on 10th Street and which consists of a seven story structure a portion of which is owned by the Redevelopment Agency and the remainder of which is owned by the City-County JPA, (iii) the City's police headquarters building (the "Police Headquarters") an approximately 40,000 square foot structure which is occupied by the City's Police Department, (iv) five public parks – Riverside Neighborhood Park, Sipherd Neighborhood Park, Floyd Neighborhood Park, Wesson Ranch Neighborhood Park and Graceada Park, and certain other miscellaneous City properties (collectively, the "Miscellaneous Properties") and (v) the City's Communication Dispatch Center (the "Communication Dispatch Center"), which is located on Oakdale Road in the City. The Facility Lease permits real property to be added or substituted in place of any of the foregoing under the circumstances described therein. See APPENDIX A — "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS — THE FACILITY LEASE – Removal or Substitution of Leased Property."

Pursuant to the terms of the Facility Lease, the City is required to make the Base Rental Payments from any source of legally available funds in each year in which the City has use and possession of the Leased Property. The Base Rental Payments are designed to be sufficient in both time and amount to pay, when due, (i) the principal of and interest on the Bonds and (ii) the Regular Swap Payments (as hereinafter defined). The City has covenanted in the Facility Lease to take such action as may be necessary to include the Base Rental Payments in its annual budget and has further covenanted to make the necessary appropriations for all such Base Rental Payments.

The amount of Base Rental Payments which the City is obligated to pay under the Facility Lease is subject to abatement during any period in which, by reason of failure to complete construction, damage or destruction (other than by condemnation), there is substantial interference with the City's use and possession of the Leased Property or any component thereof. Such adjustment or abatement will end with the construction, substantial replacement, or reconstruction of the Leased Property or the affected portion thereof. The Base Rental Payments will not be abated to the extent that Net Proceeds of and moneys held by the Trustee under the Indenture that are to be credited toward the payment of the Base Rental Payments are available, the City having determined that such moneys constitute special funds for payment of the Base Rental Payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Abatement."

The obligation of the City to pay the Base Rental Payments does not constitute either (a) an obligation for which the City is obligated to pledge any form of taxation or for which the City has pledged any form of taxation or (b) indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

The City has assumed responsibility under the Facility Lease for the operation, maintenance and repair of the Leased Property; and it is required to maintain, or cause to be maintained, insurance against loss or damage to any structures constituting any part of the Leased Property by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance and sprinkler system leakage insurance, all subject to exceptions, exclusions and deductibles as set forth in the Facility Lease. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Property Insurance.” Information with respect to the City is included in Appendix C — “CERTAIN INFORMATION REGARDING THE CITY” and Appendix D — “EXCERPTS FROM THE CITY’S AUDITED FINANCIAL STATEMENTS.”

Swap Agreement

In connection with the execution and delivery of the Bonds, the Authority has entered, or concurrently with the issuance of the Bonds will enter, into an interest rate swap agreement in the form of an ISDA Master Agreement (Local Currency – Single Jurisdiction), the U.S. Municipal Counterparty Schedule thereto, a Credit Support Annex and a Confirmation, each dated as of and entered into on April 11, 2007 (collectively, the “Swap Agreement”), with Bank of America, N.A. (the “Swap Provider”). The Swap Agreement will become effective on September 3, 2008 and is scheduled to expire on the Maturity Date of the Bonds. Pursuant to the Swap Agreement, the Authority will be required to make periodic payments to the Swap Provider calculated on the basis of a fixed rate of interest on an initial notional amount equal to the original principal amount of the Bonds. The notional amount of the Swap Agreement is scheduled to be reduced on the same dates and in the same amounts as the principal amount of the Bonds is scheduled to be reduced. The Swap Provider will be required to make periodic payments to the Authority calculated on the basis of a variable rate of interest equal to a percentage of LIBOR plus a fixed spread on the same initial notional amount. The amounts payable by each party pursuant to the Swap Agreement are netted against the payments to be received by such party thereunder. Certain of the amounts that may be payable by the Authority to the Swap Provider will be insured pursuant to a policy of interest rate swap insurance to be issued by the Bond Insurer (defined below) (the “Swap Policy”). The Authority’s obligation under the Swap Agreement to make scheduled payments is a Parity Obligation. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Swap Agreement.”

The Swap Provider and Banc of America Securities LLC, the Underwriter and Broker-Dealer, are affiliates, both being subsidiaries of the Bank of America Corporation. See “CERTAIN RELATIONSHIPS.”

Bond Insurance

Concurrently with the issuance of the Bonds, CIFG Assurance North America, Inc. (the “Bond Insurer” or “CIFG”) will issue its financial guaranty insurance policy for the Bonds (the “Bond Insurance Policy”). See “THE BOND INSURER” and Appendix G — “SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY.”

The City

The City, which has an estimated population of approximately 208,107 as of January 1, 2006, is the county seat of Stanislaus County and was incorporated in 1884. It covers approximately 36 square miles. The City operates under a council-manager form of government pursuant to a

charter adopted in 1963. The City is located in central California, approximately 93 miles east of San Francisco. See Appendix C — “CERTAIN INFORMATION REGARDING THE CITY.”

The Authority

The Authority was established pursuant to the provisions of Sections 6500 *et seq.* of the California Government Code and a Joint Exercise of Powers Agreement, dated as of December 1, 1989, by and between the City and the Industrial Development Authority of the City of Modesto. The Authority was established for the purpose of financing the acquisition, construction, improvement and equipping of public capital improvements. The governing board of the Authority consists of the City Council of the City.

Tax Matters

For a description of the tax treatment of interest on the Bonds, see “TAX MATTERS” and the proposed form of the opinion of Sidley Austin LLP, Bond Counsel, set forth in Appendix E.

Continuing Disclosure

The City has covenanted for the benefit of the Owners and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the City by not later than 270 days following the end of the City’s Fiscal Year (presently June 30), commencing with the report for the 2006-07 Fiscal Year, and to provide notices of occurrence of certain enumerated events, if material. See “CONTINUING DISCLOSURE” herein and Appendix F — “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

Other Matters

This Official Statement speaks only as of its date, and the information and expressions of opinion contained herein are subject to change without notice. Neither delivery of this Official Statement nor any sale of Bonds made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

THE REFUNDING PLAN

As noted above under “INTRODUCTION,” the Authority has heretofore issued its Series 1997 Bonds to provide financing for the rehabilitation and construction of the John Thurman Field baseball stadium and its Series 1998 Bonds to provide funds to finance a portion of the 1998 Leased Property and refunding the City’s outstanding 1986 Certificates of Participation. The Authority plans to apply a portion of the proceeds derived from the sale of the Bonds to the refunding of (i) all of the outstanding Series 1997 Bonds on May 23, 2007 at a redemption price equal to 102% of the principal amount thereof plus interest accrued to the date of redemption and (ii) an aggregate principal amount of \$55,460,000 of the Series 1998 Bonds on September 1, 2008 at a redemption price equal to 101% of the principal amount thereof plus interest accrued to the date of redemption. The Series 1997 Bonds and the Series 1998 Bonds to be refunded are collectively referred to herein as the “Refunded Bonds.”

Bond proceeds, together with certain funds made available through the defeasance of the Series 1997 Bonds, will be deposited in trust with U.S. Bank National Association (the “1997 Escrow Agent”) pursuant to the 1997 Escrow Agreement, dated as of April 1, 2007, by and between the Authority and the 1997 Escrow Agent (the “1997 Escrow Agreement”). The funds so deposited with the 1997 Escrow Agent will be applied to the purchase of Federal Securities (as defined in the 1997 Escrow Agreement) (the “1997 Escrow Securities”) or held in cash, as provided in the 1997 Escrow Agreement. The 1997 Escrow Securities, together with interest thereon, and such cash are calculated to be sufficient to pay interest on the Series 1997 Bonds coming due through May 23, 2007 and to pay the redemption price of the Series 1997 Bonds on said date. Other Bond proceeds, together with certain funds made available through the defeasance of the Series 1998 Bonds, will be deposited in trust with The Bank of New York Trust Company, N.A. (the “1998 Escrow Agent”) pursuant to the 1998 Escrow Agreement, dated as of April 1, 2007, by and between the Authority and the 1998 Escrow Agent (the “1998 Escrow Agreement”). The funds so deposited with the 1998 Escrow Agent will be applied to the purchase of Federal Securities (as defined in the 1998 Escrow Agreement) (the “1998 Escrow Securities”) or held in cash, as provided in the 1998 Escrow Agreement. The 1998 Escrow Securities, together with interest thereon, and such cash are calculated to be sufficient to pay the principal of and interest on the Series 1998 Bonds coming due through September 1, 2008 and to pay the redemption price of the Series 1998 Bonds on said date. The accuracy of the aforesaid calculations will be verified by The Arbitrage Group. See “VERIFICATION OF MATHEMATICAL ACCURACY.” The aforesaid deposits with the 1997 Escrow Agent and the 1998 Escrow Agent will result in the defeasance of the Refunded Bonds.

Series 1998 Bonds in an aggregate amount of \$4,165,000 will not be defeased but will remain outstanding. Those Series 1998 Bonds will continue to be secured by the 1998 Lease Payments (although the amount of the 1998 Lease Payments will be reduced as a result of the partial refunding of the Series 1998 Bonds). The City’s obligation to pay the 1998 Lease Payments is an obligation of its general fund, as is the City’s obligation to pay the Base Rental Payments.

The 1997 Escrow Securities, the 1998 Escrow Securities and the other moneys held by the 1997 Escrow Agent and the 1998 Escrow Agent pursuant to the respective Escrow Agreements are pledged to the payment of the Refunded Bonds and will not be not available for the payment of debt service on the Bonds.

THE PROJECT

In addition to defeasing the Refunded Bonds (see “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS”), the primary purpose for the issuance of the Bonds is to provide funds for the acquisition, construction and improvement of the Project. The Project consists primarily of improvements to John Thurman Field (the “Stadium”), the baseball stadium used by the Modesto Nuts (the “Baseball Team”), a minor league team which is part of the Colorado Rockies organization. The City has owned the land upon which the Stadium located since 1905, and the Stadium opened in 1955. The additional improvements that comprise the Project are proposed to be installed pursuant to the terms of a ten-year license agreement between the City and the Baseball Team that was approved by the City Council in September of 2006.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds with respect to the Bonds.

Sources of Funds

Principal Amount of the Bonds	\$
Amounts Held for Refunded Bonds	
Less: Underwriter's Discount	(_____)
Total Sources	<u>\$ _____</u>

Uses of Funds

Reserve Fund ⁽¹⁾	
Costs of Issuance Fund ⁽²⁾	
To Escrow Agent for Defeasance of Refunded Bonds	
Project Fund	
Total Uses	<u>\$ _____</u>

⁽¹⁾ Equal to the Reserve Fund Requirement.

⁽²⁾ Includes legal and advisory fees, printing costs, rating agency fees, bond insurance premium and other miscellaneous expenses.

THE BONDS

General

The Bonds will be initially issued as Auction Rate Securities in the principal amount set forth on the cover page to this Official Statement. The Bonds will be dated the date of their initial execution and delivery and will mature on the Maturity Date, subject to earlier redemption. While they are in the ARS Mode, the Bonds will be issuable in fully registered form without coupons in denominations of \$25,000 or any integral multiple thereof. Upon their initial delivery, the Bonds 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 for the Bonds. Ownership interests in the Bonds may be purchased in book entry form only. See "Book-Entry-Only System" below.

Book-Entry-Only System

The Bonds will be executed and delivered in book-entry form only. Purchasers of the Bonds will not receive certificates representing their ownership interests in the Bonds purchased. All payments with respect to the Bonds are to be made by the Trustee directly to DTC. DTC is expected to credit such payments to the respective accounts of its Direct Participants which, in turn, are expected to make payment thereof to the purchasers of the Bonds.

As long as Cede & Co. is the registered owner of the Bonds, references herein to the Owners of the Bonds shall refer to Cede & Co. and not to the beneficial owners of the Bonds (the "Beneficial Owners"). *Neither the Authority nor the City gives any assurance that DTC, its Direct Participants or others will distribute payments with respect to the Bonds or notices concerning the Bonds to the Beneficial Owners thereof or that DTC will otherwise serve and act in the manner described in this Official Statement.* See Appendix H — "BOOK-ENTRY SYSTEM" for a further description of

DTC and its book-entry system. The information presented therein is based solely on information provided by DTC.

The Authority may decide to discontinue the use of book-entry transfers through DTC (or a successor Securities Depository). In that event, the Bonds will be printed and delivered to the Beneficial Owners and will be governed by the provisions of the Indenture with respect to the payment of principal and interest and rights of exchange and transfer.

Interest Rate Provisions

Initially, the ARS Rate for the Bonds will be determined in most cases (other than the Initial Period) for generally successive 7-day Auction Periods through the implementation of the ARS Provisions summarized in Appendix B — “ARS PROVISIONS.” Interest with respect to the Bonds while they are in the ARS Mode will be payable on the date specified for such payment on the inside front cover hereof and on the Business Day immediately following each Auction Period (generally a Friday) unless the Auction Period is a daily Auction Period or a Special Auction Period of longer than 182 days. The Auction Period for the Bonds may be changed in accordance with the procedures set forth in the ARS Provisions; and, at the election of the Authority, the Mode may be changed to a Mode other than the ARS Mode.

This Official Statement in general describes the Bonds only while the Bonds are in the ARS Mode. In the event the Bonds are converted to another Mode, the Authority will deliver a new offering document. Investors should not rely upon the information in this Official Statement in the event the Bonds are converted to a Mode than the ARS Mode.

ARS Provisions

While the Bonds are in the ARS Mode, except as specifically otherwise provided in the Indenture, the provisions of the Indenture summarized in Appendix A — “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS” and the ARS Provisions summarized in Appendix B — “ARS PROVISIONS” will govern the interest rates per annum and the payment terms of the Bonds. Banc of America Securities LLC will act as the initial broker-dealer with respect to the Bonds (in that capacity, the “Broker-Dealer”), and Deutsche Bank Trust Company Americas (the “Auction Agent”) will act as the initial Auction Agent.

ARS Rate

While the Bonds are in the ARS Mode, interest with respect to them will be payable at rates established pursuant to the Auction Procedures described in Appendix B — “ARS PROVISIONS.” In general, for each Auction Period (i) if Sufficient Clearing Bids exists, the rate applicable to the Bonds shall be the Winning Bid Rate, provided that if all of the ARS Bonds are the subject of Submitted Hold Orders, such rate shall be the All Hold Rate and (ii) if Sufficient Clearing Bids do not exist, such rate shall be the Maximum Interest Rate. In no case may the ARS Rate exceed the Maximum Interest Rate.

The Initial Period will commence on the date on which the Bonds are executed and delivered and will end on and include September 2, 2008. Thereafter, each Auction Period shall be established pursuant to the ARS Provisions.

For the initial Auction Period, interest on the Bonds will be payable on September 1, 2007, March 1, 2008 and September 2, 2008. Thereafter, “Interest Payment Date” with respect to the Bonds while they are in the ARS Mode means (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Special Auction Period of (i) 7 or more but fewer than 183 days, the Business Day immediately following such Special Auction Period or (ii) more than 182 days, each March 1 and September 1 and the Business Day immediately following such Special Auction Period.

Interest with respect to the Bonds accruing at an ARS Rate shall be computed on the basis of a 360-day year for the actual number of days elapsed if the Auction Period is less than 180 days and on the basis of a 360-day year composed of 12 30-day months if the Auction Period is 180 days or more.

Mandatory Tender for Purchase upon Conversion

The interest rate applicable to the Bonds may be converted from the ARS Rate to another rate at the election of the Authority upon the satisfaction of certain conditions as set forth in the Indenture. In the event of such a conversion, the Bonds will be subject to mandatory tender for purchase on the first day of a new Interest Period at a Purchase Price equal to the principal amount thereof; and the Trustee is required to give notice of such mandatory tender in the manner set forth in the Indenture.

Redemption

The Bonds are subject to mandatory tender for purchase in the event they are converted from the ARS Mode to another Mode. See “THE BONDS — Mandatory Tender for Purchase upon Conversion.” The Bonds are also subject to redemption as described under this caption. However, except in the case of mandatory sinking fund redemptions, no amount of Bonds may be redeemed unless a proportionate amount of the Swap is terminated or reduced, so that following such redemption the remaining notional amount of the Swap is not greater than the remaining principal amount of the Bonds, unless the Bond Insurer waives the requirement for such reduction of the Swap.

Optional Redemption. While the Bonds are in the ARS Mode, each Bond is subject to redemption prior to the Maturity Date, at the option of the Authority, which option shall be exercised at least 20 days prior to the date fixed for redemption, in whole or in part, on any Interest Payment Date immediately following the end of an Auction Period, at a Redemption Price equal to 100% of the principal amount of Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds are subject to mandatory redemption from Sinking Fund Installments prior to the Maturity Date, in part by lot, on September 1 of each year on and after September 1, 2007, in accordance with the schedule set forth below from and in the amount of the Sinking Fund Installments due and payable on such dates, at a redemption price equal to the sum of the principal amount thereof plus accrued and unpaid interest thereon to the Redemption Date, without a redemption premium; provided that, during the ARS Mode, if such September 1 is not an Interest Payment Date, the Redemption Date relating to such mandatory

sinking fund payment shall occur on the ARS Interest Payment Date immediately preceding such September 1. In addition, if any Bonds have been optionally redeemed, the amounts of such Sinking Fund Installments shall be reduced as directed by the Authority, or if not so directed, proportionality in increments of Authorized Denominations, by the principal amount of all such Bonds so optionally prepaid.

<i>Mandatory Sinking Fund Payment Date (September 1)</i>	<i>Sinking Fund Payment</i>	<i>Mandatory Sinking Fund Payment Date (September 1)</i>	<i>Sinking Fund Payment</i>
2007			
2008			
2009			
2010			
2011			
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			

Extraordinary Redemption from Insurance or Condemnation Proceeds. The Bonds are subject to extraordinary redemption prior to the Maturity Date, at the option of the Authority, which option must be exercised at least 45 days prior to the date fixed for redemption, in whole or in part, in such amounts as selected by the Authority, on any date, from hazard insurance or condemnation proceeds or other insurance received with respect to the Leased Property and deposited in the Special Redemption Account, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium. See APPENDIX A — “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS — THE INDENTURE – Application of Insurance Proceeds.”

Notice of Redemption. When the redemption of Bonds is authorized as described above, the Trustee is required to give notice thereof. Such notice must state the date of such notice, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP numbers (if any) of the Bonds to be redeemed, and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that, subject to prior rescission, on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue; and such notice shall require that said Bonds be then surrendered.

Such notice must be mailed by the Trustee, at least 30 but not more 60 days before the date fixed for redemption to the respective Owners of the Bonds designated for redemption at their addresses appearing on the registration books of the Trustee. Such notice is also required to be provided to Securities Depositories and Information Services. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such redemption.

Any notice of redemption may be rescinded by written notice given to the Trustee by the City no later than the date specified for redemption. The Trustee shall give notice of such rescission as soon thereafter as possible cancelled in the same manner as the notice of redemption, and to the same persons, as notice of such redemption was given.

If any Series of Bonds are to be redeemed in part and such Bonds are held by a Securities Depository, the Authority shall include in the notice of the call for redemption delivered to the Securities Depository (i) a date placed under an item entitled "Publication Date for Securities Depository Purposes" and such date shall be three Business Days after the Auction Date immediately preceding such redemption date (in the case of a daily Auction Period, such date shall be three Business Days immediately preceding the date of redemption) and (ii) an instruction to the Securities Depository to (x) determine on such Publication Date after the Auction held on the immediately preceding Auction Date has settled, the Securities Depository Participants whose Securities Depository positions shall be redeemed and the principal amount of such ARS Bonds to be redeemed from each such position (the "Securities Depository Redemption Information"), and (y) notify the Trustee immediately after such determination of (1) the positions of the Securities Depository Participants in such Bonds immediately prior to such Auction settlement, (2) the position of the Securities Depository Participants in such ARS Bonds immediately following such Auction settlement, and (3) the Securities Depository Redemption Information. Immediately upon receipt of the notice referred to in (y) of the preceding sentence, the Trustee shall send a copy of such notice to the Auction Agent.

Effect of Redemption. If notice of redemption has been duly given as described above and money for the payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for is held by the Trustee, then on the redemption date designated in such notice, the Bonds so called for redemption will become due and payable on the date fixed for redemption at the Redemption Price specified in such notice; and from and after the date so designated, interest on the Bonds so called for redemption (or portions thereof) shall cease to accrue, such Bonds (or portions thereof) shall cease to be entitled to any lien, benefit or security under the Indenture, and the Holders of such Bonds shall have no rights in respect thereof except to

receive payment of the Redemption Price thereof and accrued interest to the date fixed for redemption from funds held by the Trustee for such payment.

Purchase in Lieu of Redemption

Subject to the provisions of the Indenture, the Authority has the option to purchase any Bond on any date on which it would be subject to optional redemption at a purchase price equal to the then applicable Redemption Price plus accrued interest thereon to the date of purchase.

Parity Obligations

The Authority's obligation to make the scheduled payments required pursuant to the Swap Agreement, and its obligations under the Insurance and Reimbursement Agreement are secured by a pledge of the Revenues on a parity with the pledge thereof securing the Bonds; and the Authority may issue or incur additional in the future that will also be secured on a Parity with the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Additional Bonds and Parity Debt."

The Facility Lease does not limit the power of the City to enter into other leases or contracts or to incur other liabilities payable from its general revenues.

CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE SECURITIES

Role of Broker-Dealer

Banc of America Securities LLC (the "Broker-Dealer") has been appointed by the issuers or obligors of various auction rate securities to serve as a dealer in the auctions for those securities and is paid by the issuers or obligors for its services. The Broker-Dealer receives broker-dealer fees from such issuers or obligors at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through the Broker-Dealer in such auctions.

The Broker-Dealer is designated in the Broker-Dealer Agreement as the Broker-Dealer to contact Existing Owners and Potential Owners and solicit Bids for the Bonds. The Broker-Dealer will receive Broker-Dealer Fees from the Authority with respect to the Bonds sold or successfully placed through it in Auctions for the Bonds. The Broker-Dealer may share a portion of such fees with other dealers that submit Orders through it that are filled in the Auction for the Bonds.

Bidding by Broker-Dealer

The Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for the Bonds for its own account either as a buyer or seller and routinely does so in the auction rate securities market in its sole discretion. If the Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because the Broker-Dealer would have knowledge of the other Orders placed through it in that Auction for the Bonds and thus, could determine the rate and size of its Order so as to increase the likelihood that (i) its Order will be accepted in the Auction for the Bonds and (ii) the Auction for the Bonds will clear at a particular rate. For this reason, and because the Broker-Dealer is appointed and paid by the Authority to serve as a Broker-Dealer in the Auctions for the Bonds, the Broker-Dealer's interests in serving as Broker-Dealer in an Auction for the Bonds may differ from those of Existing Owners and Potential Owners who participate in Auctions for the Bonds. See "CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE

SECURITIES — Role of Broker-Dealer.” The Broker-Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a Broker-Dealer Agreement.

The Broker-Dealer is the only Broker-Dealer appointed by the Authority to serve as Broker-Dealer in the Auctions for the Bonds, and as long as that remains the case it will be the only Broker-Dealer that submits Orders to the Auction Agent in the Auctions for the Bonds. As a result, in such circumstances, the Broker-Dealer may discern the clearing rate before the Orders are submitted to the Auction Agent and set the clearing rate with its Order.

The Broker-Dealer routinely places bids in auctions generally for its own account to acquire securities for its inventory, to prevent an “Auction Failure” (which occurs if there are insufficient clearing bids and results in the auction rate being set at the maximum rate) or to prevent an auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for such securities. The Broker-Dealer may place one or more Bids in an Auction for the Bonds for its own account to acquire the Bonds for its inventory, to prevent an Auction Failure or to prevent Auctions for the Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Bonds. The Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When Bidding in an Auction for the Bonds for its own account, the Broker-Dealer also may Bid inside or outside the range of rates that it posts in its Price Talk. See “CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE SECURITIES — Price Talk.”

The Broker-Dealer may encourage bidding by others in auctions generally for which it serves as broker-dealer. The Broker-Dealer also may encourage bidding by others in Auctions for the Bonds, including to prevent an Auction Failure or to prevent an Auction for the Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Bonds. The Broker-Dealer may encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by the Broker-Dealer or by those it may encourage to place Bids are likely to affect (i) the Auction Rate — including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a lower rate than they might have received had the Broker-Dealer not bid or not encouraged others to bid and (ii) the allocation of the Bonds being auctioned — including displacing some Bidders who may have their Bids rejected or receive fewer Bonds than they would have received if the Broker-Dealer had not bid or encouraged others to bid. Because of these practices, the fact that an Auction for the Bonds clears successfully does not mean that an investment in the Bonds involves no significant liquidity or credit risk. The Broker-Dealer is not obligated to continue to place such Bids or to continue to encourage other Bidders to do so in any particular Auction for the Bonds to prevent an Auction Failure or an Auction for the Bonds from clearing at a rate the Broker-Dealer believes does not reflect the market for the Bonds. Investors should not assume that the Broker-Dealer will place Bids or encourage others to do so or that Auction Failures will not occur. Investors should also be aware that Bids by the Broker-Dealer or by those it may encourage to place Bids may cause lower Auction Rates to occur.

The statements herein regarding Bidding by a Broker-Dealer apply only to a Broker-Dealer’s auction desk and any other business units of the Broker-Dealer that are not separated from the auction desk by an information barrier designed to limit inappropriate dissemination of bidding information.

In any particular Auction for the Bonds, if all Outstanding Bonds are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an “All Hold Auction”). If the Broker-Dealer holds any Bonds for its own account on an Auction Date, it is the Broker-Dealer’s practice to submit a Sell Order into the Auction for the Bonds with respect to such Bonds, which would prevent that Auction for the Bonds from being an All Hold Auction. The Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction for the Bonds, as set forth above.

Price Talk

Before the start of an Auction for the Bonds, the Broker-Dealer, in its discretion, may make available to its customers who are Existing Owners and Potential Owners the Broker-Dealer’s good faith judgment of the range of likely clearing rates for the Auction for the Bonds based on market and other information. This is known as “Price Talk.” Price Talk is not a guaranty that the Auction Rate established through the Auction for the Bonds will be within the Price Talk, and Existing Owners and Potential Owners are free to use it or ignore it.

“All-or-Nothing” Bids

The Broker-Dealer will not accept “all-or-nothing” Bids (*i.e.*, Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the Bidder to avoid Auction Procedures that require the pro rata allocation of Bonds where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

No Assurances Regarding Auction Outcomes

The Broker-Dealer provides no assurance as to the outcome of any Auction. The Broker-Dealer also does not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction for the Bonds will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Rate on any Bonds purchased or retained in the Auction for the Bonds may be lower than the market rate for similar investments.

The Broker-Dealer will not agree before an Auction to buy Bonds from or sell Bonds to a customer after the Auction.

Deadlines

Each particular Auction for the Bonds has a formal deadline by which all Bids must be submitted by the Broker-Dealer to the Auction Agent. This deadline is called the “Submission Deadline.” To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealer imposes an earlier deadline for all customers—called the “Broker-Dealer Deadline” — by which Bidders must submit Bids to the Broker-Dealer. The Broker-Dealer Deadline is subject to change by the Broker-Dealer. Potential Owners should consult with the Broker-Dealer as to its Broker-Dealer Deadline. The Broker-Dealer may allow for correction of clerical errors after the Broker-Dealer Deadline and prior to the Submission Deadline. The Broker-Dealer may submit Bids for its own account at any time until the Submission Deadline and may change Bids it has submitted for its own account at any time until the Submission Deadline. The Auction Procedures provide that until one hour after the Auction Agent completes the dissemination of the results of an Auction, new Orders can be submitted to the Auction Agent if such

Orders were received by the Broker-Dealer or generated by the Broker-Dealer for its own account prior to the Submission Deadline and the failure to submit such Orders prior to the Submission Deadline was the result of force majeure, a technological failure or a clerical error. In addition until one hour after the Auction Agent completes the dissemination of the results of an Auction, a Broker-Dealer may modify or withdraw an Order submitted to the Auction Agent prior to the Submission Deadline if the Broker-Dealer determines that such Order contained a clerical error. In the event of such a submission, modification or withdrawal the Auction Agent will rerun the Auction, if necessary, taking into account such submission, modification or withdrawal.

Existing Owner's Ability to Resell Auction Rate Securities May Be Limited

An Existing Owner may sell, transfer or dispose of a Bond (i) in an Auction for the Bonds, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction for the Bonds, only to or through a Broker-Dealer.

Existing Owners will be able to sell all of the Bonds that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Bonds in the Auction for the Bonds. If Sufficient Clearing Bids have not been made, Existing Owners that have submitted Sell Orders will not be able to sell in the Auction for the Bonds all, and may not be able to sell any, of the Bonds subject to such Submitted Sell Orders. As discussed above (see "Bidding by Broker-Dealer"), the Broker-Dealer may submit a Bid in an Auction for the Bonds to avoid an Auction Failure, but it is not obligated to do so. There may not always be enough Bidders to prevent an Auction Failure in the absence of the Broker-Dealer Bidding in the Auction for the Bonds for its own account or encouraging others to Bid. Therefore, Auction Failures are possible, especially if the Bond Insurer's credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealer were unable or unwilling to Bid.

Between Auctions for the Bonds, there can be no assurance that a secondary market for the Bonds will develop or, if it does develop, that it will provide Existing Owners the ability to resell the Bonds on the terms or at the times desired by an Existing Owner. The Broker-Dealer, in its own discretion, may decide to buy or sell the Bonds in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the Bonds. However, the Broker-Dealer is not obligated to make a market in the Bonds and may discontinue trading in the Bonds without notice for any reason at any time. Existing Owners who resell between Auctions for the Bonds may receive an amount less than par, depending on market conditions.

If an Existing Owner purchased a Bond through a dealer which is not the Broker-Dealer for the Bonds, such Existing Owner's ability to sell its Bonds may be affected by the continued ability of its dealer to transact trades for the Bonds through the Broker-Dealer.

The ability to resell the Bonds will depend on various factors affecting the market for the Bonds, including news relating to the Bond Insurer, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the Bonds (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in "Securities and Exchange Commission Settlements" below) or press reports, financial reporting

cycles and market conditions generally. Demand for the Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent or the Broker-Dealer Could Impact the Ability to Hold Auctions

The Auction Agent Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days' notice to the Authority, the Bond Insurer and the Trustee and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon 5 Business Days' notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold Auctions for the Bonds, with the result that the interest rate on the Bonds will be determined as described in the Indenture.

Securities and Exchange Commission Settlements

On May 31, 2006, the U.S. Securities and Exchange Commission (the "SEC") announced that it had settled its investigation of fifteen firms, including the Broker-Dealer, that participate in the auction rate securities market regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, the Broker-Dealer agreed to pay a civil penalty. Information concerning the proceedings and the alleged conduct is set forth in the SEC's Press Release No. 2006-83. In addition, the Broker-Dealer, without admitting or denying the SEC's allegations, agreed to provide to customers written descriptions of its material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by the Broker-Dealer to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the Bonds.

In addition on January 9, 2007, the SEC announced that it had settled its investigation of three banks, including Deutsche Bank Trust Company Americas (the "Settling Auction Agents"), that participate as auction agents in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the Settling Auction Agents allowed broker-dealers in auctions to submit bids or revise bids after the submission deadlines and allowed broker-dealers to intervene in auctions in ways that affected the rates paid on the auction rate securities. As part of the settlement, the Settling Auction Agents agreed to pay civil penalties. In addition, each Settling Auction Agent, without admitting or denying the SEC's allegations, agreed to provide to broker-dealers and issuers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Auction Agent to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are special limited obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor in the Indenture, together with amounts on deposit from time to time in certain funds and accounts held by the Trustee under the Indenture. The term “Revenues” is defined in the Indenture to include: (i) all Base Rental Payments and other payments paid by the City and received by the Authority pursuant to the Facility Lease (but not Additional Payments), (ii) all interest or other income from any investment of any money in any fund or account (other than the Rebate Fund) established pursuant to the Indenture or the Facility Lease, (iii) Swap Revenues, if any, and (iv) any additional security provided for a Series of Bonds in a Supplemental Indenture.

Pursuant to the Indenture, the Authority has assigned to the Trustee, for the benefit of the Holders from time to time of the Bonds and any Providers, all of the rights of the Authority under the Facility Lease to receive and collect Base Rental Payments and other amounts (except for the right to receive any Additional Payments to the extent payable to the Authority and any rights of the Authority to indemnification), and the right to enforce all provisions, covenants and agreements of the Facility Lease with respect to the payment of Base Rental Payments, provided that these rights shall not extend to any right to terminate the Facility Lease or re-enter or re-let the Leased Property or any other possessory right to the Leased Property.

THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY. THE BONDS ARE NOT A DEBT OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS EXCEPT THE AUTHORITY TO THE EXTENT DESCRIBED HEREIN. NEITHER THE AUTHORITY, THE CITY, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS, EXCEPT THE AUTHORITY TO THE EXTENT DESCRIBED HEREIN, IS LIABLE THEREON. IN NO EVENT SHALL THE BONDS OR ANY INTEREST OR REDEMPTION PREMIUM THEREON BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE OF THE AUTHORITY AS SET FORTH IN THE INDENTURE. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION. NEITHER THE MEMBERS OF THE AUTHORITY, THE CITY COUNCIL OF THE CITY OR ANY MEMBERS EXECUTING THE BONDS ARE PERSONALLY LIABLE ON THE BONDS BY REASON OF THEIR ISSUANCE.

Base Rental Payments

Under the Facility Lease, the City agrees to pay to the Authority, as Base Rental Payments for the use and occupancy of the Leased Property, annual rental payments in accordance with the Base Rental Payment Schedule attached as Exhibit B to the Facility Lease. The Facility Lease requires that the Base Rental Payments be made in 12 monthly installments, payable on the 15th day of each calendar month in the amount (which will vary from time to time) required by the Authority to pay the principal of and interest on the Bonds and any Related Obligations estimated to become due on before the 15th day of the following month. Base Rental Payments for each annual period will be based upon the Estimated Based Rental Payments as set forth in the Base Rental Payment Schedule in Exhibit B to the Facility Lease provided that in the event that the amount required by the Authority to pay the principal of and interest on the Bonds and any Related Obligations varies from

such Base Rental Payment Schedule, the City may increase the payment in any Rental Payment Period to an amount equal to the Maximum Annual Base Rental Payment payable in such period as set forth in Exhibit B to the Facility Lease, plus any Deferred Rental as described in the Facility Lease. The City is to receive credits towards such Base Rental Payments as provided for in the Facility Lease; and the obligation of the City to pay the Base Rental Payments is subject to abatement as provided in the Facility Lease and described below under the caption "Abatement." The Base Rental Payments are designed to be sufficient in both time and amount to pay, when due, the principal of and interest on the Bonds and Related Obligations.

The Facility Lease also requires the City to pay certain additional amounts (the "Additional Payments") as shall be required by the Authority for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Facility Lease or any pledge of Base Rental Payments payable thereunder, the Indenture, the Reserve Facility, its interest and the lease of the Leased Property to the City, including but not limited to the payment of all fees, costs and expenses and all administrative costs of the Authority related to the Bonds, the Related Obligations, the Leased Property and the Project. Such Additional Payments are to be billed to the City by the Authority or the Trustee from time to time and are to be paid by the City within 30 days.

The Facility Lease provides that the payment of Base Rental Payments and Additional Payments for each rental period during the term of the Facility Lease shall constitute the total rental for said rental period and shall be paid by the City in each rental payment period for and in consideration of the right of use and occupancy of, and continued quiet use and enjoyment of, the Leased Property during each such period for which said rental is to be paid. The City and the Authority have agreed and determined that such total rental payable represents the fair rental value of the Leased Property for each such period. In making such determination, consideration was given to the appraised value of the Leased Property, costs of acquisition, demolition, site preparation, design, construction and financing of the Leased Property, other obligations of the parties under the Facility Lease, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public.

The City is required under the Facility Lease to make the Base Rental Payments from any source of legally available funds in each year in which the City has use and possession of the Leased Property. The City covenants in the Facility Lease to take such action as may be necessary to include all Base Rental Payments and Additional Payments due under the Facility Lease in its annual budgets and to make necessary annual appropriations for all such Base Rental Payments and Additional Payments as shall be required in order to provide funds therefor. The City is required to deliver to the Authority and the Trustee within 90 days of adoption of its budget portions of such budget relating to the payment of Estimated Base Rental Payments and Additional Payments. Within any fiscal year, if the amount initially budgeted is insufficient to pay actual debt service on the Bonds and Related Obligations, the City is required by supplemental budget in such fiscal year to appropriate and pay such additional amounts until the total amount appropriated for Base Rental Payments equals the Maximum Annual Base Rental Payment. The aforesaid covenants on the part of the City are deemed under the Facility Lease to be, and required to be construed to be, duties imposed by law; and the Facility Lease provides that it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the aforesaid covenants and agreements.

Notwithstanding the foregoing, the obligation of the City to make Base Rental Payments under the Facility Lease does not constitute an obligation for which the City is obligated to pledge any form of taxation or for which it has pledged any form of taxation. Neither the full faith and credit nor the taxing power of the City or the State or any of its political subdivisions is pledged to make Base Rental Payments under the Facility Lease.

Abatement

The Facility Lease provides that the Base Rental Payments and Additional Payments shall be abated proportionately during any period in which, by reason of any damage or destruction (other than by condemnation, which is discussed below, or planned demolition as part of the Project) there is substantial interference with the use and occupancy of the Leased Property by the City, in proportion in which the initial cost of that portion of the Leased Property rendered unusable bears to the initial cost of the whole of the Leased Property. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. Notwithstanding the foregoing, such abatement shall not result to the extent of any moneys held by the Trustee under the Indenture (including, particularly, without limitation, the Reserve Fund, the Principal Account and the Interest Account), or to the extent such Base Rental Payments are made from proceeds of insurance and rental interruption insurance. The Facility Lease also provides that it will continue in full force and effect in the event of any such damage or destruction; and, in connection therewith, the City waives the benefits of California Civil Code Section 1932(2) and 1933(4) and of Title 11 of the United States Code, Section 365(h) and any and all rights to terminate the Facility Lease by virtue of any such damage or destruction.

In connection with eminent domain, the Facility Lease provides that if the whole of the Leased Property or so much thereof as to render the remainder unusable for the purposes for which it was used by the City shall be taken under the power of eminent domain, the term of the Facility Lease shall cease as of the date that possession shall be so taken. However, if less than the whole of the Leased Property is taken under the power of eminent domain and the remainder is usable for the purposes for which it was used by the City at the time of such taking, then the Facility Lease shall continue in full force and effect as to such remainder, and there shall be a partial abatement of the rental due under the Facility Lease in an amount equivalent to the amount by which the annual payments of principal and interest on the Outstanding Bonds will be reduced by the application of the award in eminent domain to the redemption of Bonds. The Facility Lease further provides that, as long as any of the Bonds remain outstanding, any award made in eminent domain proceedings for taking the Leased Property or any portion thereof shall be paid to the Trustee and applied to the prepayment of Base Rental Payments.

Reserve Fund

The Trustee is required by the Indenture to establish and maintain and hold in trust, so long as Bonds or Parity Debt to be secured thereby remain outstanding, a special fund designated as the "Reserve Fund." Upon the delivery of the Bonds, there will be deposited in the Reserve Fund an amount equal to the Reserve Fund Requirement.

"Reserve Fund Requirement" means with respect to all Outstanding Bonds an amount equal to the lesser of (a) the maximum annual Debt Service attributable to the Outstanding Bonds and (b) one hundred twenty-five percent (125%) of the average annual Debt Service attributable to the Outstanding Bonds; provided that with respect to the calculation of the Reserve Fund Requirement

upon the issuance of an Additional Series of Bonds the amount calculated shall be the least of (a) or (b) above, or the amount derived by the addition of ten percent (10%) of the proceeds from the sale of such Series of Additional Bonds to the Reserve Fund and provided further, that the Reserve Fund Requirement shall be reduced to the extent necessary so that all amounts therein may be deposited from Bond Proceeds without requiring a portion thereof to be yield restricted in accordance with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”). The Reserve Fund Requirement shall be determined upon the issuance of a Series of Bonds, the defeasance or optional redemption of Bonds and the retirement of a Series of Bonds. See Appendix A — “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS — THE INDENTURE – Reserve Fund.”

All money in the Reserve Fund is to be used and withdrawn by the Trustee solely for the purpose of funding the Interest Account or the Principal Account, in that order, in the event of any deficiency in either of such accounts on a Principal Payment Date or Interest Payment Date. Money on deposit in the Interest Account is available to be used and withdrawn by the Trustee for the purpose of paying both interest on the Bonds and any Regular Swap Payments as they become due and payable. Notwithstanding the foregoing, as long as the Authority is not in default under the Indenture, any cash amounts in the Reserve Fund in excess of the Reserve Fund Requirement are to be withdrawn from the Reserve Fund and transferred to the Revenue Fund or, if so directed by the Authority, deposited into a Project Fund during the construction of any Project on each July 1 following the payment of any amounts due on such date and on each date Bonds are redeemed or defeased.

The Indenture permits the Authority to satisfy the Reserve Fund Requirement, in whole or in part, at any time by depositing with the Trustee for the credit of the Reserve Fund a Reserve Facility. If the Reserve Fund Requirement is satisfied by a Reserve Facility, the Trustee is to draw on such Reserve Facility in accordance with its terms and the terms of the Indenture, in a timely manner, to the extent necessary to fund any deficiency in the Interest Account or the Principal Account. The Authority shall repay any draws under a Reserve Facility and any Reserve Facility Costs related thereto solely from Revenues.

In the event the Authority causes a cash-funded reserve to be replaced with a Reserve Facility, amounts on deposit in the Reserve Fund shall, upon Written Request of the Authority to the Trustee, be transferred to the City and applied for any lawful purpose, subject, in the case of a transfer of moneys which are proceeds of Bonds, to the receipt by the Authority of an Opinion of Counsel that such transfer will not cause the interest on the Bonds to be included in gross income for purposes of federal income taxation.

Property Insurance

The Facility Lease requires the City to maintain throughout the term thereof insurance against loss of or damage to any structures constituting any part of the Leased Property, fire and lightning, with extended coverage insurance, vandalism and malicious insurance and sprinkler system leakage insurance, if available on the open market from reputable insurance companies at a reasonable cost, as determined by the City. Such insurance must be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Leased Property, exclude the cost of excavations, of grading and filling, and of land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$500,000 or a comparable amount adjusted for inflation, or, in the alternative, shall be in an amount and in a form

sufficient (together with moneys held under the Indenture), in the event of a total or partial loss, to enable all outstanding Bonds to be redeemed.

Except as hereinafter described, in the event of any damage to or destruction of any part of the Leased Property which is caused by any of the perils covered by such insurance the Authority shall cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Property; and the Trustee shall hold said proceeds separate and apart from all other funds in a special fund to be designated the “Insurance and Condemnation Fund,” to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as they were in prior to the damage or destruction, insofar as the same may be accomplished by the use of such proceeds. Any balance of such proceeds not required for such repair, reconstruction or replacement shall be treated by the Trustee as Base Rental Payments.

As an alternative to providing the insurance described above or any portion thereof, the City may provide a self-insurance method or plan of protection if and to the extent such self-insurance method or plan of protection shall afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the City.

Substitution and Release of Property

The Indenture and the Facilities Lease allow the City to remove or substitute real property as part of the Leased Property, but only after satisfying certain conditions, including filing with the Authority and the Trustee (with copies to each rating agency then providing a rating for the Bonds) a Certificate of the City evidencing that the annual fair rental value of the Leased Property which will constitute the Leased Property after such removal or substitution will be at least equal to 100% of the maximum amount of Base Rental Payments for all Series of Bonds becoming due in the then-current year ending August 14 through and including each year during which any Series of Bonds would be Outstanding or in any subsequent year ending August 15 through and including each year during which any Series of Bonds would be Outstanding.

Swap Agreement

The Swap Agreement between the Authority and Bank of America, N.A. (the “Swap Provider”) will become effective on September 3, 2008 and is scheduled to expire on the Maturity Date of the Bonds. Pursuant to the Swap Agreement, the Authority will be required to make periodic payments to the Swap Provider calculated on the basis of a fixed rate of interest on an initial notional amount equal to the principal amount of the Bonds; and the notional amount of the Swap Agreement is scheduled to be reduced on the same dates and in the same amounts as the principal amount of the Bonds is scheduled to be reduced. The Swap Provider will be required to make periodic payments to the Authority calculated on the basis of a variable rate of interest equal to a percentage of LIBOR, plus a fixed spread on the same notional amount. The amounts payable by each party pursuant to the Swap Agreement are netted against the payments to be received by such party thereunder.

Certain of the amounts that may be payable by the Authority to the Swap Provider will be insured pursuant to a policy of interest rate swap insurance to be issued by the Bond Insurer (the “Swap Policy”).

The Authority's obligation under the Swap Agreement to make scheduled payments is a Parity Obligation. No arrangements made in respect of the Swap Agreement will alter the Authority's obligation to pay the principal of and interest on the Bonds.

Both the Authority and the Swap Provider have the right to terminate the Swap Agreement prior to its stated termination date under certain conditions. Any such termination could result in an obligation on the part of the Authority or the Swap Provider to make termination payments to the other party, and the amount of such termination payments could be substantial. Any obligation on the part of the Authority to make such a termination payment (other than a termination payment that is insured under the terms of the Swap Policy) will not be a Parity Obligation and will be subordinate to the Authority's liabilities with respect to Parity Obligations.

Neither the Trustee nor the Owners will have any rights under the Swap Agreement or against the Swap Provider.

The Swap Provider and Banc of America Securities LLC, the Underwriter and Broker-Dealer, are affiliates, both being subsidiaries of the Bank of America Corporation.

Additional Bonds and Parity Debt

The Indenture permits the Authority to issue Additional Bonds and to enter into any Related Obligations with respect thereto payable, in each case, from and secured by a pledge of and lien and charge upon the Revenues equal to the pledge, charge and liens securing the Outstanding Bonds theretofore issued under the Indenture upon the satisfaction of certain specific conditions. Included among these conditions is a requirement that the Facility Lease shall have been amended, if necessary, so that the Base Rental Payments payable by the City thereunder in each Fiscal Year shall at least equal projected Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year.

Nothing in the Indenture prevents the Authority from issuing Bonds or incurring other obligations which are secured by a pledge of and lien on the Revenues subordinate to the lien established under the Indenture.

THE BOND INSURER

CIFG Assurance North America, Inc.

The information set forth in the following paragraphs has been provided by CIFG Assurance North America, Inc. ("CIFG" or the "Bond Insurer") for inclusion in this Official Statement. CIFG does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding CIFG set forth under the heading "THE BOND INSURER." CIFG makes no representation regarding the Bonds or the advisability of investing in the Bonds.

General

CIFG is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The address of the principal executive offices of the Bond Insurer is 825 Third Avenue, Sixth Floor, New York, New York 10022; its toll-free telephone number is (866) CIFG-212 and its general telephone number is (212) 909-3939; and its website is located at www.cifg.com.

The Bond Insurer is a member of the CIFG Group of financial guaranty companies, which also includes CIFG Europe, a French insurance company licensed to do business in the European Union, and CIFG Guaranty, a dedicated French reinsurance corporation. In addition to its capital and surplus as set forth below, the Bond Insurer is supported by a net worth maintenance agreement from CIFG Guaranty, which provides that CIFG Guaranty will maintain the Insurer's New York statutory capital and surplus at no less than \$80 million. The Bond Insurer also may cede a substantial portion (not to exceed 90%) of its exposure on each transaction to CIFG Guaranty through a facultative reinsurance agreement.

Each of the Bond Insurer, CIFG Europe and CIFG Guaranty has received an insurer financial strength rating of "AAA" from Fitch, an insurer financial strength rating of "Aaa" from Moody's, and an insurer financial enhancement rating of "AAA" from Standard and Poor's, the highest rating assigned by each rating agency. Each such rating should be evaluated independently. The ratings reflect the respective rating agency's current assessment of each company's capacity to pay claims on a timely basis and are not recommendations to buy, sell or hold the Bonds. Such ratings may be subject to revision or withdrawal at any time.

The Bond Insurer is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York, its state of domicile, and is licensed to do business in 48 jurisdictions. The Bond Insurer is subject to Article 69 of the New York Insurance Law which, among other things, limits the business of such insurers to financial guaranty insurance and related lines, requires that such insurers maintain a minimum surplus to policyholders, establishes contingency, loss and unearned premium reserve requirements for such insurers, and limits the size of individual transactions and the volume of transactions that may be underwritten by such insurers. Other provisions of the New York Insurance Law applicable to non-life insurance companies such as the Insurer regulate, among other things, permitted investments, payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

Capitalization. The following tables set forth the capitalization of the Insurer on the basis of accounting principles generally accepted in the United States ("US GAAP") and statutory accounting practices prescribed or permitted by the New York State Insurance Department, respectively.

	<i>US GAAP September 30, 2006</i> <i>(in thousands of US dollars)</i>	<i>US GAAP December 31, 2005</i> <i>(in thousands of US dollars)</i>
Total Assets	\$ 369,050	\$ 324,134
Total Liabilities	\$ 248,239	\$ 202,042
Shareholder's Equity	\$ 120,811	\$ 122,092
	<i>Statutory Accounting Practices</i> <i>September 30, 2006</i> <i>in thousands of US dollars)</i>	<i>Statutory Accounting Practices</i> <i>December 31, 2005</i> <i>in thousands of US dollars)</i>
Admitted Assets.....	\$ 183,468	\$ 175,333
Liabilities.....	\$ 78,045	\$ 66,758
Capital and Surplus.....	\$ 105,423	\$ 108,575

For further information concerning the Bond Insurer, see the audited financial statements of the Bond Insurer, including the notes thereto, prepared in accordance with US GAAP as of December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006, which are available on the CIFG Group's website at www.cifg.com. Copies of the most recent

audited annual and unaudited interim financial statements of the Insurer prepared in accordance with accounting principles prescribed or permitted by the New York State Insurance Department, are also available on the website and may be obtained, without charge, upon request to the Insurer at its address above, Attention: Finance Department.

RISK FACTORS

The following section describes certain risk factors affecting the payment of and security for the Bonds. It is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various issues. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating the Bonds. There can be no assurance that other risk factors will not become material in the future.

General

The Bonds are payable solely from, and are secured solely by, a pledge of Revenues and certain amounts on deposit from time to time in various funds and accounts. The Revenues consist primarily of: (i) the Base Rental Payments and (ii) the Swap Revenues. If for any of the reasons described herein, or for any other reason, the Authority does not collect sufficient Revenues to pay debt service on the Bonds, and the Related Obligations neither the Authority nor the City will be obligated to utilize any other of its resources, other than moneys on deposit in the Reserve Funds and in certain other funds and accounts, to pay debt service on the Bonds and the Related Obligations.

Although the Base Rental Payments are payable from all funds lawfully available to the City, the Base Rental Payments are not secured by any pledge of or lien or taxes or other revenue of the City. Subsequent to the defeasance of the Refunded Bonds, the City will remain liable on other obligations that are payable from its general revenues, including: its 1993 Refunding Certificates of Participation (Community Center Project) in a principal amount of \$20,820,000 with a final maturity of November 1, 2023; its 1993 Refunding Certificates of Participation (Golf Course Project) in a principal amount of \$5,650,000 with a final maturity of November 1, 2023 and its obligations to make payments to the Authority in connection with the Authority's Series 1998 Bonds of which a principal amount of \$4,165,000 will remain outstanding and which have a final maturity of September 1, 2033. In addition, the City will retain the ability to enter into other obligations which may constitute additional charges against its revenues. In the event the City's revenue sources are less than its total obligations, the City could choose or could be required to pay those other obligations or to make expenditures necessary to preserve the health and welfare of the residents of the City before making the Base Rental Payments. The same results could occur if, because of State constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. See "Constitutional Limitations on Taxes and Expenditures."

Subordinate Obligation

The Facility Lease is subordinate to the 1998 Lease. If the City defaulted on its payment obligations under the 1998 Lease, resulting in a default under the Facility Lease, the Owners of the 1998 Bonds would be entitled to receive payments prior to the owners of the Bonds. Moreover, if an event should occur that results in an abatement of the City's obligation to make payments under the 1998 Lease and the Facility Lease (see "SECURITY AND SOURCES OF PAYMENT FOR THE

BONDS — Abatement” and “— Abatement Risk” below) any available insurance or condemnation proceeds would be applied first to make payments to the owners of the 1998 Bonds.

Abatement Risk

During any period in which, by reason of material damage or destruction, there is substantial interference with the use and possession by the City of any portion of the Lease Property, Base Rental Payments due under the Facility Lease will be abated proportionately. Notwithstanding the foregoing, such abatement shall not result to the extent of any moneys held by the Trustee under the Indenture (including, particularly, without limitation, the Reserve Fund, the Principal Account and the Interest Account), or to the extent such Base Rental Payments are made from proceeds of insurance and rental interruption insurance. However, as noted above under the caption “Subordinate Obligation,” insurance proceeds would be applied first to pay the obligations of the City under the 1998 Lease and would therefor inure to the benefit of the owners of the 1998 Bonds before being made available to pay Base Rental Payments. The City waives any and all right to terminate the Facility Lease by virtue of any such interference and the Facility Lease will continue in full force and effect.

Earthquakes, Floods and Other Natural Disasters

Earthquakes, floods or other natural disasters could damage or destroy portions or all of the Leased Property and thereby result in an abatement of the City’s obligation to pay the Base Rental Payments as discussed above under the caption “Abatement Risk.” The City is not required to insure the Leased Property against damage caused by earthquakes. Natural disasters could also adversely affect economic activity in the City thereby negatively impacting the City’s finances. Property within the City has been damaged by floods from time to time, most recently in January, 1997; and there are several geological faults in the greater San Francisco Bay area that have the potential to cause serious earthquakes which could result in damage to buildings, roads, bridges and other property within the City.

State Budgets Concerns

General. Since 2001, the State has faced a series of severe financial challenges; and those challenges, or others similar to them in terms of their implications for revenues available to local agencies, may occur in the future. In response to those challenges, in a number of recent years, the State has shifted property taxes from cities, counties and special districts to the Educational Revenue Augmentation Fund (“ERAF”). While no ERAF shift was required with respect to the State budget for Fiscal Year 2006-07, there can be no assurance that such shifts, or other similar transfers of revenues from local agencies, will not be required in future years in order to deal with State budget deficits.

On November 2, 2004, California voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State’s authority over major local government revenue sources. Under Proposition 1A, the State may not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature, or (iv) decrease vehicle license fees revenues without providing local governments with equal replacement funding. Beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges a limited

amount of local government property tax revenue if certain conditions are met, including (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Future State Budgets. Based on the Legislative Analyst's current projections of revenues and expenditures, presuming a continuation of the policies set forth under the 2006-07 Budget Act, the State could continue to face operating shortfalls in the range of \$4.5 billion to \$5 billion in each of Fiscal Years 2007-08 and 2008-09. Any carryover reserve from Fiscal Year 2006-07 would be available to offset a portion of the projected shortfall in Fiscal Year 2007-08. Notwithstanding the foregoing, no prediction can be made by the Authority or the City as to whether the State will continue to encounter budgetary problems in this or in any future Fiscal Years. If the State were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, neither the Authority nor the City can predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the Authority and the City have no control.

Constitutional Limitations on Taxes and Expenditures

Article XIII A of the California Constitution. Section 1(a) of Article XIII A of the California Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by each county and apportioned among the county and other public agencies and funds according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (a) indebtedness approved by the voters prior to July 1, 1978 or (b) 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 2% per year or to reflect a reduction in the consumer price index or comparable data for the area under the taxing jurisdiction, or reduced in the event of declining property values caused by substantial damage, destruction, or other factors. Legislation enacted by the State 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.

On June 18, 1992, following a number of challenges to the provisions of Article XIII A, the United States Supreme Court upheld the decision in *Nordlinger v. Hahn*, a case involving residential property taxation decided by the State Court of Appeals. The 8 to 1 majority held that the Article XIII A assessment method serves a rational state interest by providing certainty regarding property taxes to homeowners and therefore does not violate provisions of the Equal Protection Clause codified in the 14th Amendment of the U.S. Constitution.

The effect of Article XIII A on the City's finances, then, has been to restrict ad valorem tax revenues for general purposes to the statutory allocation of the 1% levy while leaving intact the power to levy ad valorem taxes in whatever rate or amount may be required to pay debt service on its general obligation bonds. The City cannot predict whether any further challenges to the State's present system of property tax assessment will be made, or what the outcome of impact on any of the City of any such challenge might be.

Article XIII B of the California Constitution. An initiative amendment to the California Constitution (Article XIII B) was approved by the California electorate on November 6, 1979. This amendment establishes limits on certain annual appropriations of state and local government entities. Initially, the limits are based generally on appropriations for the Fiscal Year 1978-79 with future adjustments permitted for changes in the cost of living, population and certain other factors. The definition of appropriations subject to limitation is stated so as to exclude, among other things, (1) appropriations of proceeds received by a government entity from user fees to the extent such proceeds do not exceed the costs reasonably borne by such entity in providing the product or service, (2) the appropriations of any special district "which did not as of the 1977-78 fiscal year levy an ad valorem tax on property in excess of 12½ cents per \$100 of assessed value", and (3) "appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund required in connection therewith, on indebtedness existing or legally authorized as of January 1, 1979, or a bonded indebtedness thereafter approved . . ." by vote of the electors of the issuing entity. In addition, the amendment provides that nothing in it "will be construed to impair the ability of the State or any local government to meet its obligations with respect to existing or future bonded indebtedness."

Articles XIII C and XIII D of the California Constitution. An initiative measure entitled the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges."

Article XIII C prohibits local governments from imposing, extending or increasing: (i) any general tax unless and until that tax is submitted to the electorate and approved by a majority vote or (ii) any special tax unless and until that tax is submitted to the electorate and approved by a two thirds vote. In addition, Article XIII C provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments.

Article XIII D defines the terms "fee" and "charge" to mean "any levy other than an *ad valorem* tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service." A "property-related service" is defined as "a public service having a direct relationship to property ownership." Article XIII D further provides that reliance by an agency on any parcel map (including an assessor's parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIII D requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which

such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it.

In addition, Article XIID includes a number of limitations applicable to pre-existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service, (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed, (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

No assurance may be given that Articles XIIC and XIID will not have a material adverse impact on the City's revenues.

Other Initiative Measures

Articles XIIA, XIIB, XIIC and XIID were adopted pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted by California voters, placing additional limitations on the ability of the City to increase revenues.

Limited Recourse on Default

If an event of default occurs and is continuing under the Facility Lease, there is no remedy of acceleration with respect to any Base Rental Payments which have not come due and payable in accordance with the Facility Lease. The City will continue to be liable for Base Rental Payments as they become due and payable in accordance with the Facility Lease, and the Trustee will be required to seek a separate judgment each year for that year's defaulted Base Rental Payments. Any such suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds or property needed to serve the public welfare and interest.

Bankruptcy

In addition to the limitations on remedies contained in the Indenture and the Facility Lease, the rights and remedies provided in those documents may be limited by, and are subject to, provisions of federal bankruptcy laws as the same currently exist or may be hereafter amended, as well as other laws and equitable principles that may affect creditors' rights. In the event of the bankruptcy of the City, its obligations under the Facility Lease could be set aside.

TAX MATTERS

In the opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the Indenture and the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable

in the gross income of the owners of the Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents pertaining to the Bonds may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Bond Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of interest on the Bonds on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Bond Counsel.

Legislation affecting municipal obligations is continually being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status of the Bonds. Legislation or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the Bonds.

The Tax Increase Prevention and Reconciliation Act of 2005, enacted on May 17, 2006, contains a provision under which interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although the new reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the 2007 Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the Internal Revenue Service (the "IRS") as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's federal income tax liability provided the required information is furnished to the IRS.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix E.

ABSENCE OF LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge or the Authority or the City, threatened against the Authority or the City, affecting the existence of the Authority or the City, or the titles of their respective officers to their respective offices or seeking to restrain or enjoin the sale or issuance of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or effecting the validity of the Bonds, the Indenture, the Facility Lease or the Site Lease, or any action of the Authority or the City contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement hereto, or contesting the powers of the Authority or the City or their respective authority with respect to the Bonds, nor to the knowledge to the Authority and the City is there any basis therefor.

INDEPENDENT AUDITORS

The basic financial statements of the City as of June 30, 2006, portions of which are included in Appendix D to this Official Statement, have been audited by Maze & Associates (the "Auditor"), independent certified public accountants, as set forth in their report. The Auditor's consent is not required for the inclusion of the City's financial statements in this Official Statement, and no such consent has been requested or obtained.

RATINGS

Fitch Ratings ("Fitch") and Standard & Poor's Ratings Services ("S&P") are expected to assign their ratings of "AAA" and "AAA", respectively, to the Bonds with the understanding that upon delivery of the Bonds, the Bond Insurance Policy will be issued by the Insurer. In addition, Fitch has assigned an underlying rating of "A+" to the Bonds and S&P has assigned an underlying rating of "A" to the Bonds. Generally, rating agencies base their ratings on information and material furnished directly to them and on investigations, studies and assumptions made by them. The ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from Fitch Ratings, One State Street Plaza, New York, New York 10004 and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such 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 Bonds.

UNDERWRITING

The Bonds are being purchased by Banc of America Securities LLC (the "Underwriter"), under a Purchase Contract pursuant to which the Underwriter has agreed to purchase all, but not less than all, of the Bonds for an aggregate purchase price of \$_____ (representing the principal amount of the Bonds, less Underwriter's discount of \$_____).

FINANCIAL ADVISOR

The City has retained Public Financial Management, Inc., San Francisco, California, as financial advisor with respect to the issuance of the Bonds. Public Financial Management, Inc. is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel. A copy of the proposed form of the opinion of Bond Counsel is attached as Appendix E hereto. Bond Counsel has undertaken no responsibility for the accuracy, completeness and fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by Orrick, Herrington & Sutcliffe LLP, for the Authority and the City by the City Attorney and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel; for the Trustee by its General Counsel; and for the Bond Insurer by its General Counsel.

VERIFICATION OF MATHEMATICAL ACCURACY

Concurrently with the issuance of the Bonds, The Arbitrage Group, independent accountants, will deliver a report with respect to the mathematical accuracy of certain computations, contained in schedules provided to them, which were prepared by the Underwriter, relative to the sufficiency of moneys and securities deposited into the escrow funds established pursuant to the 1997 Escrow Agreement and the 1998 Escrow Agreement to pay, when due the principal, whether at maturity or upon prior redemption, interest and redemption premium requirements of the Series 1997 Bonds and the Series 1998 Bonds. The report of The Arbitrage Group will include the statement that the scope of its engagement is limited to verifying the mathematical accuracy of the aforesaid computations and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of the report.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the owners of the Bonds to provide certain financial information and operating data and the City by not later than 270 days after the end of the City's Fiscal Year (presently June 30) commencing with the report for the City's 2006-07 Fiscal Year (the "Annual Reports") and to provide notices of the occurrence of certain enumerated events, if deemed by the City to be material. The Annual Reports will be filed by the Trustee, as Dissemination Agent on behalf of the City, with each Nationally Recognized Municipal Securities Information Repository and with any State Repository which may be designated by the State of California (collectively, the "Repositories") and with the Underwriter. The notices of material events will be filed by the Trustee, as Dissemination Agent on behalf of the City, with the Repositories with copies to the City and the Underwriter. The specific nature of the information to be contained in the Annual Reports or the notices of material events is set forth in Appendix F — "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriter in complying with Rule 15c2 12(b)(5) of the Securities and Exchange Commission (the "Rule").

The City believes that it has never failed in any material respect to comply with an undertaking pursuant to the Rule. However, in October 2006, the City caused to be filed supplements to each of the five most recent annual reports that had been filed for it pursuant to the Continuing Disclosure Agreement executed by the City in connection with its Refunding Revenue Certificates of Participation (1997), Water Utility System Refinancing Project. The five annual reports in question had not included certain data which the City believes (a) was not literally required to be included therein by the terms of the applicable Continuing Disclosure Agreement, (b) was not material or (c) could be calculated from data the City had included in such annual reports. Notwithstanding the City's beliefs in this regard, it included the data in question in the aforesaid supplements. Moreover, in rechecking its data in connection with the filing of the supplements, the City made certain additional revisions to the original information included in its original annual reports. In addition to the foregoing, the City has determined that its annual report with respect to its Wastewater Collection and Treatment System for the Fiscal Year ended June 30, 2005 erroneously included payments received in settlement of certain litigation in "Gross Revenues" for purposes of calculating debt service coverage. The City has since filed with the dissemination agent an amended annual report correcting that mistake.

MISCELLANEOUS

Reference is made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive, and reference is made to such documents and complete statement of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or holder of any Bonds.

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

MODESTO PUBLIC FINANCING AUTHORITY

By: _____
Auditor and Treasurer

CITY OF MODESTO

By: _____
Finance Director/Treasurer

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture, the Facility Lease and the Sublease which are not described elsewhere in this Official Statement. These summaries do not purport to be to be complete or definitive and reference should be made to such documents for a full and complete statement of their provisions. See "THE BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" for further descriptions of certain terms and provisions of the Bonds. All capitalized terms not defined in this Official Statement have the meanings set forth in the Indenture.

DEFINITIONS

"Act" means the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the Government Code of the State), as the same is now in effect and as from time to time amended or supplemented.

"Additional Bonds" means any bonds issued under the Indenture pursuant to the provisions thereof and a Supplemental Indenture.

"Additional Payments" means the payments so designated and required to be made by the City pursuant to the Facility Lease.

"ARS" means Auction Rate Securities.

"ARS Mode" means the Mode during which the Bonds evidence interest at the ARS Rate.

"ARS Rate" shall have the meaning specified in Appendix B to this Official Statement.

"ARS Rate Conversion Date" shall have the meaning specified in Appendix B to this Official Statement.

"Authority Account" means the account by that name in the Bond Purchase Fund established pursuant to the Indenture.

"Authorized Denominations" means, with respect to the Bonds in the ARS Mode, \$25,000 and any integral multiple thereof.

"Authorized Officer" or "Authorized Representative" means, with respect to the Authority, any of its Chairperson, Vice Chairperson, Executive Director, Auditor and Treasurer or any other person designated as an Authorized Representative and, with respect to the City means the Mayor, City Manager, Finance Director or any other officer of the City designated by any such office as an Authorized Representative.

"Base Rental Payments" means all amounts payable to the Authority from the City as Base Rental Payments pursuant to the Facility Lease.

“Base Rental Payment Schedule” means the schedule of Base Rental Payments payable to the Authority from the City pursuant to the Facility Lease and attached thereto as Exhibit B, as it may from time to time be supplemented, modified or amended.

“Bond Insurance Policy” means the financial guaranty insurance policy insuring the payment when due of principal of and interest on the Bonds.

“Bond Insurer” means CIFG Assurance North America, Inc., a financial guaranty insurance company incorporated under the laws of the State of New York, the Bond Insurer with respect to the Bonds.

“Bond Purchase Fund” means the fund by that name established pursuant to the Indenture.

“Business Day” means any day on which banks located in New York, New York, San Francisco, California and the city in which the Principal Office of the Trustee is located are not required or authorized to be closed and on which The New York Stock Exchange is open.

“Certificate,” “Statement,” “Request” and “Requisition” of the Authority or the City means, respectively, a written certificate, statement, request or requisition signed in the name of the Authority by its Authorized Officer or such other person as may be designated and authorized to sign for the Authority and signed in the name of the City by its Authorized Officer or such other person as may be designated and authorized to sign for the City in writing to the Trustee. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

“Code” means the Internal Revenue Code of 1986, or any successor statute thereto and any regulations promulgated thereunder.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the City and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee, initial and ongoing fees and charges of the Authority, legal fees and charges, fees and disbursements of consultants and professionals, title insurance fees, Rating Agency fees, fees and charges for preparation, execution, transportation and safekeeping of the Bonds, and any other cost, charge or fee in connection with the original issuance of the Bonds.

“Costs of Issuance Fund” means the fund by that name established pursuant to the Indenture.

“Daily Mode” means the Mode during which the Bonds evidence interest at the Daily Rate.

“Daily Rate” means the per annum interest rate with the Bonds in the Daily Mode determined pursuant to the Indenture.

“Daily Rate Period” means the period during which the Bonds in the Daily Mode evidences interest at a Daily Rate, which shall be from the Business Day upon which a Daily Rate is set to but not including the next succeeding Business Day.

“Date of Issuance,” with respect to the Bonds, means April 18, 2007.

“Debt Service” means, for any Fiscal Year or other period, the sum of (a) the interest accruing during such Fiscal Year or other period on all Outstanding Bonds and Swaps assuming that all Outstanding Serial Bonds are retired as scheduled and that all Outstanding Term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds so long as such funded interest is in an amount equal to the gross amount necessary to pay such interest on the Bonds and is invested in United States Government Obligations which mature no later than the related Interest Payment Date), (b) the principal amount of all Outstanding Serial Bonds maturing during such Fiscal Year or other period, and (c) the principal amount of all Outstanding Term Bonds required to be redeemed or paid (together with the premiums, if any, thereon) during such Fiscal Year or other period; provided, that the foregoing shall be subject to adjustment and recalculation as follows:

(1) with respect to Capital Appreciation Bonds, the Accreted Value payment shall be deemed a principal payment; and

(2) with respect to Swaps and Swapped Bonds, the interest payments shall be adjusted to give effect to the Swap in such manner and to such extent (1) as may be required under generally accepted accounting principles, consistently applied or (2) as shall be stated in a Certificate of the Authority (which Certificate shall be delivered to the Trustee concurrently with the later of the issuance of the Swapped Bonds or the execution of the Swap) in such manner as shall present fairly the reasonably expected Debt Service on the Swap and Swapped Bonds after the execution of the Swap; and

(3) with respect to Variable Rate Bonds, the interest payments shall be calculated at a rate equal to 150% of the highest rate borne by such Bonds in the last 12 months or with respect to the initial issuance of such Variable Rate Bonds at 150% of the highest rate borne by a comparable issue of bonds as certified to by the Remarketing Agent or Broker-Dealer.

“Depository” means DTC or another recognized securities depository selected by the Authority which maintains a book-entry system for the Bonds.

“Electronic” means telecopy, facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including a telephonic communication confirmed by any other method set forth in this definition.

“Eligible Bonds” means any Bonds other than Liquidity Facility Bonds or Bonds owned by, for the account of, or on behalf of, the Authority or the City.

“Expiration Date” means (i) the date upon which a Liquidity Facility is scheduled to expire (taking into account any extensions of such Expiration Date by virtue of extensions of a particular Liquidity Facility, from time to time) in accordance with its terms, including without limitation termination upon delivery of an Alternate Liquidity Facility and (ii) the date upon which a Liquidity Facility terminates following voluntary termination by the Authority.

“Extraordinary Swap Payment” means any termination payment or any payment other than a Regular Swap Payment due under or pursuant to a Swap.

“Favorable Opinion of Bond Counsel” means an opinion of Bond Counsel addressed to the Authority and the Trustee to the effect that the action proposed to be taken is authorized or permitted by the laws of the State of California and the Indenture and will not result in the inclusion of interest on the Bonds in gross income for federal income tax purposes.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other annual accounting period selected and designated by the Authority as its Fiscal Year.

“Fixed Rate” means the per annum interest rate or interest rates evidenced by Fixed Rate Bonds determined pursuant to the Indenture.

“Fixed Rate Bonds” means the Bonds in a Fixed Rate Mode that are not Swapped Bonds.

“Fixed Rate Mode” means the Mode during which Fixed Rate Bonds evidence interest at a Fixed Rate.

“Fixed Rate Period” means, with respect to Fixed Rate Bonds converted to the Fixed Rate Mode, the period from the Mode Change Date upon which such Fixed Rate Bonds were converted to a Fixed Rate Mode to but not including the Maturity Date.

“Flexible Mode” means the Mode during which the Bonds evidence interest at Flexible Rates.

“Flexible Rate” means the per annum interest rate determined for the Flexible Rate Bonds pursuant to the Indenture.

“Flexible Rate Period” means, with respect to the Flexible Rate Bond, the period of from one (1) to three hundred ninety-seven (397) calendar days (which Flexible Rate Period must end on a day preceding a Business Day) during which a Flexible Rate Bond shall evidence interest at a Flexible Rate, as established by the Remarketing Agent pursuant to the Indenture.

“Holder,” “Bondholder” or “Owner,” with respect to a Bond, means the Person in whose name such Bond is registered.

“Interest Account” means the account by that name in the Revenue Fund established pursuant to the Indenture.

“Interest Accrual Period” means the period during which Bonds accrue interest payable on the next Interest Payment Date applicable thereto. Each Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid, from the date of original authentication and delivery of the Bonds) to, but not including, the Interest Payment Date on which interest is to be paid. If, at the time of authentication of any Bond, interest is in default or overdue with respect to the Bonds, such Bond shall evidence interest from the date to which interest has previously been paid in full or made available for payment in full with respect to the Bonds.

“Interest Payment Date” means each date on which interest is to be paid and is each date defined as an Interest Payment Date in the ARS Provisions set forth in Appendix B of this Official Statement, and any date that is an ARS Rate Conversion Date.

“Interest Period” means, for the Bonds in a particular Mode, the period of time that the Bonds evidence interest at the rate (per annum) which becomes effective at the beginning of such period, and shall include an ARS Rate Period, a Daily Rate Period, a Weekly Rate Period, a Flexible Rate Period, a Term Rate Period, and a Fixed Rate Period.

“Joint Powers Agreement” means the Joint Exercise of Powers Agreement by and between the City and the Industrial Development Authority of the City of Modesto, dated as of December 1, 1989 as originally executed and as it may from time to time be amended or supplemented.

“Lease Default Event” means any Event of Default occurring under the Facility Lease.

“Leased Property” means the real property described in the Facility Lease, together with all property subsequently added thereto, or any property substituted for all or any portion of the Leased Property in accordance with the Indenture or the Facility Lease.

“Liquidity Agreement” means any reimbursement agreement, credit agreement, line of credit agreement, standby purchase agreement or other agreement, between a Bond Insurer or a Liquidity Facility Provider, as applicable, and the Authority and/or the City, as the same may be amended from time to time pursuant to its terms.

“Liquidity Facility” means a line of credit, letter of credit, standby purchase agreement or similar liquidity facility issued by a commercial bank or other financial institution or, in the event of the delivery or availability of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

“Liquidity Facility Account” means the account by that name in the Bond Purchase Fund established pursuant to the Indenture.

“Liquidity Facility Bonds” means Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility, but excluding Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the applicable Liquidity Facility.

“Liquidity Facility Provider” means the commercial bank, insurance company, pension fund or other financial institution issuing (or having primary obligation, or acting as agent for the financial institutions obligated, under) a Liquidity Facility then in effect.

“Long-Term Interest Period” means a Term Rate Period or a Fixed Rate Period.

“Long-Term Mode” means a Term Rate Mode or a Fixed Rate Mode.

“Mandatory Purchase Date” means any Mode Change Date (except a change in Mode between the Daily Mode and the Weekly Mode) and any date on which the Bonds may be prepaid by the Authority in a notice delivered to the Trustee, which Mandatory Purchase Date should be not less than forty-five (45) days (or such lesser period as shall be agreed to by the Trustee) after the Trustee’s receipt of such notice from the Authority, and which notice shall be accompanied by a Favorable Opinion of Bond Counsel.

“Maturity Date” means the final date upon which principal is due on the Bonds, which is September 1, 2033.

“Maximum Annual Base Rental Payment” means the maximum annual payment which the City may be obligated to make with respect to the Base Rental Payments for the Project, as provided in the Facility Lease, or for any Subsequent Project, as provided and determined in a supplement to the Facility Lease.

“Maximum Rate” means, with respect to all Bonds other than Liquidity Facility Bonds, 12% per annum, and with respect to Liquidity Facility Bonds, such rate as is provided for in the applicable Liquidity Facility and not greater than 25% per annum; provided, however, that the Maximum Rate shall not exceed the highest rate then permitted by law.

“Mode” means, as the context may require, the ARS Mode, the Daily Mode, the Weekly Mode, the Flexible Mode, the Term Rate Mode, or the Fixed Rate Mode.

“Mode Change Date” means with respect to the Bonds in a particular Mode, the day on which another Mode for the Bonds begins, and includes an ARS Rate Conversion Date and a Conversion Date.

“Mode Change Notice” means the notice from the Authority to the other Notice Parties of the intention of the Authority to change the Mode with respect to the Bonds.

“Nationally Recognized Municipal Securities Information Repository” or “NRMSIR” means each such repository identified by the Securities Exchange Commission as such from time to time.

“1998 Bonds” means the Authority’s Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project).

“1998 Indenture” means trust indenture, dated as of March 1, 1998, by and between the Authority and the 1998 Trustee pursuant to which the 1998 Bonds were issued.

“1998 Lease” means the Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002, each by and between the City and the Authority.

“1998 Trustee” means The Bank of New York Trust Company, N.A., as successor trustee, under the 1998 Indenture.

“Noticed Termination Date” means the date on which a Liquidity Facility Providers obligation to advance funds or purchase Bonds under a Liquidity Facility terminates as stated in the Liquidity Facility Providers notice of termination delivered pursuant to the Liquidity Facility due to a default under specified sections of the Liquidity Facility, which date of termination shall be twenty (20) days (or such longer period as is specified in the Liquidity Facility) after the date of receipt by the Trustee of such notice.

“Notice Parties” means the Authority, the City, the Trustee, the Bond Insurer, if any, the Liquidity Facility Provider, if any, the Broker-Dealer, if any, the Auction Agent, if any, the Remarketing Agent, if any, and the Fixed Rate Remarketing Agent, if any.

“Opinion of Counsel” means a written opinion of counsel of recognized standing in the field of law being addressed in such opinion retained the Authority.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture relating to disqualified bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture including Bonds (or portions of Bonds) referred to in the provision of the Indenture relating to disqualified bonds; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture and when used with reference to Swaps, means all Swaps that have not been terminated pursuant to the terms thereof and all Swaps pursuant to which the Authority has existing or future obligations.

“Permitted Encumbrances” means (1) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to the Facility Lease, permit to remain unpaid; (2) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of recordation of the Facility Lease in the office of the County Recorder of the County of Stanislaus and which the City certifies in writing will not materially impair the use of the Leased Property; (3) the Sublease, as it may be amended from time to time and the Facility Lease, as it may be amended from time to time; (4) the Indenture, as it may be amended from time to time; (5) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (6) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions to which the Authority and the City consent in writing and certify to the Trustee will not materially impair the ownership interests of the Authority or use of the Leased Property by the City; and (7) subleases and assignments of the City which will not adversely affect the exclusion from gross income of interest on the Bonds.

“Permitted Investments” means any of the following obligations if and to the extent then permitted by law:

- (1) Federal Securities;
- (2) Obligations, participations, or other instruments of or issued by, or fully guaranteed as to interest and principal by, the Government National Mortgage Association (excluding stripped mortgage backed securities which are valued at greater than par on the unpaid principal);
- (3) Bills of exchange or time drafts drawn on and accepted by a commercial bank (including the Trustee or any of its affiliates), otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System and which are drawn on any bank the short-term obligations of which are rated in the highest letter and numerical rating category as provided by Moody’s and by S&P; provided, that purchases of eligible bankers acceptances may not exceed 270 days’ maturity;
- (4) Commercial paper of “prime” quality of the highest ranking or of the highest letter and numerical rating category as provided by Moody’s and by S&P, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of \$500,000,000 and that have an “A1” or higher rating for the issuer’s unsecured debentures, other than commercial paper, as provided by Moody’s and by S&P;

provided, that purchases of eligible commercial paper may not exceed 180 days' maturity nor represent more than 10% of the outstanding commercial paper of an issuing corporation;

(5) Non-negotiable certificates of deposit issued by a state or national bank (including the Trustee or any of its affiliates) that have maturities of not more than 365 days or deposit accounts with a state or national bank and that are fully insured by the Federal Deposit Insurance Corporation or the short term obligations of which state or national bank are rated no lower than "A1" by Moody's and "A+" by S&P;

(6) Any repurchase agreement of any securities enumerated in subdivisions (1) and (2) with any state or national bank (including the Trustee or any of its affiliates) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is either (A) with any institution which has debt rated no lower than "A1" by Moody's and "A+" by S&P or whose commercial paper is rated no lower than "P 1" by Moody's and no lower than "A 1" by S&P; (B) with any corporation or other entity that falls under the jurisdiction of the Federal Bankruptcy Code; provided, that (a) the term of such repurchase agreement is less than one (1) year or due on demand; (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral; (c) the market value of the collateral (as determined at least once in every 14 days) exceeds the principal amount of the repurchase agreement plus accrued interest and the market value of the collateral is maintained at levels acceptable to Moody's and to S&P; (d) failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral immediately; and (e) the repurchase agreement securities are free and clear of any third-party lien or claim; or (C) with financial institutions insured by the Federal Deposit Insurance Corporation or any broker-dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corporation; provided, that: (a) the market value of the collateral (as determined at least once in every 14 days) exceeds the principal amount of the repurchase agreement plus accrued interest and the market value of the collateral is maintained at levels acceptable to Moody's and to S&P; (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral; (c) the Trustee has a perfected first priority security interest in the collateral; (d) the collateral is free and clear of third-party liens and in the case of a Securities Investors Protection Corporation broker was not acquired pursuant to a repurchase agreement or reverse repurchase agreement; and (e) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the collateral immediately;

(7) Certificates, notes, warrants, bonds or other evidence of indebtedness of the State or any local agencies therein which are rated in the highest short-term rating category or within one of the three highest long-term rating categories by Moody's and by S&P (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date);

(8) For amounts less than \$100,000, interest-bearing demand or time deposits (including certificates of deposit) in a nationally or state-chartered bank fully insured by the Federal Deposit Insurance Corporation, including the Trustee or any affiliate thereof, and of which an aggregate total of \$100,000 is not exceeded in any one financial institution;

(9) Investments in units of a money-market fund portfolio that is rated in the highest letter and numerical rating category by Moody's and by S&P (including funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services) and that is

composed of obligations guaranteed by the full faith and credit of the United States of America or repurchase agreements collateralized by such obligations;

(10) A guaranteed investment contract with a financial institution or insurance company (or guaranteed by a financial institution or insurance company) which has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated within the two highest rating categories of any Rating Agency;

(11) The Local Agency Investment Fund or similar pooled fund operated by or on behalf of the State and which is authorized to accept investments by or on behalf of the Authority of the moneys held by the Trustee in any of the accounts or funds established pursuant to the Indenture to the extent deposits and withdrawals may be made by the Trustee directly; and

(12) other forms of investments approved in writing by the related Bond Insurer.

“Person” means an individual, corporation, firm, association, partnership, trust, joint venture or any other legal entity or group of entities, including a government or political subdivision or an agency or instrumentality thereof.

“Principal Account” means the account by that name in the Revenue Fund established pursuant to the Indenture.

“Project Fund” means the fund by that name established pursuant to the Indenture.

“Provider Payment Account” means the account by that name established pursuant to the Indenture.

“Providers” means, collectively, the Swap Providers, the Liquidity Facility Providers, and the Reserve Facility Providers (if applicable) and any other party to an agreement with the City or the Authority in connection with the Bonds by which any Related Obligation is created.

“Purchase Date” means any Mandatory Purchase Date.

“Purchase Price” means an amount equal to the principal amount of the Bonds purchased on any Purchase Date, plus accrued interest to such Purchase Date (unless such Purchase Date is also an Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which shall be paid in the normal course).

“Rate Determination Date” means any date on which the interest rate with respect to the Bonds shall be determined, which shall be each Auction Date for the Bonds in the ARS Mode.

“Record Date” means the Business Day immediately preceding each Interest Payment Date.

“Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

“Regular Swap Payment” means any net payment (excluding any termination payment) due on any settlement date based on the swap rate pursuant to the Swap.

“Related Obligations” means the obligations of the Authority under any hedge agreement (including without limitation, any Swap), credit agreement, liquidity agreement or similar agreement entered into in connection with or related to the Bonds or a series thereof.

“Reserve Facility” means a surety bond or insurance policy issued to the Trustee, on behalf of the Bondholders, by a company licensed to issue an insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds if such entity shall be rated in the highest rating categories issued by Moody’s and by S&P, or a letter of credit issued or confirmed by a state or national bank, or a foreign bank with an agency or branch located in the United States, which has outstanding an issue of unsecured long term debt securities rated at least equal to the second highest rating category by Moody’s and S&P, or any combination thereof, deposited with the Trustee by the Authority to satisfy the Reserve Fund Requirement.

“Reserve Facility Costs” means amounts owed with respect to repayment of draws on a Reserve Facility, including interest thereon at the rate specified in the agreement pertaining to such Reserve Facility and expenses owed to the provider of a Reserve Facility.

“Reserve Fund Requirement” means with respect to all Outstanding Bonds an amount equal to the lesser of (i) the maximum annual Debt Service attributable to the Outstanding Bonds and (ii) 125% of average annual Debt Service attributable to the Outstanding Bonds; provided that with respect to the calculation of the Reserve Fund Requirement upon the issuance of a series of Additional Bonds the amount calculated shall be the least of (i) or (ii) above, or the amount derived by the addition of 10% of the proceeds from the sale of such series of Additional Bonds to the Reserve Fund and provided further that the Reserve Fund Requirement shall be reduced to the extent necessary so that all amounts therein may be deposited from Bond proceeds without requiring a portion thereof to be yield restricted in accordance with requirements of the Code.

“Revenues” means: (i) all Base Rental Payments and other payments paid by the City and received by the Authority pursuant to the Facility Lease (but not Additional Payments), (ii) all interest or other income from any investment, pursuant to the Indenture, of any money in any fund or account (other than the Rebate Fund) established pursuant to the Indenture or the Facility Lease, (iii) Swap Revenues, if any, and (iv) any additional security, pursuant to the Indenture.

“Securities Depository” means The Depository Trust Company and its successors and assigns, or any other securities depository selected as set forth in the Indenture.

“Supplemental Indenture” means any indenture duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture or providing for the issuance of Additional Bonds and entered into as provided in the Indenture.

“Swap” means an interest rate swap, cap, floor, collar or other hedging transaction which is entered into by the Authority for the purpose of managing interest rate risk with respect to specified Bonds which are being issued concurrently with the execution of the Swap, which are proposed to be issued in connection with such Swap, or which are Outstanding at the time of execution of such Swap.

“Swap Payment Date” means each date on which Regular Swap Payments are to be paid.

“Swap Provider” means an entity which is a party to a Swap with the Authority.

“Swap Revenues” means the sum of money due to be paid by a Swap Party to the Authority pursuant to any Swap subject to any netting of payments provided by the applicable Swap.

“Swapped Bonds” means the Bonds to which a Swap relates.

“Tax Certificate” means the Tax Certificate and Agreement delivered by the Authority and the City at the time of issuance and delivery of the Bonds, as the same may be amended or supplemented in accordance with its terms.

“Term Rate” means the per annum interest rate for the Bonds in the Term Rate Mode determined pursuant to the Indenture.

“Term Rate Mode” means the Mode during which the Bonds evidence interest at a Term Rate.

“Term Rate Period” means the period from (and including) the Mode Change Date or the date of initial conversion of the Bonds to a Term Rate Mode, as applicable, to (but excluding) the last day of the first period that such Bonds shall be in the Term Rate Mode as established by the Authority pursuant to the Indenture and, thereafter, the period from (and including) the beginning date of each successive Interest Rate Period selected for the Bonds by the Authority pursuant to the Indenture while such Bonds are in the Term Rate Mode to (but excluding) the commencement date of the next succeeding Interest Period, including another Term Rate Period. Except as otherwise provided in the Indenture, an Interest Period for Bonds in the Term Rate Mode must be at least one hundred eighty (180) days in length.

“Variable Rate Bonds” means the Bonds that are not Swapped Bonds which bear interest in a Daily Mode, Weekly Mode, Flexible Mode or ARS Mode.

“Weekly Mode” means the Mode during which the Bonds evidence interest at the Weekly Rate.

“Weekly Rate” means the per annum interest rate with respect to the Bonds in the Weekly Mode determined pursuant to the Indenture.

“Weekly Rate Period” means the period during which the Bonds evidence interest at a Weekly Rate, which shall be the period commencing on Thursday of each week to and including Wednesday of the following week, except the first Weekly Rate Period which shall be from the Mode Change Date for such Bonds to and including the Wednesday of the following week and the last Weekly Rate Period which shall be from and including the Thursday of the week prior to the Mode Change Date to and including the day next preceding the Mode Change Date.

THE INDENTURE

Pledge and Assignment

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, there are pledged under the Indenture all of the Revenues and any other amounts held in any fund or account established pursuant to the Indenture (other than the Bond Purchase Fund and the Rebate Fund) to (1) secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their

terms, and (2) secure the payment of any Related Obligations. Said pledge shall constitute a first lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds and any Providers, all of the Revenues and other assets pledged in the preceding paragraph and all of the rights of the Authority under the Facility Lease to receive and collect Base Rental Payments and other amounts (except for (1) the right to receive any Additional Payments to the extent payable to the Authority and (2) any rights of the Authority to indemnification), and the right to enforce, whether by action at law or in equity or by other means, all provisions covenants and agreements of the Facility Lease with respect to the payment of Base Rental Payments. The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall take all steps actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the City under the Facility Lease; provided that these rights shall not extend to any right to terminate the Facility Lease or re-enter or re-let the Leased Property or any other possessory right to the Leased Property.

The Authority shall notify the Trustee of the execution of any Related Obligations. The Swap Revenues shall be deposited in the Revenue Fund and Regular Swap Payments shall be paid from the Interest Account. Any Extraordinary Swap Payments owed to the Swap Provider shall be paid from the Provider Payment Account on a subordinate basis to any amounts then due and owing on the Bonds payable under the Indenture.

All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund". All Revenues deposited with the Trustee shall be held disbursed, allocated and applied by the Trustee only as provided in the Indenture.

In order to carry out and effectuate the pledge, charge and lien on Swap Revenues contained in the Indenture, the Authority agrees and covenants that all Swap Revenues shall be transferred when received to the Trustee for deposit in the Revenue Fund.

Allocation of Revenues

The Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee is directed to establish and maintain within the Revenue Fund) the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

FIRST: on or before each Interest Payment Date and Swap Payment Date, to the Interest Account, the amount of interest becoming due and payable on such Interest Payment Date on all Bonds and any Regular Swap Payments becoming due and payable on Swaps, until the balance in said account is equal to said amount of payments due; and

SECOND: to the Principal Account, on or before each September 1 commencing September 1 2007 the amount of the principal payment or Sinking Fund Installment becoming due and payable on such September 1 (or the succeeding Interest Payment Date if September 1 is not an Interest Payment Date), until the balance in said account is equal to said amount of such principal or Sinking Fund Installment; and

THIRD: to the Provider Payment Account, the amount of any Extraordinary Swap Payments or other amounts with respect to Related Obligations becoming due and payable on any date; provided however that payment of such amounts shall be subordinate to all amounts becoming due and payable on all Bonds and any Regular Swap Payments becoming due and payable on Swaps.

Application of Interest Account

All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds and any Regular Swap Payments as they shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

Application of Principal Account

All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to purchase or redeem or pay Sinking Fund Installments for a Series of Bonds or pay at maturity the Bonds of a Series as provided in the Indenture.

Reserve Fund

All money in the Reserve Fund shall be deposited with, used and withdrawn by the Trustee solely for the purpose of funding the Interest Account or the Principal Account, in that order, in the event of any deficiency in either of such accounts on a Principal Payment Date or Interest Payment Date or Swap Payment Date, except that so long as the Authority is not in default under the Indenture, any cash amounts in the Reserve Fund in excess of the Reserve Fund Requirement shall be withdrawn from the Reserve Fund and transferred to the Revenue Fund or, if so directed by the Authority, deposited into a Project Fund during construction of any Project on each July 1, following the payment of any amounts due on such date and on each date Bonds are redeemed or defeased. The Trustee shall notify the Authority if any withdrawal is made from the Reserve Fund for the purpose of funding the Interest Account or the Principal Account.

The Authority may satisfy the Reserve Fund Requirement, in whole or in part, at any time by the deposit with the Trustee for the credit of the Reserve Fund of a Reserve Facility. If the Reserve Fund Requirement is satisfied by a Reserve Facility, the Trustee shall draw on such Reserve Facility in accordance with its terms, in a timely manner, to the extent necessary to fund any such deficiency in the Interest Account or the Principal Account. The Authority shall repay solely from Revenues any draws under a Reserve Facility and any Reserve Facility Costs related thereto. Interest shall accrue and be payable on such draws and expenses from the date of payment by a Reserve Facility provider at the rate specified in the agreement with respect to such Reserve Facility.

If the Authority causes a cash-funded Reserve Fund to be replaced with a Reserve Facility, amounts on deposit in the Reserve Fund shall, upon Written Request of the Authority to the Trustee, be transferred to the City and applied for any lawful purpose, subject, in the case where such moneys

are proceeds of Bonds, to the receipt by the Authority of an Opinion of Counsel that such transfer will not cause the interest on the Bonds to be included in gross income for purposes of federal income taxation.

Application of Insurance Proceeds

In the event of any damage to or destruction of any part of the Leased Property covered by insurance, the Authority shall cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Property, and the Trustee shall hold said proceeds in a fund established by the Trustee for such purpose separate and apart from all other funds designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Authority shall file a Certificate with the Trustee that sufficient funds from insurance proceeds or from any funds legally available to the Authority, or from any combination thereof, are available in the event it elects to repair reconstruct or replace the Leased Property. The Trustee shall invest said proceeds in Permitted Investments pursuant to the Request of the Authority, as agent for the Authority under the Facility Lease, and withdrawals of said proceeds shall be made from time to time upon the filing with the Trustee of a Request of the Authority, stating that the Authority has expended moneys or incurred liabilities in an amount equal to the amount therein stated for the purpose of the repair, reconstruction or replacement of the Leased Property, and specifying the items for which such moneys were expended, or such liabilities were incurred, in reasonable detail. Any balance of such proceeds not required for such repair reconstruction or replacement and the proceeds of use and occupancy insurance shall be paid to the Trustee as Base Rental Payments and applied in the manner provided in the Indenture. Alternatively, the Authority, if the proceeds of such insurance together with any other moneys then available for such purpose are sufficient to prepay all, in case of damage or destruction in whole of the Leased Property, or that portion, in the case of partial damage or destruction of the Leased Property, of the Base Rental Payments and all other amounts relating to the damaged or destroyed portion of the Leased Property, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property and thereupon shall cause said proceeds to be deposited in the Special Redemption Account and used for the redemption of Outstanding Bonds pursuant to the Indenture. The Authority shall not apply the proceeds of insurance as set forth in the Indenture to redeem the Bonds in part due to damage or destruction of a portion of the Leased Property unless the Base Rental Payments on the undamaged portion of the Leased Property will be sufficient to pay the scheduled principal and interest on the Bonds remaining unpaid after such redemption.

Investment of Moneys

All moneys in any of the funds and accounts established pursuant to the Indenture (other than the Bond Purchase Fund) shall be invested by the Trustee solely in Permitted Investments. Moneys in the Bond Purchase Fund shall remain uninvested. Permitted Investments shall be purchased at such prices as the Authority may direct. In the absence of directions from the Authority, the Trustee shall invest in Permitted Investments specified in paragraph (9) of the definition thereof.

Moneys in all funds and accounts (other than the Bond Purchase Fund) shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture. Permitted Investments purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Trustee may

deliver such Permitted Investments for repurchase under such agreement. Permitted Investments purchased under an investment agreement may be deemed to mature on the date or dates on which the Trustee may withdraw the full amount invested therein, without penalty.

Application of Provider Payment Account

All amounts in the Provider Payment Account shall be used and withdrawn by the Trustee solely for the purpose of paying any amounts owed to Providers, including Extraordinary Swap Payments, when due. To the extent amounts deposited therein are insufficient to pay all amounts owed to Providers, such amounts shall be applied on a pro rate basis to the payment of amounts owed to Providers.

Particular Covenants

Punctual Payment. The Authority shall punctually cause to be paid the principal or Redemption Price and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds. Except as otherwise set forth in the Indenture, the Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this paragraph shall be deemed to limit the right of the Authority to issue obligations for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Against Encumbrances. The Authority shall not create any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds or Swaps are Outstanding, except the pledges and assignments created by the Indenture, and will assist the Trustee in contesting any such pledge, lien, charge or other encumbrance which may be created. Subject to this limitation the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding limited obligations of the Authority in accordance with their terms, and the Authority and Trustee shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bondholders under the Indenture against all claims and demands of all Persons whomsoever.

Tax Covenants; Rebate Fund. The Trustee shall establish and maintain a fund separate from any other fund or account established and maintained under the Indenture designated as the Rebate Fund. There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States of America. Notwithstanding the provisions of the Indenture relating to the pledge of Revenues, the allocation of money in the Revenue Fund, the investments of money in any fund or account, the application of funds upon acceleration and the defeasance of Outstanding Bonds, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by this Section and by the Tax Certificate. The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the Authority or the City, and shall have no liability or responsibility to enforce compliance by the Authority or the City with the terms of the Tax Certificate.

Any funds remaining in the Rebate Fund after redemption and payment with respect to all of the Bonds and all other amounts due under the Indenture or under the Facility Lease or provision made therefor satisfactory to the Trustee, including accrued interest and payment of any applicable fees and expenses to the Trustee and satisfaction of the Rebate Requirement (as defined in the Tax Certificate), shall be withdrawn by the Trustee and remitted to or upon the direction of the Authority.

The Authority shall not use or permit the use of any proceeds of the Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations, and shall not take or permit to be taken any other action or actions, which would cause any of the Bonds to be an “arbitrage bond” within the meaning of Section 148 of the Code “private activity bond” within the meaning of Section 141(a) of the Code, or “federally guaranteed” within the meaning of Section 149(b) of the Code and any such applicable requirements promulgated from time to time thereunder and under Section 103(c) of the Internal Revenue Code of 1954, as amended. The Authority shall observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Authority shall comply with all requirements of Section 148 and 149(b) of the Code to the extent applicable to the Bonds. In the event that at any time the Authority is of the opinion that for purposes of this paragraph it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Authority shall so instruct the Trustee under the Indenture in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

The Authority and the Trustee (as directed by the Authority) specifically covenant to comply with the provisions and procedures of the Tax Certificate; provided that the Trustee shall not be bound by this covenant if an Event of Default has occurred and continuing.

The Authority shall not use or permit the use of any proceeds of the Bonds or any funds of the Authority, directly or indirectly, in any manner, and shall not take or omit to take any action that would cause any of the Bonds to be treated as an obligation not described in Section 103(a) of the Code.

If the Authority shall provide to the Trustee an Opinion of Counsel that any specified action required under this Section or the Tax Certificate is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds the Trustee and the Authority may conclusively rely on such opinion in complying with the

requirements of this Section, and, notwithstanding the Indenture, the covenants under the Indenture shall be deemed to be modified to that extent.

The Authority covenants that, in the event of any change in the Indenture or other relevant documents relating to the Bonds, or any other actions taken or omitted by the Authority, upon the advice or with the approving Opinion of Counsel other than Sidley Austin LLP, Bond Counsel in connection with the original execution and delivery of the Bonds, the Authority will, upon the making of any such change, or the taking or omission of any such other action, cause to be delivered an Opinion of Counsel (together with a reliance letter thereon addressed to the Bond Insurer for the Bonds and the Trustee) nationally recognized in the area of municipal bonds to the effect that the interest on the Bonds is excluded from gross income for federal income tax purposes.

Amendments to Facility Lease or Sublease. The Authority shall not supplement, amend, modify or terminate any of the terms of the Facility Lease or Sublease, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the Trustee and the Bond Insurer. The Trustee shall give such written consent (a) if such supplement, amendment, modification or termination will not materially adversely affect the interests of the Bondholders or result in any material impairment of the security given for the payment of the Bonds (provided that such supplement amendment or modification shall not be deemed to have such adverse effect or to cause such material impairment solely by reason of substitution of real property pursuant to the Facility Lease), (b) to accommodate the issuance of Additional Bonds pursuant to a Supplemental Indenture, (c) to add to the agreements, conditions, covenants and terms required to be observed or performed thereunder by any party thereto, or to surrender any right or power therein reserved to the Authority or the City, (d) to cure, correct or supplement any ambiguous or defective provision contained therein, which action does not materially adversely affect the interests of the Bondholders, (e) to accommodate any removal or substitution of the Leased Property in accordance with the Facility Lease, (f) to modify the legal description of the Leased Property to conform to the requirements of title insurance or otherwise to add or delete property descriptions to reflect accurately the description of the parcels intended or preferred to be included therein, or (g) the Trustee first obtains the written consent of the Bondholders of a majority in principal amount and Accreted Value, as the case may be, of the Bonds then Outstanding to such settlement, amendment, modification or termination; provided, that no such supplement, amendment, modification or termination shall reduce the amount of Base Rental Payments to be made to the Authority or the Trustee by the City pursuant to the Facility Lease, or extend the time for making such payments, or permit the creation of any lien prior to or on a parity with the lien created by the Indenture on the Base Rental Payments (except as expressly provided in the Facility Lease), in each case without the written consent of all of the Bondholders of the Bonds then Outstanding and the Bond Insurer.

Leasehold Estate; Enforcement of Facility Lease. The Authority will be, on the date of the delivery of the Bonds, the owner and lawfully possessed of the leasehold estate described in the Facility Lease, and the Facility Lease will be, on the date of delivery of the Bonds, a valid subsisting demise for the term therein set forth of the property which it purports to demise. At the time of the delivery of the Bonds the City will be the owner in fee simple of the premises described therein, and the Facility Lease will be lawfully made by the City, and the covenants contained in the Facility Lease on the part of the City will be valid and binding. At the time of the delivery of the Bonds, the Authority will have good right, full power and lawful authority to lease said leasehold estate, in the manner and form provided in the Facility Lease, and the Facility Lease will be duly and regularly executed.

Without allowance for any days of grace which may or might exist or be allowed by law or granted pursuant to any terms or conditions of the Facility Lease, the Authority will in all respects promptly and faithfully keep, perform and comply with all the terms, provisions covenants, conditions and agreements of the Facility Lease to be kept, performed and complied with by it. The Authority will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for declaring a forfeiture of the Facility Lease, or would or might be a ground for cancellation or termination of the Facility Lease by the lessee thereunder. The Authority will promptly deposit with the Trustee (to be held by the Trustee until the title and rights of the Trustee under the Indenture shall be released or reconvened) any and all documentary evidence received by it showing compliance with the provisions of the Facility Lease to be performed by the Authority. The Authority, immediately upon its receiving or giving any notice, communication or other document in any way relating to or affecting the Facility Lease, or the leasehold estate thereby created, which may or can in any manner affect the estate of the lessor or of the Authority in or under the Facility Lease, will deliver the same, or a copy thereof, to the Trustee.

Waiver of Laws. The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is waived by the Authority to the extent permitted by law.

Further Assurances. The Authority shall make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Holders of the Bonds of the rights and benefits provided in the Indenture.

Events of Default

The following events shall be Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise or default in the redemption of any Bonds from Sinking Fund Installments in the amount and at the times provided therefor;

(B) default in the due and punctual payment of any installment of interest on any Bond or any Regular Swap Payment when and as such interest installment or Regular Swap Payment shall become due and payable;

(C) default in any material respect by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the City by the Trustee, or to the Authority, the City and the Trustee by any of the Bond Insurer or the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or

(D) an Event of Default occurring under the Facility Lease.

Upon actual knowledge of the existence of any Event of Default, the Trustee shall notify the Authority, the City, and the Bond Insurer in writing as soon as practicable; provided, however, that the Trustee need not provide notice of any event of default pursuant to paragraph (D) above (a “Lease Default Event) if the City has expressly acknowledged the existence of such Lease Default Event in a writing delivered to the Trustee, the Bond Insurer and the Authority. Additionally, the Trustee shall immediately notify the applicable Bond Insurer if at any time there are insufficient moneys to make any payments of principal of and/or interest on the Insured Bonds insured by such Bond Insurer and immediately upon the occurrence of any Event of Default under the Indenture and shall provide such additional information as such Bond Insurer shall reasonably request.

Acceleration of Maturities

Whenever any Event of Default has happened and be continuing, the Trustee may take the following remedial steps:

(A) In the case of an Event of Default described in (A) or (B) under “Event of Default”, the Trustee may notify the Authority and the City of such Event of Default may make a demand for payment under the Indenture and may declare the principal of all obligations issued under the Indenture then outstanding to be due and immediately payable, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture to the contrary notwithstanding;

(B) In the case of an Event of Default described in (C) under “Event of Default”, the Trustee may take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Authority with any covenant condition or agreement by the Authority under the Indenture; and

(C) In the case of an Event of Default described in (D) under “Event of Default”, the Trustee may take whatever action the Authority would be entitled to take, and shall take whatever action the Authority would be required to take, pursuant to the Facility Lease in order to remedy the Lease Default Event.

Application of Revenues and Other Funds After Default

If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (subject to the provisions under the Indenture relating to disqualified bonds and other than moneys required to be deposited in the Rebate Fund or the Bond Purchase Fund) shall be applied by the Trustee as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and the Providers and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture; and

(2) To the payment of the principal or Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) and the Regular Swap Payments subject to the provisions of the Indenture, as follows:

(a) Unless the principal of all of the Bonds shall have become or have been declared due and payable

FIRST: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments and any Regular Swap Payments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

SECOND: To the payment to the Persons entitled thereto of the unpaid principal (including Sinking Fund Installments) or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference.

THIRD: To the payment to the Providers entitled thereto of amounts due with respect to any Related Obligations, and, if the amount available shall not be sufficient to pay in full any amounts due with respect to any Related Obligations, then to the payment thereof ratably, according to the amounts due thereon, to the Providers entitled thereto without discrimination or preferences.

(b) If the principal of all of the Bonds shall have become or have been declared due and payable

FIRST: To the payment to the Persons entitled thereto of the principal and interest then due and unpaid upon the Bonds and any Regular Swap Payments, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond or of any principal or interest over any Regular Swap Payment, according to the amounts due respectively for principal and interest and Regular Swap Payments, to the Persons entitled thereto without any discrimination or preference.

SECOND: To the extent funds remain available, to the payment to the Providers entitled thereto of amounts due with respect to any Related Obligations, and, if the amount available shall not be sufficient to pay in full any amounts due with respect to any Related Obligations, then to the payment thereof ratably, according to the amounts due thereon, to the Providers entitled thereto, without discrimination or preferences.

Trustee to Represent Bondholders

The Trustee is appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as Trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting

on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture, the Facility Lease, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Indenture, the Facility Lease, the Act or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other amounts and assets pledged under the Indenture pending such proceedings. If more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%). All rights action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

Bondholders' Direction of Proceedings

Anything in the Indenture to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall, have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefor, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

Limitation on Bondholders' Right to Sue

No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Facility Lease, the Act or any other applicable law with respect to such Bond, unless (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such suit, action or proceeding in its own name; provided, however, that if more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%); (3) such Holder or said Holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by such Holders or Holders' action to affect disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture, the Facility Lease, the Act or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Authority

Nothing in the Indenture, or in the Bonds, contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal or Redemption Price of and interest on the Bonds to the respective Holders of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other assets pledged therefor, and not otherwise, or affect or impair the right of such Holders, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings

In case any proceedings taken by the Trustee or anyone or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the Authority, the Trustee, the Bond Insurer, the Liquidity Facility Provider (if any) and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee, the Bond Insurer, the Liquidity Facility Provider (if any) and the Bondholders shall continue as though no such proceedings had been taken.

Remedies Not Exclusive

No remedy in the Indenture conferred upon or reserved to the Trustee or to the Holders of the Bonds or to any Provider is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or thereafter existing at law or in equity or otherwise.

No Waiver of Default

No delay or omission of the Trustee or of any Holder of the Bonds or of any Provider to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Trustee

Duties, Immunities and Liabilities of Trustee. The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture, and, except to the extent required by law, no implied covenants or obligations shall be read into the Indenture against the Trustee. The Trustee shall during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person that customarily engages in activities essentially similar to those provided for the Trustee under the Indenture would exercise or use under the circumstances in the conduct of such person's own affairs.

The Authority may, upon written request of the City shall, remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

The Trustee may at any time resign by giving written notice of such resignation to the Authority, the Bond Insurer, the Liquidity Facility Provider (if any), the City and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation the Authority shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment.

Any removal or resignation of the Trustee and appointment of a successor Trustee shall only become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within thirty (30) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of such Bondholder and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee. Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but nevertheless at the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon the request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and

certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon the acceptance of appointment by a successor Trustee as provided in this subsection, the Authority shall mail, or cause to be mailed, a notice of the succession of such Trustee to the trusts under the Indenture to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the Authority fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Authority.

The Trustee and any successor Trustee shall be a trust company or bank having a combined capital and surplus of at least seventy-five million dollars (\$75,000,000) (or providing a guarantee of the full and prompt performance by the Trustee of its obligations under this Bond Indenture by a guarantor with such combined capital and surplus) and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this paragraph, the Trustee shall resign immediately in the manner and with the effect specified in this Section.

Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business provided such company shall be eligible under the Indenture, shall be the successor to such Trustee without the execution or filing of any paper or any further act anything in the Indenture to the contrary notwithstanding.

Liability of Trustee. The Trustee may become the owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect, any committee formed to protect the rights of Bondholders, whether or not such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

The Trustee shall not be liable for any error of judgment made in good faith by any of its officers, employees, agents or representatives, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of the Indenture, other than to make draws on a Liquidity Facility or Bond Insurance Policy in accordance with the terms of the Indenture, unless such Bondholders shall have offered to the Trustee security or indemnity, satisfactory to the Trustee, against the costs, expenses and liabilities which may be incurred therein or thereby. The Trustee has no obligation or liability to the

Holders for the payment of interest on, principal of or premium, if any, with respect to the Bonds from its own funds, but rather the Trustee's obligations shall be limited to the performance of its duties under the Indenture.

Except with respect to Events of Default specified in the Indenture, the Trustee shall not be deemed to have knowledge of any Event of Default unless and until an officer at the Principal Office responsible for the administration of its duties under the Indenture shall have actual knowledge thereof or the Trustee shall have received written notice thereof at the Principal Office. The Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements in the Indenture or of any of the documents executed in connection with the Bonds, or as to the existence of a default or Event of Default thereunder. The Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it.

The Trustee may execute any of the trusts or powers under the Indenture or perform any duties under the Indenture either directly or by or through attorneys-in-fact, agents, receivers, officers, employees or representatives, but shall be answerable for the negligence or misconduct of any such attorney-in-fact, agent, receiver, officer, employee or representative selected by it. The Trustee shall be entitled to advice of counsel and other professionals concerning all matters of trust and its duty under the Indenture, but the Trustee shall not be answerable for the professional malpractice of any counselor other professional (including without limiting the generality of the foregoing, attorneys-in-law or certified public accountants) in connection with the rendering of such counsels or other professionals' advice in accordance with the terms of the Indenture, if such counselor other professional was selected by the Trustee with due care.

Modification or Amendment of the Indenture

Amendments Permitted. The Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Trustee and of any Swap Provider may be modified or amended from time to time and at any time by an indenture or indentures supplemental, which the Authority and the Trustee may enter into when, the City shall have filed with the Trustee the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding. No such modification or amendment shall (1) extend the stated maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof or change the Purchase Price to be paid to Holders tendering their Bonds, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds, the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds or the Swap Provider of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Holders of all Bonds then Outstanding and the Swap Provider. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Bondholders at the addresses shown on the registration books maintained by the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

The Indenture and the rights and obligations of the Authority, of the Trustee and of the Holders of the Bonds, except as it relates to the Swap Agreement, may also be modified or amended from time to time and at any time by an indenture or indentures supplemental, which the Authority and the Trustee may enter into without the necessity of obtaining the consent of any Bondholders, for any purpose that will not materially adversely affect the interests of the Holders of the Bonds, including (without limitation) anyone or more of the following purposes:

(1) to add to the covenants and agreements of the Authority contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority;

(2) to make such provisions for the purpose of curing any ambiguity inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority or the Trustee may deem necessary or desirable;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(4) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure set forth in Article III (which shall be deemed not to adversely affect Bondholders);

(5) to evidence or give effect to, or to conform to the terms and provisions of any Liquidity Facility;

(6) to evidence or give effect to, or to conform to the terms and provisions of any insurance policy, letter of credit, surety bond or other credit enhancement for the Bonds;

(7) to facilitate and implement any book entry system (or any termination of a book entry system) with respect to the Bonds;

(8) to maintain the exclusion from gross income of interest payable with respect to the Bonds; or

(9) to make any modification or amendment to the Indenture which will be effective upon the remarketing of Bonds following the mandatory tender of the Bonds.

Any Supplemental Indenture entered into pursuant to this paragraph shall not, for purposes of this paragraph, materially adversely affect the interest of the Bondholders so long as (a) all Bonds are insured by a Bond Insurance Policy or are Variable Rate Bonds, (b) each Bond Insurer shall be rated in the highest Rating Category by S&P and Moody's and (c) if there are Variable Rate Bonds, the Supplemental Indenture shall not become effective until notice thereof shall have been given to Bondholders and thirty (30) days shall have passed during which time Owners of the Variable Rate Bonds shall have had the opportunity to tender their Bonds for purchase or if Bonds are ARS, a successful Auction has been conducted.

The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise. In any event, the Trustee shall obtain the Swap Provider's consent prior to entering into any Supplemental Indenture which materially adversely affects the Swap Providers rights, duties, or immunities under the Indenture or otherwise.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to this Article, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Defeasance

Discharge of Indenture. The Bonds may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways:

- (A) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable;
- (B) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount to pay when due or redeem all Bonds then Outstanding; or
- (C) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority and under any Related Obligations and all Swaps have been terminated and are no longer outstanding, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Trustee signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture (except as otherwise provided in the Indenture) shall cease, terminate become void and be completely discharged and satisfied. In such event, upon the request of the Authority, the Trustee shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary to evidence such discharge and satisfaction and the Trustee shall pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption; provided that in all events moneys in the Rebate Fund shall be subject to the provisions of Indenture relating to the Rebate Fund.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond) and pay any amounts due and payable on any Swaps then Outstanding, provided that, if such Bond is to be redeemed prior to

maturity (a) notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, and (b) the Trustee, the Bond Insurer, the Swap Provider and the Authority shall have received (i) verification report prepared by independent certified public accountants, or other verification agent (which may be the Remarketing Agent) satisfactory to the Trustee and the Authority, to the effect that the payment of the principal of and premium, if any, and interest on such Bonds then Outstanding and any and all other amounts required to be paid under the provisions of this Bond Indenture has been provided for in the manner set forth in this Bond Indenture and the Swap Agreement, and (ii) an Opinion of Bond Counsel addressed and delivered to the Trustee and the Authority to the effect that so providing for the payment of such Bond shall not adversely affect the exclusion of the interest on such Bond from gross income for federal income tax purposes, then all liability of the Authority in respect of such Bond shall cease, terminate and be completely discharged, except only that thereafter the Holder thereof shall be entitled to payment of the principal of and interest on such Bond by the Authority, and the Authority shall remain liable for such payments, but only out of such money or securities deposited with the Trustee as aforesaid for their payment.

Notwithstanding anything in the Indenture to the contrary, if the interest on or principal of the related Insured Bonds shall have been paid by the related Bond Insurer pursuant to the related Bond Insurance Policy, the obligations of the Authority under the Indenture and under such Insured Bonds shall not be deemed discharged or satisfied, such Insured Bonds shall remain Outstanding for all the assignment and pledge contained in the Indenture and all obligations of the Authority under the Indenture shall continue to exist and run to the benefit of such Bond Insurer, and such Bond Insurer shall be subrogated to the rights of Holders of such Insured Bonds including, without limitation, any rights that the Holders of such Bonds may have in respect of securities law violations arising from the offer and sale of such Insured Bonds.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to payor redeem any Bonds, the money or securities to be so deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture (other than the Rebate Fund) and shall be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity (based on an assumed interest rate equal to the Maximum Rate for periods for which the actual interest rate on the Bonds cannot be determined), except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(B) United States Government Obligations, the principal of and interest on which when due (without any income from the reinvestment thereof) will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity (based on an assumed interest rate equal to the Maximum Rate for periods for which the actual interest rate on the Bonds cannot be determined), or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the Authority) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds, and provided further, that with respect to the deposit of United States Government Obligations pursuant to paragraph (B), the Trustee shall have received (i) a verification report from a firm of independent accountants or attorneys acceptable to the Trustee to the effect that the amount deposited is sufficient to make the payment specified therein and (ii) a defeasance opinion addressed to the Bond Insurer.

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of or premium, if any, or interest on, any Bonds and remaining unclaimed for three years (or, if shorter, one day before such moneys would escheat to the State of California under then applicable California law) after such principal or interest, as the case may be, has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or three years (or, if shorter, one day before such moneys would escheat to the State of California under then applicable California law) after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the City free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the Authority and the Trustee indemnifying the Authority and the Trustee with respect to claims of Holders of Bonds which have not yet been paid and containing the agreement of the City to remain liable for the amount so repaid to the City, and all liability of the Authority and the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee may (at the cost of the City) first mail to the Holders of Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Trustee, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof.

Limited Liability of Authority

Notwithstanding anything the Indenture or in the Bonds contained, the Authority shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of the Indenture.

The Bond Insurance Policy Provisions

Payments with respect to claims for interest on and principal of the Bonds disbursed by the Trustee from proceeds of the Bond Insurance Policy shall not be considered to discharge the obligation of the Authority with respect to such Bonds, and the Bond Insurer shall become the owner of such unpaid Bond and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

To the extent that the Indenture confers upon or give or grant to the Bond Insurer any right, remedy or claim under or by reason of the Indenture, the Bond Insurer is explicitly recognized as being a third party beneficiary under the Indenture and may enforce any such right, remedy or claim conferred, given or granted thereunder.

THE FACILITY LEASE

Lease of Leased Property

Pursuant to the Facility Lease, the Authority subleases to the City and the City subleases from the Authority the Leased Property, subject, however, to all easements, encumbrances, and restrictions that exist at the time of the commencement of the term of the Facility Lease. The Leased Property shall consist of the real properties described in Exhibit A of the Facility Lease, as the same may be amended from time to time, pursuant to the terms thereof.

Term; Occupancy

The term of the Facility Lease shall commence on the date of recordation of the Facility Lease in the office of the County Recorder of Stanislaus County, State of California, or on April 18, 2007, whichever is earlier, and shall end on September 1, 2033, unless such term is extended or sooner terminated. If on such termination date, the Series of Bonds corresponding to the Base Rental Payments attributable to the Leased Property, or if applicable, the related Leased Unit, and all other amounts then due under the Facility Lease with respect to such Leased Property or Leased Unit (as the case may be), including any Reserve Facility Costs and amounts due under any Related Obligations, shall not be fully paid, or if the rental payable under the Facility Lease with respect to such Leased Property or Leased Unit (as the case may be) shall have been abated at any time and for any reason, then the term of the Facility Lease with respect to such Leased Property or Leased Unit (as the case may be) shall be extended until all Bonds and Related Obligations of such Series corresponding to the Base Rental Payments attributable to such Leased Property or Leased Unit (as the case may be) and all other amounts then due under the Facility Lease with respect to such Leased Property or Leased Unit (as the case may be), including any Reserve Facility Costs and amounts due under any Related Obligations, shall be fully paid, except that the term of the Facility Lease as to such Leased Property or Leased Unit (as the case may be) shall in no event be extended beyond ten (10) years after such date. If prior to such date, all Bonds of a Series corresponding to the Base Rental Payments attributable to the Leased Property, or if applicable, the related Leased Unit and all other amounts then due under the Facility Lease with respect to such Leased Property or Leased Unit (as the case may be), including any Reserve Facility Costs and amounts due under any Related Obligations, shall be fully paid, or provision therefor made, the term of the Facility Lease with respect to such Leased Property or Leased Unit (as the case may be) shall end ten (10) days thereafter or upon written notice by the City to the Authority, whichever is earlier.

Removal or Substitution of Leased Property

Pursuant to the Indenture, the City may remove or substitute real property as part of the Leased Property for purposes of the Facility Lease, but only after the City shall have filed with the Authority and the Trustee, with copies to each rating agency then providing a rating for the Bonds, all of the following:

- (a) Executed copies of the Facility Lease or amendments thereto containing the amended description of the Leased Property, including the legal description of the Leased Property as modified if necessary;
- (b) A Certificate of the City with copies of the Facility Lease or a site lease, if needed, or amendments thereto containing the amended description of the Leased Property stating that such

documents have been duly recorded in the official records of the County Recorder of Stanislaus County, State of California;

(c) A Certificate of the City evidencing that the annual fair rental value of the Leased Property which will constitute the Leased Property after such removal or substitution will be at least equal to 100% of the maximum amount of Base Rental Payments for (i) the 1998 Bonds and (ii) all Series of Bonds becoming due in the then current year ending August 14 through and including each year during which any Series of Bonds would be Outstanding or in any subsequent year ending August 15 through and including each year during which any Series of Bonds would be Outstanding;

(d) A Certificate of the City stating that, based upon review of such instruments, certificates or any other matters described in such Certificate of the City, the City has good merchantable title to the Leased Property which will constitute the Leased Property after such substitution. The term "good merchantable title" shall mean such title as is satisfactory and sufficient for the needs and operations of the City;

(e) A Certificate of the City stating that such removal or substitution does not adversely affect the City's use and occupancy of the Leased Property;

(f) An Opinion of Counsel (as such term is defined in the Indenture) stating that such amendment or modification (i) is authorized or permitted by the Constitution and laws of the State and the Indenture; (ii) complies with the terms of the Constitution and laws of the State and of the Indenture; (iii) will, upon the execution and delivery thereof, be valid and binding upon the Authority and the City; and (iv) will not cause the interest on the Bonds to be included in gross income for federal income tax purposes; and

(g) A Certificate of the City stating that all conditions to the release or substitution of such property under the 1998 Lease have been satisfied.

Subordination to the 1998 Lease

Notwithstanding any provisions of the Facility Lease to the contrary, the Facility Lease and the rights granted to the City under the Facility Lease are subordinate to the right of the City and the 1998 Trustee under the 1998 Lease, the 1998 Indenture and the rights granted thereunder.

Base Rental Payments

The City agrees to pay to the Authority, as Base Rental Payments for the use and occupancy of the Leased Property (subject to certain the provisions of the Facility Lease) annual rental payments, in accordance with the Base Rental Payment Schedule attached to the Facility Lease.

Each annual payment of Base Rental Payments (to be payable in installments as aforesaid) shall be for the use of the Leased Property.

The City and the Authority agree that on each day on which Base Rental Payments are payable during the term of the lease of the Leased Property, there shall be applied as a credit against the Base Rental Payments payable on such date for the Leased Property the amounts by which such Base Rental Payments for the Leased Property when added to the funds held pursuant to the Indenture (other than the Reserve Fund) and available to pay debt service on the Bonds and any

Related Obligations exceeds such payment obligations due and payable on or before the fifteenth day of the immediately succeeding month.

Additional Payments

The City shall also pay such amounts (the “Additional Payments”) as shall be required by the Authority for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Facility Lease or any pledge of Base Rental Payments payable under the Facility Lease, the Indenture, the Reserve Facility, its interest and the lease of the Leased Property to the City, including but not limited to payment of all fees, costs and expenses and all administrative costs of the Authority related to the Bonds, the Related Obligations, the Leased Property and the Project, including, without limiting the generality of the foregoing, salaries and wages of employees, all expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, auction agents, broker-dealers or attorneys, and fees and expenses payable to any bond insurer, and all other necessary administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Bonds or of the Indenture; but not including in Additional Payments amounts required to pay the principal of or interest on the Bonds or the portion of the Reserve Facility Costs related thereto or payments on Related Obligations or the payment of any Regular Swap Payments or Extraordinary Swap Payments.

The Authority has issued and may in the future issue bonds and has entered into and may in the future enter into leases to finance facilities other than the Leased Property and the Project. The administrative costs of the Authority shall be allocated among said facilities and the Leased Property. The fees of the Trustee under the Indenture, and any other expenses directly attributable to the Leased Property shall be included in the Additional Payments payable under the Facility Lease. The fees of any trustee or paying agent under any indenture securing any additional Series of Bonds of the Authority, and any other expenses directly attributable to any facilities other than the Leased Property, shall not be included in the administrative costs of the Leased Property and shall not be paid from the Additional Payments payable under the Facility Lease. Any expenses of the Authority not directly attributable to any particular leased property or project of the Authority shall be equitably allocated among all such leased property or projects in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Authority to consider the question and render an opinion thereon, shall be a final and conclusive determination as to such allocation. The Trustee may conclusively rely upon the Written Request of the Authority, with the approval of a duly authorized representative of the City, endorsed thereon, in making any determination that costs are payable as Additional Payments under the Facility Lease, and shall not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Leased Property.

Fair Rental Value

The payment of up to the Maximum Annual Base Rental Payments (as shown in the Facility Lease) and Additional Payments, together with the lease payments made under the 1998 Lease, for each rental period during the term of the Facility Lease shall constitute the total rental for said rental period and shall be paid by the City in each Rental Payment Period for and in consideration of the right of use and occupancy of, and continued quiet use and enjoyment of, the Leased Property during each such period for which said rental is to be paid. The parties have agreed and determined that

such total rental payable for each Rental Payment Period represents the fair rental value of the Leased Property for each such period. In making such determination, consideration has been given to the appraised value of the Leased Property, costs of acquisition, demolition, site preparation, design, construction and financing of the Leased Property, other obligations of the parties under the Facility Lease, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public.

Payment Provisions; Deferred Rental

At the request of the City, the Authority is issuing the Bonds as variable rate bonds, and entering into an interest rate swap transaction in an effort to provide a lower cost to the City for the lease of the Leased Property. It is contemplated by the parties that the amount of Base Rental Payments to be payable by the City to the Authority during each Rental Payment Period will be equal to the Estimated Base Rental Payments shown in an exhibit to the Facility Lease. In the event that the amount needed in such Rental Payment Period by the Authority to pay the principal of and interest on the Bonds and any Related Obligations is more than the Estimated Base Rental Payments for such Rental Payment Period, the City will be obligated to pay up to the Maximum Annual Base Rental Payment for such Rental Payment Period. Further, the City agrees that if in any year the Maximum Annual Base Rental Payment exceeds the amount needed by the Authority to pay the principal of and interest on the Bonds and any Related Obligations coming due on or before September 1 following the end of such Rental Payment Period, the excess amount may be deferred by the Authority, at its sole option, on such terms and conditions as it shall determine are necessary to protect the interests of the owners of the Bonds and the Providers of any Related Obligations, and thereupon such excess amount (the "Deferred Rental") need not be paid by the City to the Authority at that time, but instead shall be deferred until such subsequent time as the Authority shall have need for such payment; provided that the Deferred Rental shall not cause the Maximum Annual Base Rental Payment in any Rental Payment Period to exceed 150% of the Estimated Base Rental Payment for such Rental Payment Period as shown in an exhibit to the Facility Lease.

Notwithstanding any dispute between the Authority and the City, the City shall make all Base Rental Payments and Additional Payments when due without deduction or offset of any kind and shall not withhold any Base Rental Payments or Additional Payments pending the final resolution of such dispute. In the event of a determination that the City was not liable for said Base Rental Payments or Additional Payments or any portion thereof, said payments or excess of payments, as the case may be, shall be credited against subsequent Base Rental Payments or Additional Payments due under the Facility Lease or refunded at the time of such determination. Amounts required to be deposited by the City with the Trustee on any date shall be reduced to the extent of amounts on deposit in the Revenue Fund and available therefor.

All payments received shall be applied first to the Base Rental Payments due under the Facility Lease and thereafter to all Additional Payments due under the Facility Lease, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default under the Facility Lease.

Nothing contained in the Facility Lease shall prevent the City from making from time to time contributions or advances to the Authority for any purpose now or thereafter authorized by law, including the making of repairs to, or the restoration of, the Leased Property in the event of damage to or the destruction of the Leased Property.

Appropriations Covenant

The City covenants to take such action as may be necessary to include all Estimated Base Rental Payments and Additional Payments due under the Facility Lease and all lease payments and additional payments under the 1998 Lease in its annual budgets, and to make necessary annual appropriations for such payments, and for such additional amounts as required below. The City will deliver to the Authority and the Trustee within ninety (90) days of adoption of the City budget copies of the portion of each annual City budget relating to the payment of Estimated Base Rental Payments and Additional Payments under the Facility Lease and lease payments and additional payment under the 1998 Lease as so calculated. If in any fiscal year, the amount initially budgeted is insufficient to pay actual Debt Service on the Bonds and payments with respect to Related Obligations, the City shall, by supplemental budget in such fiscal year, appropriate and pay such additional amounts until the total amount appropriated for Base Rental Payments equals Maximum Annual Base Rental Payments for such year as provided in the exhibit to the Facility Lease. The covenants on the part of the City contained in the Facility Lease shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Facility Lease agreed to be carried out and performed by the City.

The Authority and the City understand and intend that the obligation of the City to pay Base Rental Payments and Additional Payments under the Facility Lease shall constitute a current expense of the City and shall not in any way be construed to be a debt of the City in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the City, nor shall anything contained in the Facility Lease constitute a pledge of the general tax revenues, funds or moneys of the City. Base Rental Payments and Additional Payments due under the Facility Lease shall be payable only from current funds which are budgeted and appropriated or otherwise legally available for the purpose of paying Base Rental Payments and Additional Payments or other payments due under the Facility Lease as consideration for use of the Leased Property. The Facility Lease shall not create an immediate indebtedness for any aggregate payments which may become due under the Facility Lease in the event that the term of the Facility Lease is continued. The City has not pledged the full faith and credit of the City, the State of California or any agency or department thereof to the payment of the Base Rental Payments and Additional Payments or any other payments due under the Facility Lease.

Rental Abatement

The Base Rental Payments and Additional Payments shall be abated proportionately during any period in which by reason of any damage or destruction (other than by condemnation, or planned demolition as part of the Project) there is substantial interference with the use and occupancy of the Leased Property by the City, in the proportion in which the initial cost of that portion of the Leased Property rendered unusable bears to the initial cost of the whole of the Leased Property. 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 Facility Lease shall continue in full force and effect and the City waives the benefits of California Civil Code Section 1932(2) and 1933(4) and of Title 11 of the United States Code, Section 365(h) and any and all other rights to terminate the Facility Lease by virtue of any such damage or destruction.

Notwithstanding the foregoing, such abatement shall not result to the extent of moneys held by the Trustee under the Indenture (including, particularly, without limitation, the Reserve Fund, Principal Account and Interest Account), or to the extent such Base Rental Payments are made from proceeds of insurance and rental interruption insurance as provided in the Facility Lease.

Maintenance, Alterations and Additions

Maintenance and Utilities. During such time as the City is in possession of the Leased Property, all maintenance and repair, both ordinary and extraordinary, of the Leased Property shall be the responsibility of the City, which shall at all times maintain or otherwise arrange for the maintenance of the Leased Property in first class condition, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, and shall pay for or otherwise arrange for payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof or any other cause and shall pay for or otherwise arrange for the payment of all insurance policies required to be maintained with respect to the Leased Property. In exchange for the rental provided in the Facility Lease, the Authority agrees to provide only the Leased Property.

Changes to the Leased Property. Subject to the Facility Lease and the provisions of the 1998 Lease, the City, at its own expense, shall have the right to remodel the Leased Property or to make additions, modifications and improvements to the Leased Property. All such additions, modifications and improvements shall thereafter comprise part of the Leased Property and be subject to the provisions of the Facility Lease. Such additions, modifications and improvements shall not damage the Leased Property or cause them to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made, shall be of a value which is at least equal to the value of the Leased Property immediately prior to the making of such additions, modifications and improvements.

Installation of City's Equipment. The City and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Leased Property. All such items shall remain the sole property of such party, in which neither the Authority nor the Trustee shall have any interest, and may be modified or removed by such party at any time provided that such party shall repair and restore any and all damage to the Leased Property resulting from the installation, modification or removal of any such items. Nothing in the Facility Lease shall prevent the City from purchasing items to be installed under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Leased Property.

Insurance

Fire and Extended Coverage Insurance. The City shall procure or cause to be procured and maintain or cause to be maintained, throughout the term of the Facility Lease, insurance against loss or damage to any structures constituting any part of the Leased Property by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance and sprinkler system leakage insurance. Said extended coverage insurance 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. Such insurance shall be in an amount equal to the replacement

cost (without deduction for depreciation) of all structures constituting any part of the Leased Property, excluding the cost of excavations, of grading and filling, and of the land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$500,000 or comparable amount adjusted for inflation), or, in the alternative, shall be in an amount and in a form sufficient (together with moneys held under the Indenture), in the event of total or partial loss, to enable all outstanding Bonds to be redeemed.

In the event of any damage to or destruction of any part of the Leased Property, caused by the perils covered by such insurance, the Authority, and subject to the terms of the 1998 Lease and the 1998 Indenture, shall cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Property, and the Trustee shall hold said proceeds separate and apart from all other funds, in a special fund to be designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as they were in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Trustee shall permit withdrawals of said proceeds from time to time upon receiving the Written Request of the Authority, stating that the Authority has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred. Any balance of said proceeds not required for such repair, reconstruction or replacement shall be treated by the Trustee as Base Rental Payments and applied in the manner provided in the Indenture. Alternatively, the Authority, at its option, with the written consent of the City, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to redeem an aggregate principal amount of outstanding Bonds, equal to the amount of Base Rental Payment attributable to the portion of the Leased Property so destroyed or damaged (determined by reference to the proportion which the cost of such portion of the Leased Property bears to the cost of the Leased Property), may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property and thereupon shall cause said proceeds to be used for the redemption of outstanding Bonds pursuant to the Indenture.

As an alternative to providing the insurance required by the first paragraph of this Section, or any portion thereof, the City may provide a self insurance method or plan of protection if and to the extent such self insurance method or plan of protection shall afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the City. So long as such method or plan is being provided to satisfy the requirements of the Facility Lease, there shall be filed annually with the Trustee a statement of an actuary, insurance consultant or other qualified person (which may be the Risk Manager of the City), stating that, in the opinion of the signer, the substitute method or plan of protection is in accordance with the requirements of this Section and, when effective, would afford reasonable coverage for the risks required to be insured against. There shall also be filed a Certificate of the City setting forth the details of such substitute method or plan. In the event of loss covered by any such self insurance method, the liability of the City under the Facility Lease shall be limited to the amounts in the self insurance reserve fund or funds created under such method.

Any insurance required by the Facility Lease relating to fire and extended coverage insurance, to the extent permitted, shall not be a duplication of the insurance maintained under the 1998 Lease.

Liability Insurance. Except as otherwise provided, the City shall procure or cause to be procured and maintain or cause to be maintained, throughout the term of the Facility Lease, a standard comprehensive general liability insurance policy or policies in protection of the Authority and the City and their respective members, directors, officers, agents and employees, and the Trustee, indemnifying said parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the operation of the Leased Property, with minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$500,000 for damage to property resulting from each accident or event. 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 carried by the City.

As an alternative to providing the insurance required by the preceding paragraph, or any portion thereof, the City may provide a self insurance method or plan of protection if and to the extent such self insurance method or plan of protection shall afford reasonable protection to the Authority and the City and their respective members, directors, officers, agents and employees, and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the City. So long as such method or plan is being provided to satisfy the requirements of the Facility Lease, there shall be filed annually with the Trustee a statement of an actuary, independent insurance consultant or other qualified person (which may be the Risk Manager of the City), stating that, in the opinion of the signer, the substitute method or plan of protection is in accordance with the requirements of this Section and, when effective, would afford reasonable protection to the Authority and the City and their respective members, directors, officers, agents and employees, and the Trustee against loss and damage from the hazards and risks covered thereby. There shall also be filed a Certificate of the City setting forth the details of such substitute method or plan.

Any insurance required under the Facility Lease relating to liability insurance, to the extent permitted, shall not be a duplication of the insurance maintained under the 1998 Lease.

Rental Interruption or Use and Occupancy Insurance. The City shall procure or cause to be procured and maintain or cause to be maintained, rental interruption or use and occupancy insurance to cover loss, total or partial, of the rental income from or the use of the Leased Property as the result of any of the hazards covered by the insurance required by the Facility Lease, in an amount sufficient to pay the part of the total rent under the Facility Lease attributable to the portion of the Leased Property rendered unusable (determined by reference to the proportion which the cost of such portion bears to the cost of the Leased Property) for a period of at least two years, except that such insurance may be subject to a deductible clause of not to exceed two hundred fifty thousand dollars (\$250,000) or a comparable amount adjusted for inflation. Any proceeds of such insurance shall be used by the Trustee to reimburse to the City any rental theretofore paid by the City under the Facility Lease attributable to such structure for a period of time during which the payment of rental under the Facility Lease is abated, and any proceeds of such insurance not so used shall be applied as provided in the Facility Lease (to the extent required for the payment of Base Rental Payments and to the extent required for the payment of Additional Payments) and any remainder shall be treated as Revenue under the Indenture.

Worker's Compensation. The City shall also maintain worker's compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure its

employees against liability for compensation under the Worker's Compensation Insurance and Safety Act now in force in California, or any act enacted as an amendment or supplement thereto. As an alternative, such insurance may be maintained as part of or in conjunction with any other insurance carried by the City. Such insurance may be maintained by the City in the form of self-insurance.

Title Insurance. The City shall obtain, for the benefit of the Authority and the Trustee, upon the execution and delivery of the Facility Lease, title insurance on the Leased Property in an amount not less than \$61,430,000, subject only to Permitted Encumbrances. Any title insurance held under the 1998 Lease shall satisfy, on a dollar to dollar basis, the requirements of this paragraph, so long as the Trustee is named as an additional insured, it being understood that the rights of the Trustee shall be subject to the prior rights of the 1998 Trustee.

Insurance Proceeds; Form of Policies. All policies of insurance required by the Facility Lease relating to fire and extended coverage insurance and rental interruption and use and occupancy insurance shall name the City, the Authority and the Trustee as insured and shall contain a lender's loss payable endorsement in favor of the Trustee. Any such policies may also name the 1998 Trustee as an insured if the policies are intended to satisfy both the requirements of the Facility Lease and the 1998 Lease. The Trustee shall, to the extent practicable, collect, adjust and receive all moneys which may become due and payable under any such policies, may compromise any and all claims thereunder and shall apply the proceeds of such insurance as provided in Facility Lease. All policies of insurance required by the Facility Lease shall provide that the Trustee shall be given thirty (30) days notice of each expiration thereof or any intended cancellation thereof or reduction of the coverage provided thereby. The Trustee shall not be responsible for the sufficiency of any insurance required in the Facility Lease and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the City. The City shall pay when due the premiums for all insurance policies required by the Facility Lease, and shall promptly furnish evidence of such payments to the Authority.

Defaults and Remedies

Defaults and Remedies. (a) If the City shall fail to pay any Base Rental Payments or Additional Payments payable under the Facility Lease when the same becomes due, time being expressly declared to be of the essence of the Facility Lease, or the City shall fail to keep, observe or perform any other term, covenant or condition contained in the Facility Lease to be kept or performed by the City for a period of sixty (60) days after notice of the same has been given to the City by the Authority or the Trustee or for such additional time as is reasonably required, in the sole discretion of the Authority, to correct the same, or upon the happening of any of the events specified in paragraph (b) below (any such case above being an "Event of Default"), the City shall be deemed to be in default under the Facility Lease and it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Facility Lease. Upon any such default, the Authority, in addition to all other rights and remedies it may have at law, shall have the option, without terminating the Facility Lease, but subject to the terms of the 1998 Lease (i) to collect each installment of rent as it becomes due and enforce any other terms or provision to be kept or performed by the City, regardless of whether or not the City has abandoned the Leased Property, or (ii) to exercise any and all rights of entry and re-entry upon the Leased Property. So long as the Facility Lease is not terminated the City shall remain liable and agrees to keep or perform all covenants and conditions contained in the Facility Lease to be kept or performed by the City and, if the Leased Property is not re-let, to pay the full amount of the rent to the end of the term of the Facility Lease or, in the event that the Leased Property is re-let, to pay any deficiency in rent that

results therefrom; and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as hereinabove provided for the payment of rent under the Facility Lease (without acceleration), notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental specified in the Facility Lease, and notwithstanding any entry or re-entry by the Authority or suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such entry or re-entry or obtaining possession of the Leased Property. Should the Authority elect to enter or re-enter as provided in the Facility Lease, the City irrevocably appoints the Authority as the agent and attorney-in-fact of the City to re-let the Leased Property, or any part thereof, from time to time, either in the Authority's name or otherwise, upon such terms and conditions and for such use and period as the Authority may deem advisable, and to remove all persons in possession thereof and all personal property whatsoever situated upon the Leased Property and to place such personal property in storage in any warehouse or other suitable place located in the City of Modesto, California, for (to the extent permitted by law) the account of and at the expense of the City, and the City (to the extent permitted by law) exempts and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Leased Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Facility Lease. The City agrees that the terms of the Facility Lease constitute full and sufficient notice of the right of the Authority to re-let the Leased Property and to do all other acts to maintain or preserve the Leased Property as the Authority deems necessary or desirable in the event of such re-entry without effecting a surrender of the Facility Lease, and further agrees that no acts of the Authority in effecting such re-letting shall constitute a surrender or termination of the Facility Lease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise. The City further waives the right to any rental obtained by the Authority in excess of the rental specified in the Facility Lease and conveys and releases such excess to the Authority as compensation to the Authority for its services in re-letting the Leased Property or any part thereof. The City further agrees to the extent permitted by law to pay the Authority the reasonable cost of any alterations or additions to the Leased Property necessary to place the Leased Property in condition for re-letting immediately upon notice to the City of the completion and installation of such additions or alterations.

The City waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Leased Property as provided in the Facility Lease and all claims for damages that may result from the destruction of or injury to the Leased Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be in or upon the Leased Property.

(b) If (1) the City's interest in the Facility Lease or any part thereof is assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority, or (2) the City or any assignee shall file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the City's debts or obligations, or offers to the City's creditors to effect a composition or extension of time to pay the City's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the City's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the City, or if a receiver of

the business or of the property or assets of the City shall be appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the City shall make a general or any assignment for the benefit of the City's creditors, or if (3) the City shall abandon or vacate the Leased Property, then the City shall be deemed to be in default under the Facility Lease.

(c) The Authority shall in no event be in default in the performance of any of its obligations under the Facility Lease or imposed by any statute or rule of law unless and until the Authority shall have failed to perform such obligations within sixty (60) days or such additional time as is reasonably required to correct any such default after notice by the City to the Authority properly specifying wherein the Authority has failed to perform any such obligation. In the event of default by the Authority, the City shall be entitled to pursue any remedy provided by law.

(d) In addition to the other remedies set forth above, upon the occurrence of an event of default, the Authority shall be entitled to proceed to protect and enforce the rights vested in the Authority by the Facility Lease or by law. The provisions of the Facility Lease and the duties of the City and of its trustees, officers or employees shall be enforceable by the Authority by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority shall have the right to bring the following actions:

Accounting. By action or suit in equity to require the City and its trustees, officers and employees and its assigns to account as the trustee of an express trust.

Injunction. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority.

Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce the Authority's rights against the City (and its board, officers and employees) and to compel the City to perform and carry out its duties and obligations under the law and its covenants and agreements with the City as provided in the Facility Lease.

The exercise of any rights or remedies under the Facility Lease shall not permit acceleration of Base Rental Payments.

Each and all of the remedies given to the Authority under the Facility Lease or by any law now or thereafter enacted are cumulative and the single or partial exercise of any right, power or privilege under the Facility Lease shall not impair the right of the Authority to other or further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" shall include, but not be limited to, re-letting by means of the operation by the Authority of the Leased Property. If any statute or rule of law validly shall limit the remedies given to the Authority under the Facility Lease, the Authority nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

In the event the Authority shall prevail in any action brought to enforce any of the terms and provisions of the Facility Lease, the City agrees to pay a reasonable amount as and for attorney's fees incurred by the Authority in attempting to enforce any of the remedies available to the Authority under the Facility Lease, whether or not a lawsuit has been filed and whether or not any lawsuit culminates in a judgment.

Waiver. Failure of the Authority to take action on any default on the part of the City shall not be, or be construed as, a waiver thereof, nor shall any custom or practice which may grow up between the parties in the course of administering this instrument be construed to waive or to lessen the right of the Authority to insist upon performance by the City of any term, covenant or condition, or to exercise any rights given the Authority on account of such default. A waiver of a particular default shall not be deemed to be a waiver of the same or any subsequent default. The acceptance of rent under the Facility Lease shall not be, or be construed to be, a waiver of any term, covenant or condition of the Facility Lease.

Eminent Domain; Prepayment

Eminent Domain. If the whole of the Leased Property or so much thereof as to render the remainder unusable for the purposes for which it was used by the City shall be taken under the power of eminent domain, the term of the Facility Lease shall cease as of the day that possession shall be so taken. If less than the whole of the Leased Property shall be taken under the power of eminent domain and the remainder of the Leased Units is usable for the purposes for which it was used by the City at the time of such taking, then the Facility Lease shall continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there shall be a partial abatement of the Base Rental Payments due under the Facility Lease in an amount equivalent to the amount by which the annual payments of principal and interest on the Outstanding Bonds will be reduced by the application of the award in eminent domain to the redemption of outstanding Bonds. So long as any of the Bonds shall be outstanding, any award made in eminent domain proceedings for taking the Leased Property or any of the Leased Units thereof shall be paid to the Trustee and applied to the prepayment of the Base Rental Payments as provided in the Facility Lease, but subject to the terms of the 1998 Lease. Any such award made after all of the Base Rental Payments and Additional Payments have been fully paid, or provision therefor made, shall be paid to the to the City.

Prepayment. (a) Subject to the terms of the 1998 Lease, the City shall prepay on any date from insurance (including proceeds of title insurance) and eminent domain proceeds, to the extent provided in the Facility Lease (provided, however, that in the event of partial damage to or destruction of the Leased Property caused by perils covered by insurance, if in the judgment of the Authority the insurance proceeds are sufficient to repair, reconstruct or replace the damaged or destroyed Leased Property, such proceeds shall be held by the Trustee and used to repair, reconstruct or replace the damaged or destroyed Leased Property), all or any part of Base Rental Payments then unpaid so that the aggregate annual amounts of Base Rental Payments which shall be payable after such prepayment date shall be as nearly proportional as practicable to the aggregate annual amounts of Base Rental Payments unpaid prior to the prepayment date (taking into account the reduction in Base Rental Payments allocable to future interest on the Bonds that are redeemed), at a prepayment amount equal to the redemption payment of the maximum amount of Bonds, including the principal thereof and the interest thereon to the date of redemption, plus any applicable premium redeemable from such proceeds.

(b) The City may prepay, from any source of available funds, all or any portion of Base Rental Payments by depositing with the Trustee moneys or securities as provided in the Indenture sufficient to defease or redeem all or a portion of a Series of Bonds corresponding to such Base Rental Payments when due; provided that the City furnishes the Trustee with an Opinion of Counsel that such deposit will not cause interest on such Series of Bonds to be includable in gross income for federal income tax purposes. The City agrees that if following such prepayment the Leased Property

are damaged or destroyed or taken by eminent domain, it is not entitled to, and by such prepayment waives the right of, abatement of such prepaid Base Rental Payments and shall not be entitled to any reimbursement of such Base Rental Payments.

(c) Before making any prepayment, the City shall, within five (5) days following the event creating such right or obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment will be made, which date shall be not less than forty-five (45) days from the date such notice is given.

(d) When (1) there shall have been deposited with the Trustee at or prior to the due dates of the Base Rental Payments or the date when the City may exercise its option to purchase the Leased Property or any of the Leased Unit thereof, in trust for the benefit of the Owners of the Bonds and irrevocably appropriated and set aside to the payment of the Base Rental Payments or option price, sufficient moneys and Permitted Investments described in paragraph (1) of the definition thereof in the Indenture, not redeemable prior to maturity, the principal of and interest on which when due will provide money sufficient to pay all principal, premium, if any, and interest on the Bonds to the due date of the Bonds or date when the City may exercise its option to purchase the Leased Property, as the case may be; (2) all requirements of the Indenture have been satisfied; and (3) an agreement shall have been entered into with the Trustee for the payment of its fees and expenses so long as any of the Bonds shall remain unpaid, then and in that event the right, title and interest of the Authority in the Facility Lease and the obligations of the City under the Facility Lease shall thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Authority and the obligation of the City to have such moneys and such Permitted Investments applied to the payment of the Base Rental Payments or option price) and the Authority's interest in and title to the Project or applicable portion or item thereof shall be transferred and conveyed to the City. In such event, the Authority shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the Authority and evidence such discharge and satisfaction, and the Authority shall pay over to the City as an overpayment of Base Rental Payments all such moneys or Permitted Investments held by it other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Base Rental Payments or the option price and the fees and expenses of the Trustee, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of Base Rental Payments or the option price and the fees and expenses of the Trustee, and shall be applied by the Authority to the payment of the Base Rental Payments or the option price and the fees and expenses of the Trustee.

Covenants

Right of Entry. The Authority and its assignees shall have the right to enter upon and to examine and inspect the Leased Property during reasonable business hours (and in emergencies at all times) (a) to inspect the same, (b) for any purpose connected with the Authority's or the City's rights or obligations under the Facility Lease, and (c) for all other lawful purposes.

Liens. In the event the City shall at any time during the term of the Facility Lease cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Leased Property, the City shall pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon or about the Leased Property and shall keep the Leased Property free of any and all mechanics' or materialmen's liens or other

liens against the Leased Property or the Authority's interest therein. In the event any such lien attaches to or is filed against the Leased Property or the Authority's interest therein, the City shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the City desires to contest any such lien it may do so in good faith. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the City shall forthwith pay and discharge said judgment. The City agrees to and shall, to the maximum extent permitted by law, indemnify and hold the Authority and the Trustee and their respective members, directors, agents, successors and assigns, harmless from and against, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorney's fees) as a result of any such lien or claim of lien against the Leased Property or the Authority's interest therein.

Authority Not Liable. The Authority and its members, directors, officers, agents and employees shall not be liable to the City or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Leased Property. The City, to the extent permitted by law, shall indemnify and hold the Authority and its members, directors, officers, agents and employees, harmless from, and defend each of them against, any and all claims, liens and judgments arising from the construction or operation of the Leased Property, including, without limitation, death of or injury to any person or damage to property whatsoever occurring in, on or about the Leased Property regardless of responsibility for negligence, but excepting the active negligence of the person or entity seeking indemnity.

Assignment and Subleasing. Neither the Facility Lease nor any interest of the City under the Facility Lease shall be mortgaged, pledged, assigned, sublet or transferred by the City by voluntary act or by operation of law or otherwise, except with the prior written consent of the Authority, which, in the case of subletting, shall not be unreasonably withheld; provided such subletting shall not affect the tax-exempt status of the interest on the Bonds. No such mortgage, pledge, assignment, sublease or transfer shall in any event affect or reduce the obligation of the City to make the Base Rental Payments and Additional Payments required under the Facility Lease.

Title to Leased Property; No Merger of Interests. During the term of the Facility Lease, the Authority shall hold a leasehold estate to the Leased Property and any and all additions which comprise fixtures, repairs, replacement or modifications thereof, except for those fixtures, repairs, replacements or modifications which are added thereto by the City and which may be removed without damaging the Leased Property, and except for any items added to the Leased Property by the City pursuant to the Facility Lease. This provision shall not operate to the benefit of any insurance company if there is a rental interruption covered by insurance pursuant to the Facility Lease.

The leasing by the Authority to the City of the Leased Property pursuant to the 1998 Lease, the leasing by the City to the Authority of the Leased Property pursuant to the Sublease and the leasing by the Authority to the City of such Leased Property shall not effect or result in a merger of the City's leasehold estate pursuant to the Facility Lease, and the Authority shall continue to have and hold a leasehold estate in the Leased Property pursuant to the Sublease throughout the term thereof. As to the Leased Property, the Facility Lease shall be deemed and constitute a sub-sublease.

Tax Covenants. The City and the Authority will not make any use of the proceeds of the obligations provided in the Facility Lease or any other funds of the City or the Authority which will

cause such obligations to be “arbitrage bonds” subject to federal income taxation by reason of Section 148 of the Code. The City and the Authority will not make any use of the proceeds of the obligations provided in the Facility Lease or any other funds of the City or the Authority which will cause such obligations to be “federally guaranteed” and subject to inclusion in gross income for federal income tax purposes by reason of Section 149(b) of the Code. To that end, so long as any rental payments are unpaid, the City and the Authority, with respect to such proceeds and such other funds, will comply with all requirements of such Sections 148 and 149(b) and all regulations of the United States Department of the Treasury issued thereunder to the extent that such requirements are, at the time, applicable and in effect.

The City further covenants that it will not use or permit the use of the facilities financed or refinanced by the proceeds of the Bonds by any person not an “exempt person” within the meaning of Section 141(a) of the Code or by an “exempt person” (including the City) in an “unrelated trade or business,” in such manner or to such extent as would result in the inclusion of interest received under the Facility Lease in gross income for federal income tax purposes under Section 103 of the Code.

If at any time the City is of the opinion that it is necessary to restrict or limit the yield on or change in any way the investment of any moneys held by the Trustee or the City or the Authority under the Facility Lease or the Indenture, the City shall so instruct the Trustee or the appropriate officials of the City in writing, and the Trustee or the appropriate officials of the City, as the case may be, shall take such actions as may be necessary in accordance with such instructions.

In furtherance of the covenants of the City set forth above, the City will comply with the Tax Certificate and will instruct the Trustee in writing as necessary to comply with the Tax Certificate. The Trustee and the Authority may conclusively rely on any such written instructions, and the City agrees to hold harmless the Trustee and the Authority for any loss, claim, damage, liability or expense incurred by the Authority for any actions taken by the Authority in accordance with such instructions.

The City and the Authority shall at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the interest on the Bonds will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being excluded from gross income for federal income tax purposes.

Continuing Disclosure. The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Facility Lease, failure of the City to comply with the Continuing Disclosure Agreement shall not be considered an event of default under the Facility Lease; however, the Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least 25% aggregate principal amount of Bonds Outstanding and provided satisfactory indemnification is provided to the Trustee, shall) or any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to compel the City to comply with its obligations under this paragraph.

Taxes. The City shall pay or cause to be paid all taxes and assessments of any type or nature charged to the Authority or affecting the Leased Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the term of the Facility Lease as and when the same become due.

Authority's Purpose. The Authority covenants that, prior to the discharge of the Facility Lease, it will not engage in any activities inconsistent with the purposes for which the Authority is organized.

Purpose of Facility Lease. The City covenants that during the term of the Facility Lease (a) it will use, or cause the use of, the Leased Property for public purposes and for the purposes for which the Leased Property are customarily used, (b) it will not vacate or abandon the Leased Property or any part thereof, and (c) it will not make any use of the Leased Property which would jeopardize in any way the insurance coverage required to be maintained.

Compliance with 1998 Lease; Covenant Not to Terminate or Amend the 1998 Lease. The City agrees to comply with the terms of the 1998 Lease and make all payments due thereunder, as provided therein. The City and the Authority covenant not to terminate or amend the 1998 Lease so long as the Bonds are outstanding, unless such a termination or amendment of the 1998 Lease would not have a material adverse effect on the holders of the Bonds.

Amendment or Termination

Amendment or Termination. The Authority and the City may at any time amend, modify or terminate the Facility Lease in accordance with the terms thereof and of the Indenture, or provide for the amendment of the Facility Lease to remove or substitute the Leased Property, or to provide for the issuance of Additional Bonds pursuant to the Indenture.

THE SUBLEASE

Subleased Premises

The City subleases to the Authority (without option to purchase) and the Authority subleases from the City, on the terms and conditions set forth in the Sublease, the Leased Property.

Term

The terms of the Sublease shall remain in effect until the term of the Facility Lease expires as provided thereof, provided, however, that if Base Rental Payments (as defined therein) due under the Facility Lease remain unpaid at the expiration of the Lease term, then the Sublease shall not terminate until the earlier of (i) September 1, 2033, (ii) the date on which the Bonds have been paid in full, (iii) the termination of the term of the Facility Lease pursuant to the terms thereof, or (iv) the termination of the term of the 1998 Lease.

Right to Sublease

The City covenants that it has a leasehold interest in the Leased Property and has the right, pursuant to the 1998 Lease to sublease the Leased Property to the Authority.

Termination

The Authority agrees, upon the termination of the Sublease, to quit and surrender the Leased Property in the same good order and condition as the same was in at the time of commencement of the term under the Sublease (with such modifications and improvements as are contemplated by the Facility Lease), and with reasonable wear and tear excepted.

Default

In the event the Authority shall be in default in the performance of any obligation on its part to be performed under the terms of the Sublease, which default continues for 30 days following written notice to and demand for correction thereof by the City, the City may exercise any and all remedies granted by law which do not adversely affect the interests of the owners of the Bonds, with the consent of the Trustee; provided that the City may not terminate the Sublease and shall exercise only remedies providing for specific performance under the Sublease.

Eminent Domain

In the event the whole or any part of the Leased Property is taken by eminent domain proceedings, the interest of the Authority shall be recognized and is determined to be the amount of the then unpaid or outstanding Bonds and all other amounts due under the Indenture and the Facility Lease attributable to such part of the Leased Property and any award in eminent domain proceedings shall be paid to the Trustee and the Trustee shall apply such award as provided in the Facility Lease, subject to the prior rights of the 1998 Trustee.

No Merger of Interests

The leasing by the Authority to the City of the Leased Property pursuant to the 1998 Lease, the subleasing by the City to the Authority of the Leased Property pursuant to the Sublease and the sub-subleasing by the Authority to the City of such Leased Property pursuant to the Facility Lease shall not effect or result in a merger of the Authority's leasehold estate pursuant to the Sublease.

Amendment

The Authority and the City may at any time agree to the amendment of the Sublease; provided, however, that the Authority and the City agree and recognize that the Sublease is entered into as contemplated by the terms of the Indenture, and accordingly, that any such amendment shall only be made or effected in accordance with and subject to the terms of the Indenture.

Compliance with 1998 Lease; Covenant Not to Terminate or Amend the 1998 Lease

The City agrees to comply with the terms of the 1998 Lease and make all payments due thereunder, as provided therein. The City and the Authority covenant not to terminate or amend the 1998 Lease so long as the Bonds are outstanding, unless such a termination or amendment of the 1998 Lease would not have a material adverse effect on the holders of the Bonds.

Subordination to the 1998 Lease

The City and the Authority acknowledge that the Sublease and the rights granted under the Sublease are subordinate to the right of the City and the 1998 Trustee under the 1998 Lease, the 1998 Indenture and the rights granted thereunder.

APPENDIX B
ARS PROVISIONS

ARTICLE I
DEFINITIONS

In addition to the words and terms elsewhere defined in the Indenture, the following words and terms as used in this Appendix B and elsewhere in the Indenture and Official Statement have the following meanings with respect to a Series of Bonds in an ARS Mode, unless the context or use indicates another or different meaning or intent:

“Agent Member” means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

“All Hold Rate” means, as of any Auction Date, 55% of the ARS Index in effect on such Auction Date.

“ARS” means Auction Rate Securities.

“ARS Bonds” means Bonds evidencing interest at the ARS Rate.

“ARS Index” shall have the meaning specified in Section 2.07 of this Appendix B.

“ARS Rate” means for each Series of Bonds, the rate of interest to be evidenced by such Series of Bonds during each Auction Period determined in accordance with Section 2.03 of this Appendix B; provided, however, that in no event may the ARS Rate exceed the Maximum Interest Rate.

“ARS Rate Conversion Date” means the date on which ARS Bonds convert from a Mode other than an ARS Mode to the ARS Mode for an ARS Rate Period and begin to evidence interest at an ARS Rate.

“ARS Rate Period” means (i) any period of time commencing on the day following the Initial Period to but not including a Conversion Date for a Series of ARS Bonds and (ii) the period from and including an ARS Rate Conversion Date for a Series of Bonds to but excluding the next Conversion Date for such Series of Bonds.

“Auction” means each periodic implementation of the Auction Procedures.

“Auction Agent” means the auctioneer appointed in accordance with Section 3.01 or 3.02 of this Appendix B. The initial Auction Agent for the Series 2007 Bonds shall be Deutsche Bank Trust Company Americas.

“Auction Agreement” means an agreement between an Auction Agent and the Trustee approved by the Bond Insurer for a Series of Bonds pursuant to which an Auction Agent agrees to follow the procedures specified in this Appendix B with respect to ARS Bonds, as such agreement may from time to time be amended or supplemented.

“Auction Date” means, with respect to a Series of ARS Bonds, (a) if such Series of ARS Bonds are in a daily Auction Period, each Business Day, (b) if such Series of ARS Bonds are in a Special Auction Period, the last Business Day of the Special Auction Period, and (c) if such Series of ARS Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Series of ARS Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to a Series of ARS Bonds in an Auction Period other than a daily Auction Period or a Special Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for such Series of ARS Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final Maturity Date; and provided, further, that if a Series of ARS Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for such Series of ARS Bonds and (y) the Business Day next preceding the final Maturity Date. The last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion. The first Auction Date for the Series 2007 Bonds is September 2, 2008.

“Auction Period” means with respect to a Series of ARS Bonds:

- (a) a Special Auction Period;
- (b) with respect to a Series of ARS Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;
- (c) with respect to a Series of ARS Bonds in a seven day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally seven days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally seven days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally seven days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally seven days beginning on a Friday (or the day following the last day of the prior

Auction Period if the prior Auction Period does not end on a Thursday) and ending on the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(d) with respect to a Series of ARS Bonds in a 28-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 28 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 28 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 28 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 28 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 28 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(e) with respect to a Series of ARS Bonds in a 35-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 35 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Sunday) and ending on the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 35 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Monday) and ending on the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 35 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 35 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 35 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Thursday) and ending on the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(f) with respect to a Series of ARS Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period (unless such first day of the month is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); and

(g) with respect to a Series of ARS Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the last day of the month which is the sixth calendar month following the beginning date of such Auction Period (such six month period to include the month when the six-month Auction Period commenced) and ending on the last day of every sixth month thereafter; provided that no six-month Auction Period for a Series of ARS Bonds may extend beyond the Maturity Date;

provided, however, that:

(a) if there is a conversion of a Series of ARS Bonds with Auctions generally conducted on Fridays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(b) if there is a conversion of a Series of ARS Bonds with Auctions generally conducted on Mondays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(c) if there is a conversion of a Series of ARS Bonds with Auctions generally conducted on Tuesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(d) if there is a conversion of a Series of ARS Bonds with Auctions generally conducted on Wednesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion; and

(e) if there is a conversion of a Series of ARS Bonds with Auctions generally conducted on Thursdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Interest Rate because Sufficient Clearing Bids do not exist, the Auction Period shall automatically change to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

“Auction Procedures” means the procedures for conducting Auctions for a Series of ARS Bonds during an ARS Rate Period set forth in this Appendix B.

“Auction Rate” means for a Series of ARS Bonds, the rate of interest to be borne by such Series of ARS Bonds during each Auction Period determined in accordance with Section 2.03 of this Appendix B, which: (i) if Sufficient Clearing Bids exist, shall be the Winning Bid Rate, provided, however, if all of the ARS Bonds of such Series are the subject of Submitted Hold Orders, such rate shall be the All Hold Rate with respect to such Series of ARS Bonds; and (ii) if Sufficient Clearing Bids do not exist, such rate shall be the Maximum Interest Rate with respect to such Series of ARS Bonds.

“Available Bond” means for a Series of ARS Bonds on each Auction Date, the aggregate principal amount of such Series of ARS Bonds that are not the subject of Submitted Hold Orders.

“Bid” has the meaning specified in subsection (a) of Section 2.01 of this Appendix B.

“Bidder” means each Existing Owner and Potential Owner who places an Order.

“Broker-Dealer” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix B that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Authority and that is a party to a Broker-Dealer Agreement with the Auction Agent.

“Broker-Dealer Agreement” means an agreement approved by the Bond Insurer for a Series of Bonds among the Auction Agent, the Authority and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix B, as such agreement may from time to time be amended or supplemented.

“Broker-Dealer Deadline” means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; provided, however, that nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions herein. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

“Clerical Error” means a clerical error in the processing of an Order, and includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners (including Orders

from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a "Clerical Error" is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

"Conversion Date" means the date on a Series of ARS Bonds are converted from an ARS Mode to a Mode other than an ARS Mode and begin to bear interest at a Daily Rate, a Weekly Rate, a Flexible Rate, a Term Rate or a Fixed Rate.

"Error Correction Deadline" means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker-Dealer; provided, however, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time, unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

"Existing Owner" means a Person who is listed as the beneficial owner of ARS Bonds in the records of the Auction Agent; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

"Hold Order" has the meaning specified in subsection (a) of Section 2.01 of this Appendix B.

"Initial Period" means the period from the issue date of the Series 2007 Bond to and including September 2, 2008.

"Interest Payment Date" with respect to Series 2007 Bond means September 1, 2007, March 1, 2008 and September 3, 2008 with respect to the Initial Period for the Series 2007 Bond, and thereafter for any Series of ARS Bonds (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Special Auction Period of (i) seven or more but fewer than one hundred eighty-three (183) days, the Business Day immediately following such Special Auction Period, or (ii) more than one hundred eighty-two (182) days, each April 1 and October 1 and on the Business Day immediately following such Special Auction Period and (d) the date when the final principal amount of the Bonds of a Series becomes due and payable, either at maturity or upon early redemption.

"LIBOR" means, with respect to a Series of ARS Bonds, on any date of determination for an Auction Period for such Series of ARS Bonds, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

"Maximum Interest Rate" means the lesser of 12% or the maximum rate permitted by applicable law.

“Order” means a Hold Order, Bid or Sell Order.

“Potential Owner” means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in ARS Bonds in addition to ARS Bonds currently owned by such Person, if any; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

“Principal Office” means, with respect to the Auction Agent of a Series of ARS Bonds, the office thereof designated in writing to the Authority, the Trustee and each Broker-Dealer.

“Sell Order” has the meaning specified in subsection (a) of Section 2.01 of this Appendix B.

“Special Auction Period” means, with respect to a Series of ARS Bonds, (a) any period of one hundred eighty-two (182) days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of a Series of ARS Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of a Series of ARS Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a Series of ARS Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of a Series of ARS Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a Series of ARS Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, or (b) any period which is longer than one hundred eighty-two (182) days, which begins on an Interest Payment Date and ends not later than the final scheduled Maturity Date and, in either case, is not otherwise within the definition of an Auction Period.

“Submission Deadline” means 1:00 p.m. New York City time on each Auction Date for a Series of ARS Bonds not in a daily Auction Period, and 11:00 a.m., New York City time, on each Auction Date for such Series of ARS Bonds in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association’s Early Market Close Recommendations for shortened trading days for the bond markets (the “SIFMA Recommendation”) unless the Auction Agent is instructed otherwise in writing by the Trustee or the Authority. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m., New York City time.

“Submitted Bid” has the meaning specified in subsection (b) of Section 2.04 of this Appendix B.

“Submitted Hold Order” has the meaning specified in subsection (b) of Section 2.04 of this Appendix B.

“Submitted Order” has the meaning specified in subsection (b) of Section 2.04 of this Appendix B.

“Submitted Sell Order” has the meaning specified in subsection (b) of Section 2.04 of this Appendix B.

“Sufficient Clearing Bids” means with respect to a Series of ARS Bonds, an Auction for which the aggregate principal amount of such Series of ARS Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Interest Rate is not less than the aggregate principal amount of such Series of ARS Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Interest Rate.

“Winning Bid Rate” means with respect to a Series of ARS Bonds, the lowest rate specified in any Submitted Bid for such Series of ARS Bonds which if selected by the Auction Agent as the ARS Rate for such Series of ARS Bonds would cause the aggregate principal amount of such Series of ARS Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds.

ARTICLE II

AUCTION PROCEDURES

Section 2.01. Orders by Existing Owners and Potential Owners.

(a) Prior to the Broker-Dealer Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, one or more Orders as to:

(A) the principal amount of the ARS Bonds, if any, held by such Existing Owner, which such Existing Owner commits to continue to hold for the next succeeding Auction Period without regard to the Auction Rate for such Auction Period;

(B) the principal amount of the ARS Bonds, if any, held by such Existing Owner, which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum specified in such Order (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (b)(i)(A) of this Section); and/or

(C) the principal amount of the ARS Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the first Business Day of the next succeeding Auction Period (or on the same day in the case of a daily Auction Period) without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) each Potential Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of ARS Bonds, which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof, an Order containing the information referred to in clause (i)(A) above is herein referred to as a “Hold Order,” an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a “Bid,” and an Order containing the information referred to in clause (i)(C) above is herein referred to as a “Sell Order.”

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Owner or a Potential Owner or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding ARS Bonds. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or a Bid which does not specify a specific interest rate.

(b) (i) A Bid by an Existing Owner shall constitute an offer to sell on the first Business Day of the next succeeding Auction Period (or the same day in the case of a daily Auction Period):

(A) the principal amount of the ARS Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the ARS Bonds to be determined as described in subsection (a)(v) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(C) a lesser principal amount of the ARS Bonds to be determined as described in subsection (b)(iv) of Section 2.05 of this Appendix B if such specified rate shall be higher than the Maximum Interest Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an offer to sell:

(A) the principal amount of the ARS Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of the ARS Bonds as described in subsection (b)(iv) of Section 2.05 of this Appendix B if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an offer to purchase:

(A) the principal amount of the ARS Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the ARS Bonds as described in subsection (a)(vi) of Section 2.05 of this Appendix B if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) If an Order or Orders covering all of the ARS Bonds held by an Existing Owner is not submitted to the Broker-Dealer of record for such Existing Owner prior to the Broker-Dealer Deadline, such Broker-Dealer shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of ARS Bonds held by such Existing Owner and not subject to Orders submitted to such Broker-Dealer; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of ARS Bonds to be converted held by such Existing Owner, such Broker-Dealer shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of ARS Bonds to be converted held by such Existing Owner not subject to Orders submitted to such Broker-Dealer.;

(ii) for purposes of any Auction, any Order by any Existing Owner or Potential Owner shall be revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline, all such Orders shall be irrevocable, except as provided in Sections 2.02(e)(ii) and 2.02(f); and

(iii) for purposes of any Auction other than during a daily Auction Period, any ARS Bonds sold or purchased pursuant to subsection (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; provided that, for purposes of any Auction during a daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

Section 2.02. Submission of Orders by Broker-Dealers to Auction Agent.

(a) Each Broker-Dealer shall submit to the Auction Agent in writing, or by such Electronic Means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date for Bonds of a Series, all Orders with respect to ARS Bonds accepted by such Broker-Dealer in accordance with Section 2.01 above and specifying with respect to each Order or aggregation of Orders pursuant to Section 2.02(b) below:

(i) the name of the Broker-Dealer;

(ii) the number of Bidders placing Orders, if requested by the Auction Agent;

(iii) the aggregate principal amount of the ARS Bonds, if any, that are the subject of such Order;

(iv) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of the ARS Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of the ARS Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of the ARS Bonds, if any, subject to any Sell Order placed by such Existing Owner.

(v) the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Owner, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Owner submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the principal amount of the ARS Bonds specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Owners with those of other Potential Owners on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders of different Existing Owners with other Existing Owners on whose behalf the Broker-Dealer is submitting Orders; provided, however, Bids may only be aggregated if the interest rates on the Bids are the same.

(c) Neither the Authority, the Trustee nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(d) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the ARS Bonds for its own account.

(e) Until the Submission Deadline, a Broker-Dealer may withdraw or modify any Order previously submitted to the Auction Agent (i) for any reason if the Order was generated by the Auction Desk of the Broker-Dealer for the account of the Broker-Dealer or (ii) to correct a Clerical Error in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.

(f) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:

(i) submit to the Auction Agent an Order received from an Existing Owner, Potential Owner or a Broker-Dealer which is not an Order originated by the Auction Desk, in each case prior to the Broker-Dealer Deadline, or an Order generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline (provided that in each case the Broker-Dealer has a record of

such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of (A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or, under the conditions then prevailing, impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

(ii) modify or withdraw an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer (whether generated by the Broker-Dealer's Auction Desk or elsewhere within the Broker-Dealer) for its own account and submitted to the Auction Agent prior to the Submission Deadline or pursuant to clause (i) above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this Section 2.02(f) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this Section 2.02(f) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that (A) in the case of a newly submitted Order or portion thereof or revised Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Owner or Potential Owner or is an Order received from the Broker-Dealer that was not originated by the Auction Desk, in each case, prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Owner, a Potential Owner or the Broker-Dealer which was not originated by the Auction Desk prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received or generated. The Auction Agent shall be entitled to rely conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

(g) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall communicate such awareness to the Auction Agent prior to 5:00 p.m. New York City time on the Auction Date (or 2:00 pm. New York City time in the case of Bonds in a daily Auction Period). If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m. New York City time on the first day of the Auction Period with respect to which such Auction was conducted, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in Bonds in such Auction of the corrected results.

(h) Nothing contained herein shall preclude the Auction Agent from:

(i) advising a Broker-Dealer prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the ARS Bonds; provided, however, that if

the Auction Agent so advises any Broker-Dealer, it shall so advise all Broker-Dealers; or

(ii) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline; provided, however, that if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification.

Section 2.03. Treatment of Orders by the Auction Agent.

(a) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order until one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed, such Broker-Dealer may correct and resubmit to the Auction Agent any such Order that, solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subsections (b), (c) or (d) of this Section 2.03 and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If one or more Orders covering in the aggregate more than the number of Units of Outstanding Bonds of a particular Series are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid in the following order of priority:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record;

(ii) (A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record over the principal amount of ARS Bonds subject to Hold Orders referred to in clause (i) above;

(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record over the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record over the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above; and

(D) the principal amount of ARS Bonds subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this clause (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including the principal amount of ARS Bonds equal to the excess of the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record over the sum of the principal amount of ARS Bonds considered to be subject to Hold Orders pursuant to clause (i) above and the principal amount of ARS Bonds considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to clause (ii) above.

(d) If any Order is for other than an integral amount of ARS Bonds in Authorized Denominations, then the Auction Agent shall round the amount down to the nearest number of whole amount of ARS Bonds in Authorized Denominations, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of principal amount of ARS Bonds in Authorized Denominations.

(e) For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Trustee or the Authority that any portion of an Order by a Broker-Dealer relates to a ARS Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.

(f) For purposes of any Auction other than during a daily Auction Period, no portion of a ARS Bond which the Auction Agent has been notified by the Trustee or the Authority has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

(g) If an Order or Orders covering all of the ARS Bonds is not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted by such Broker-Dealer prior to the Submission Deadline covering the principal amount of ARS Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such

Broker-Dealer covering the principal amount of ARS Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

Section 2.04. Determination of ARS Rate.

(a) If requested by the Trustee or a Broker-Dealer, not later than 10:30 a.m., New York City time (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date for the ARS Bonds, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Trustee, if requested) of the All Hold Rate and the ARS Index. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(b) Promptly after the Submission Deadline for the ARS Bonds on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the ARS Rate for the new Auction Period shall be ___% for any ARS Bond the interest on which is not includable in gross income of the Owner of such ARS Bond for federal income tax purposes and ___% for any ARS Bond the interest on which is includable in gross income of the beneficial owner of such ARS Bond for federal income tax purposes if the ARS Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the ARS Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the ARS Rate for the period as so extended shall be the same as the ARS Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the ARS Rate for the new Auction Period shall be ___% for any ARS Bond the interest on which is not includable in gross income of the Owner of such ARS Bond for federal income tax purposes and ___% for any ARS Bond the interest on which is includable in gross income of the beneficial owner of such ARS Bond for federal income tax purposes if the ARS Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if

the failure to make such calculation was for any other reason or if the ARS Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the ARS Rate for the period as so extended shall be the same as the ARS Rate for the Auction Period prior to the extension. In the event a new Auction Period is established as set forth in clause (ii) (A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate had been determined. In the event an Auction Period is extended as set forth in clause (i) (B) or (ii) (B) above, an Auction shall be held on the last Business Day of the Auction Period as so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

(d) Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the ARS Rate shall be the Maximum Interest Rate.

(e) In the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the ARS Rate for the next Auction Period shall be the Maximum Interest Rate and the Auction Period shall be a seven-day Auction Period.

(f) If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the ARS Rate shall be the Maximum Interest Rate.

Section 2.05. Allocation of the ARS Bond.

(a) In the event of Sufficient Clearing Bids for a Series of ARS Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for such Series of ARS Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the ARS Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the ARS Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of the ARS Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding ARS Bonds that are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding ARS Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of the Outstanding ARS Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of such ARS Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the ARS Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of the ARS Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding ARS Bonds that are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding ARS Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Outstanding ARS Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for a Series of ARS Bonds, Submitted Orders, for such Series of ARS Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Interest Rate, shall be accepted, thus requiring each

such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Interest Rate, shall be accepted, thus requiring each such Potential Owner to purchase the ARS Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Interest Rate, shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of the ARS Bonds obtained by multiplying (A) the aggregate principal amount of the ARS Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of Outstanding ARS Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Outstanding ARS Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of the ARS Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Interest Rate shall be rejected.

Section 2.06. Notice of ARS Rate.

(a) On each Auction Date, the Auction Agent shall notify by each Broker-Dealer that participated in the Auction held on such Auction Date by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following with respect to the ARS Bonds for which an Auction was held on such Auction Date:

(i) the ARS Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner whether such Bid or Sell Order was accepted or rejected and the principal amount of the ARS Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of the ARS Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the ARS Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of the ARS Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker Dealer) and the principal amount of the ARS Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) if requested by an Existing Owner or a Potential Owner, advise each Existing Owner or Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the ARS Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Existing Owner or Potential Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of such ARS Bonds to be purchased pursuant to such Bid (including, with respect to such ARS Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such ARS Bond) against receipt of such ARS Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of such ARS Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) The Auction Agent shall give notice of the Auction Rate to the Authority and Trustee by mutually acceptable Electronic Means and the Trustee shall promptly give notice of such Auction Rate to the Securities Depository.

Section 2.07. ARS Index.

(a) For ARS Bonds in an Auction Period of 35 days or less the ARS Index is _____. The ARS Index with respect to ARS Bonds in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in *The Wall Street Journal* or such other source as may be mutually agreed upon by Authority and the Broker-Dealer. If either rate is unavailable, the ARS Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Authority. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, *i.e.* a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

(b) If for any reason on any Auction Date the ARS Index shall not be determined as hereinabove provided, the ARS Index shall be the ARS Index for the Auction Period ending on such Auction Date.

(c) The determination of the ARS Index as provided herein shall be conclusive and binding upon the Authority, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of such Series of ARS Bonds.

Section 2.08. Miscellaneous Provisions Regarding Auctions.

(a) In this Appendix B, each reference to the purchase, sale or holding of “ARS Bonds” shall refer to beneficial interests in such ARS Bonds, unless the context clearly requires otherwise.

(b) During an ARS Rate Period with respect to a Series of ARS Bonds, the provisions of this Indenture, and the definitions contained therein and described in this Appendix B, including without limitation the definitions of Maximum Interest Rate, All Hold Rate, ARS Index, Interest Payment Date, and the ARS Rate, may be amended pursuant to this Indenture, subject to the prior written consent of the Bond Insurer for such Series of Bonds, by obtaining the consent of the Owners of all of the ARS Bonds of such Series then outstanding as follows:

If on the first Auction Date occurring at least twenty (20) days after the date on which notice of such proposed amendment was given by the Trustee to the Owners of the ARS Bonds Outstanding, such notice to be given by mail to each Owner at its address as it appears on the registration books of the Trustee, (i) the ARS Rate which is determined on such date is the Winning Bid Rate or All Hold Rate and (ii) there is delivered to the Trustee a Favorable Opinion of Special Counsel the proposed amendment shall be deemed to have been consented to by the Owners of all of the ARS Bonds outstanding bearing interest at an ARS Rate.

(c) If the Securities Depository notifies the Authority that it is unwilling or unable to continue as registered owner of the ARS Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Authority within ninety (90) days after the Authority receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the Authority shall execute and the Trustee shall authenticate and deliver certificates representing the ARS Bonds. Such ARS Bonds shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Authority and the Trustee.

(d) During an ARS Period, so long as the ownership of ARS Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of an ARS Bonds only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of ARS Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the Owner of such ARS Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing

Owner of the ARS Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Section 2.09. Changes in Auction Period or Auction Date.

(a) Changes in Auction Period. (i) During any ARS Rate Period, the Authority may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of ARS Bonds among daily, seven-days, 28-days, 35-days, three months, six months and a Special Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the ARS Bonds. The Authority shall initiate the change in the length of the Auction Period by giving written notice to the Trustee, the Series 2007 Bonds Insurer, the applicable Auction Agent, the applicable Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, such notice to be provided at least ten (10) Business Days prior to the Auction Date for such Auction Period. Any change in the length of an Auction Period to an Auction Period longer than 35 days shall be subject to the prior written consent of the Series 2007 Bond Insurer.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Special Auction Period and shall apply to all ARS Bonds of a Series.

(iii) The change in length of the Auction Period for the ARS Bonds subject to change shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period, except to the extent any Existing Owner submits an Order with respect to such ARS Bonds, each Existing Owner of an ARS Bonds subject to change shall be deemed to have submitted Sell Orders with respect to all ARS Bonds of a Series if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Interest Rate, and the Auction Period shall be a seven-day Auction Period.

(b) Changes in Auction Date. During any ARS Rate Period, the Auction Agent, with the written consent of the Authority, may specify an earlier or later Auction Date for the ARS Bonds (but in no event shall such date be more than five (5) Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the ARS Bonds. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least forty-five (45) days prior to the proposed changed Auction Date to the Trustee, the Authority, the Broker-Dealers and the Securities Depository. In the event the Auction Agent specifies an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Special Auction Period ends and the Interest Payment Date relating to a Special Auction Period shall be adjusted accordingly.

(c) Changes Resulting from Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday.

ARTICLE III

AUCTION AGENT

Section 3.01. Auction Agent.

(a) The Auction Agent for the ARS Bonds shall be appointed by the Trustee, at the written direction of the Authority, and shall perform the functions specified herein. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Authority, the Trustee and each Broker-Dealer, which written instrument may be in the form of an Auction Agreement. Notwithstanding that the Auction Agent may be the agent of the Trustee, the Trustee shall not be liable in any way for any action taken, suffered or omitted, or for any error of judgment made by the Auction Agent, whether in the performance of its duties under the Auction Agreement or otherwise.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in ARS Bonds with the same rights as if such entity were not the Auction Agent.

Section 3.02. Qualifications of Auction Agent; Resignation; Removal.

The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$30,000,000, or (b) a member of NASD having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by this Indenture and a member of, or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least ninety (90) days notice to the Authority, the Trustee, the Insurer and the Broker-Dealers. The Auction Agent may be removed at any time by written notice, delivered by the Trustee, upon the written direction of the Authority, to the Auction Agent and the Series 2007 Bond Insurer. Upon any such resignation or removal, the Trustee, upon the written direction of the Authority, shall appoint a successor Auction Agent approved by the Series 2007 Bond Insurer meeting the requirements of this section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and any ARS Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor has been appointed by the Trustee. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may terminate the Auction Agreement by giving at least thirty (30) days notice to the Authority, the Trustee, the Insurer and the Broker-Dealers, and if it has not received such compensation by the expiration of such thirty (30) days, the Auction Agent may resign even if a successor Auction Agent has not been appointed.

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APPENDIX C

CERTAIN INFORMATION REGARDING THE CITY

The Bonds are special limited obligations of the Authority payable solely from and secured solely by the Revenues pledged in the Indenture; they are not a debt of the City. However, the Base Rental Payments payable by the City pursuant to the Facility Lease are expected to be a substantial component of the Revenues. The following information with respect to the City is presented in that context. Additional information with respect to the City contained in its comprehensive annual financial report for the fiscal year ended June 30, 2006. A copy of that report is set forth in Appendix D.

General

The City, which is the county seat of Stanislaus County, was incorporated in 1884. It is located in the center of the northern San Joaquin Valley, approximately 93 miles east of the City and County of San Francisco, and encompasses an area of approximately 36 square miles.

The City operates under a council-manager form of government pursuant to a charter initially adopted in 1951. The City Council of the City (the "City Council"), consists of seven elected members, appoints the City Clerk and Auditor, the City Attorney, and the City Manager. The City Manager heads the executive branch of government, implements the directives and policies of the City Council and manages the administrative and operational functions through the various department heads who are appointed by the City Manager.

The City provides the full range of services normally associated with a municipality including police and fire protection, highways and streets, parks and recreation, library, planning and zoning, building and engineering, various maintenance services and administration. The City also provides parking and airport facilities and water, sewer, and bus service. The school districts in the City are separate governmental entities which receive no funding from the City.

Population

The following table represents historical population statistics for the City, the County and the State.

CITY OF MODESTO Population Estimates⁽¹⁾

<i>Calendar Year</i>	<i>City of Modesto</i>	<i>Stanislaus County</i>	<i>State of California</i>
2001	193,691	458,640	34,441,561
2002	199,623	472,730	35,088,671
2003	204,185	484,598	35,691,472
2004	207,543	495,160	36,245,016
2005	207,987	505,352	36,728,196
2006	208,107	514,370	37,172,015

⁽¹⁾ As of January 1.

Source: California State Department of Finance, for Population Estimates for City, County and State, 2001-2006.

Employee Relations

The City has approximately 1,325 authorized permanent positions and approximately 1,206 actual full-time employees for Fiscal Year 2006-07 and had approximately 1,292 authorized full-time permanent and approximately 1,212 actual full-time employees for Fiscal Year 2005-06. City employees are represented by six labor organizations, the principal of which is Modesto City Employees Association which represents approximately 40% of all City employees in a variety of classifications.

Approximately 95% of all City employees are covered under negotiated agreements. The current agreements have expiration dates as follows:

Modesto City Firefighters Association	December 20, 2010
Modesto Police Management Association	June 22, 2009
Modesto Police Officers Association	December 22, 2008
Modesto City Employees Association	July 23, 2007
Modesto Police Non-sworn Association	July 23, 2007
Modesto Confidential & Management Assoc	June 25, 2007

In August 2005, approximately 200 Modesto City Employees Association employees (field, clerical and technical) engaged in a one-day job action and picketing following impasse in the contract negotiations. No city services were disrupted as a result of the job action. The Association has subsequently reached agreement with the City on a contract which will expire in July 2007.

On March 14, 2007 the City reached a settlement in the amount of \$3.25 million with three former employees who alleged gender discrimination, harassment and retaliation. The City expects to pay the settlement amount from its General Fund and does not expect such payment will have an adverse effect on the City's ability to make Base Rental Payments under the Facility Lease.

Insurance

The City is exposed to various risks of loss related to torts, damage to and loss of assets, errors and omissions, injuries to and illness of employees, and natural disasters. The City maintains an Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for the following risks up to the maximum amount per claim shown: workers' compensation - \$750,000; liability - \$1,000,000; and dental care - \$1,200. The City no longer self-insures for risks associated with employee illnesses and instead offers a variety of commercial plans to its employees. The City obtains commercial insurance for property loss, airport liability, and for claims in excess of the preceding self-insured coverage amounts.

For liability claims the City is one of twelve members of the Authority for California Cities Excess Liability (ACCEL) risk pool, which provides workers' compensation insurance and general liability insurance for the member agencies. This pool covers City claims between \$1,000,000 and \$5,000,000. The City contributes its pro rata share of anticipated losses to the pool. Should actual losses be greater than anticipated, the City will be assigned its pro rata share of the deficiency. Conversely, if actual losses are less than anticipated, the City will be refunded its pro rata share of the excess. Total claims in the pool are estimated to be \$2,000,000 for Fiscal Year 2006-07.

Commercial insurance covers claims over \$5,000,000 in three excess layers of \$10,000,000 each for an additional \$30,000,000 per claim. Settled claims have not exceeded the commercial coverage in any of the past five fiscal years.

Employee Retirement System

Retirement Plan. The City contributes to the Public Employees' Retirement System of the State of California ("PERS"), an agent multiple-employer public employee retirement program that acts as a common investment and administrative agent for participating entities in California. The City's total pension cost for the fiscal year ended June 30, 2006 was \$11,748,699. The City's payments to PERS for the fiscal year ending June 30, 2007 are estimated to be \$18,064,718.

All full-time City employees are eligible to participate in the retirement program. Benefits vest after five 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 3% percent of their average salary during the highest-paid 1-year period of employment, multiplied by their years of service. All other covered employees may retire at age 55, with an annual benefit payable monthly for life equal to 2% percent of their average salary during the highest-paid 1-year period of employment, multiplied by their years of service. These employees may retire at age 50 with reduced benefit at retirement. The retirement program also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance. Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year.

The City pays most of the required employee contribution to the program, which totals 9% percent for safety and 7% percent for miscellaneous employees, in accordance with contractual agreements. The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis adopted by the PERS Board of Administration. The current rate is 9.124% of the annual covered payroll for miscellaneous employees and 24.421% for safety employees.

In addition to the pension benefits described above, the City provides health care benefits to employees who retire from the City under contractual arrangement with all employee groups. All full-time employees, except firefighters who receive a cash payout, are eligible to set-aside a percentage of accumulated sick leave upon retirement to be used for contributions towards future healthcare premiums to a choice of 4 insurance plans. The City has no obligation to make health contributions for retirees who have no accumulated sick leave. The estimated liability for current retirees' future City contributions was \$14,534,598 as of June 30, 2006. The estimated current portion thereof, \$1,659,707, is fully funded. The long-term portion thereof is partially funded, with the balance being funded over time by charges to the City's operating funds. The City reports the current and long-term portions of this liability in the Employee Benefits Management Fund as part of the compensated absences liability balances. For firefighters, the City's obligation for retiree health benefits is not a function of accumulated sick leave. Firefighters are covered under PERS Health plans and the City has a statutory obligation to make designated contributions to fund firefighters' retiree health premiums. The current statutory contribution is \$80.80 per month.

In June 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 45 ("GASB 45"), which addresses how state and local governments should account for and

report their costs and obligations related to post-employment health care and other non-pension benefits (“OPEB”). GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation. However, the unfunded actuarial liability is required to be amortized over future periods on the income statement. GASB 45 also established disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. These disclosure requirements will be effective for the City’s Fiscal Year ending June 30, 2008. GASB 45 may result in an increase in the annual expense recognized by the City for post retirement health care benefits. The City has retained the services of an actuary to determine the extent of the City’s OPEB liability. The amount of the liability and the increase in the annual expense to be recognized, if any, has not yet been determined by the City.

Investment Policy

The City invests its funds in accordance with the City’s Investment Policy, adopted by the City Council in 1984 and most recently amended in 2006. In accordance with Sections 53601 *et seq.* of the California Government Code, idle cash management and investment transactions are the responsibility of the City Finance Director/Treasurer. Investments permitted under the Investment Policy include the following:

- Bonds issued by the City.
- United States Treasury notes, bonds, bills or certificates of indebtedness.
- Registered State of California warrants, treasury notes or bonds.
- Bonds, notes, warrants or indebtedness of local agencies within the State.
- Commercial paper of “prime” quality.
- Certificates of deposit and negotiable certificates of deposit.
- Investment in repurchase agreements or reverse repurchase agreements .
- Medium-term corporate notes.
- State of California Local Agency Investment Fund (LAIF).

Funds are invested in the following order of priority:

- Safety- Preservation of principal and interest.
- Liquidity- Ability to readily convert investment to cash when needed.
- Yield - potential dollar earnings on an investment.

The City’s cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City attempts to obtain the highest yield when selecting an investment, provided the criteria for safety and liquidity are met.

Budgetary Process

The fiscal year of the City begins on the first day of July of each year and ends on the 30th day of June of the following year.

At such date as the City Manager determines, each department head must furnish to the City Manager an estimate of revenues and expenditures for such department for the ensuing fiscal year, detailed in such manner as may be prescribed by the City Manager. In preparing the proposed budget, the City Manager reviews the estimates, holds conferences thereon with the respective department heads, and revises the estimates as the City Manager deems advisable.

Prior to the beginning of each fiscal year, the City Manager submits to the City's Finance Committee the proposed budget. After reviewing and making such revisions as it deems advisable, the City Finance Committee recommends the proposed budget with revisions, if any, to the City Council. The City Council determines the time for the holding of a public hearing thereon and causes to be published a notice thereof not less than ten days prior to the hearing date. Copies of the proposed budget are available for inspection by the public in the office of the City Clerk at not less than ten days prior to the hearing. At the conclusion of the public hearing, the City Council further considers the proposed budget and makes revisions thereto that it deems advisable. On or before June 30 of each year, it adopts the budget with revisions, if any, by the affirmative vote of at least a majority of the total members of the City Council.

From the effective date of the budget, the several amounts stated as proposed expenditures become appropriated to the several departments, offices and agencies for the objects and purposes named. In accordance with the City's financial policies, certain appropriations may be amended with the signed authorization of the City Manager, subsequent to the adoption of the original budget. At any public meeting after the adoption of the budget, the City Council may amend or supplement the budget by a resolution adopted by the majority vote of the City Council. All appropriations lapse at the end of the fiscal year to the extent that they have not been expended or lawfully encumbered.

The City Council employs, at the beginning of each fiscal year, an independent certified public accountant who, at such time or times as specified by the City Council, at least annually, and at such other times as the City Council shall determine, examines the financial statements of the City in accordance with generally accepted auditing standards, including such tests of the accounting records and such other auditing procedures as such accountant considers necessary. As soon as practicable after the end of the fiscal year, a final audit and report is submitted by such accountant to the City Council and copy of the financial statements as of the close of the fiscal year is published.

Following is a table which shows the adopted final and actual General Fund Budget for Fiscal Year 2005-06 and the adopted General Fund Budget for Fiscal Year 2006-07.

CITY OF MODESTO
General Fund Budgets
For Fiscal Years 2005-06 and 2006-07

	<i>Adopted Final Budget on a GAAP basis 2005-06</i>	<i>Actual on a GAAP Basis 2005-06</i>	<i>Variance with Adopted Final Budget</i>	<i>Adopted Budget on a GAAP Basis 2006-07</i>
Revenues:				
Taxes	\$ 46,870,082	\$ 47,349,236	\$ 479,154	\$ 50,608,523
Licenses and permits	154,440	96,081	(58,359)	101,174
Intergovernmental	45,097,112	48,205,287	3,108,175	48,491,939
Charges for services ⁽¹⁾	14,982,086	14,953,869	(28,217)	16,241,225
Special assessments levied	156,000	65,909	(90,091)	158,500
Interest and rent	559,963	1,217,293	657,330	490,680
Fines and forfeitures	941,000	877,376	(63,624)	546,835
Miscellaneous	<u>2,067,286</u>	<u>2,028,310</u>	<u>(38,976)</u>	<u>786,091</u>
TOTAL REVENUES	\$ 110,827,969	\$114,810,175	\$ 3,982,206	\$ 117,424,967
Expenditures and Transfers:				
General Government	\$ 14,132,003	\$ 13,336,716	\$ 795,287	\$ 11,805,661
Community Development	5,849,006	5,201,794	647,212	6,313,766
Public works	1,956,291	1,719,587	236,704	6,713,599
Parks and recreation	12,523,831	11,560,029	963,802	12,046,068
Public safety	73,148,870	72,425,399	723,471	77,623,686
Debt Service:				
Principal retirement	9,917	9,916	1	9,917
Interest	<u>1,061</u>	<u>1,061</u>	<u>0</u>	<u>1,061</u>
TOTAL EXPENDITURES	\$ 107,620,979	\$104,287,942	\$ 3,333,037	\$ 114,513,758
Excess of revenues over expenditures	\$ 3,206,990	\$ 10,522,233		
Other Financing Sources (Uses):				
Transfers in	\$ 2,301,925	\$ 2,111,925	\$ (190,000)	\$ 2,337,022
Transfers out	<u>(12,567,433)</u>	<u>(9,739,702)</u>	<u>2,827,731</u>	<u>(11,081,117)</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (10,265,508)	\$ (7,627,777)	\$ 2,637,731	\$ (8,744,095)
NET CHANGE IN FUND BALANCE	\$ (7,058,518)	\$ 2,894,456	\$ 9,952,974	\$ (5,832,886)
FUND BALANCES, July 1	\$ 20,415,059	\$ 20,415,059	\$ --	\$ 23,309,515
FUND BALANCES, June 30	<u>\$ 13,356,541</u>	<u>\$ 23,309,515</u>	<u>\$ 9,952,974</u>	<u>\$ 17,476,629</u>

⁽¹⁾ Includes indirect cost recovery

Source: City of Modesto Financial Statements and City of Modesto Finance Department.

Financial Statements

The accounting policies of the City of Modesto conform to generally accepted accounting principles. The audited financial statements of the City for the fiscal year ended June 30, 2006 are set forth in Appendix D.

Accounts of the City are organized on the basis of funds and account groups each of which is considered a separate accounting entity. Operations of each fund are accounted for with a separate set of self-balancing accounts. The various funds are grouped into broad categories, as follows: Governmental Funds (General, Special Revenue, Capital Projects and Debt Service), Proprietary Funds (Enterprise Funds, including the Sewer, Water, Parking, Airport, Golf Course and Community Center Funds; and Internal Service Funds), Fiduciary Funds (Agency).

All Governmental Funds and Fiduciary Funds use the modified accrual basis of accounting. The Proprietary Funds use the accrual basis of accounting.

The General Fund is the general operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund. Revenues and expenditures in the City's General Fund for Fiscal Years 2001-02 through 2005-06 are shown in the following table. Taxes, Intergovernmental Revenues, Charges for Services, and Miscellaneous Revenue are the City's major sources of revenues. In Fiscal Year 2005-06 Taxes and Intergovernmental Revenues comprised 41.2% and 41.9% respectively, of General Fund revenues, followed by Charges for Services, 13.0% and Miscellaneous Revenue, 1.06%. Major Fiscal Year 2005-06 General Fund expenditures included 69.4% for Public Safety, 12.8% for General Government, and 10.9% for Parks and Recreation.

Summary Financial Information

The following tables present a statement of revenues, expenditures, and changes in fund balance for the City's General Fund and the City's General Fund balance sheet for the fiscal years ended June 30, 2002 through 2006 prepared by the City of Modesto Finance Department based on the City's audited financial statements for fiscal years ending June 30, 2002 through June 30, 2006.

CITY OF MODESTO
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30

	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>
Revenues:					
Taxes	\$ 35,522,028	\$ 38,600,472	\$ 39,511,646	\$ 41,441,857	\$ 47,349,236
Licenses and permits	173,348	169,108	199,097	63,652	96,081
Intergovernmental	41,803,124	40,612,942	39,246,030	46,874,556	48,205,287
Charges for services	15,372,308	16,448,226	13,845,944	15,544,008	14,953,869
Special assessments levied	256,646	218,294	76,119	106,442	65,909
Interest and rent	1,429,709	1,301,989	905,295	982,728	1,217,293
Net increase (decreased) in fair value of investments	324,154	(229,744)	(524,439)	46,933	16,814
Fines and forfeitures	546,199	576,168	524,050	562,876	877,376
Miscellaneous	<u>1,075,837</u>	<u>1,458,583</u>	<u>1,245,979</u>	<u>774,837</u>	<u>2,028,310</u>
TOTAL REVENUES	\$ 96,503,353	\$ 99,156,038	\$ 95,029,721	\$ 106,397,889	\$ 114,810,175
Expenditures and Transfers:					
General Government	\$ 10,100,976	\$ 10,938,635	\$ 11,482,386	\$ 11,456,602	\$ 13,336,716
Community and Development	4,354,977	4,277,758	4,461,865	4,975,859	5,146,011
Highways and Streets	6,127,102	6,046,662	--	--	--
Public works	4,411,426	4,257,233	1,522,787	1,696,411	1,719,587
Parks and recreation	13,543,782	13,334,626	11,099,460	11,433,777	11,471,198
Public safety	51,697,705	55,550,490	61,126,497	69,403,326	72,205,341
Capital Outlay	1,015,003	2,083,805	1,214,088	646,818	398,112
Debt Service:					
Principal retirement	7,501	8,043	8,625	9,248	9,916
Interest	<u>3,476</u>	<u>2,934</u>	<u>2,352</u>	<u>1,729</u>	<u>1,061</u>
TOTAL EXPENDITURES	\$ 91,261,948	\$ 96,500,186	\$ 90,918,060	\$ 99,623,770	\$ 104,287,942
Excess (deficiency) of revenues over (under) expenditures	\$ 5,241,405	\$ 2,655,852	\$ 4,111,661	\$ 6,774,119	\$ 10,522,233
Other Financing Sources (Uses):					
Operating transfers in	\$ 4,637,518	\$ 6,388,569	\$ 1,965,408	\$ 1,982,387	\$ 2,111,925
Operating transfers out	(12,252,389)	(7,116,206)	(11,499,889)	(9,320,816)	(9,739,702)
Proceeds of loan payable	<u>191,835</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (7,423,036)	\$ (727,637)	\$ (9,534,481)	\$ (7,338,429)	\$ (7,627,777)
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	\$ (2,181,631)	\$ 1,928,215	\$ (5,422,820)	\$ (564,310)	\$ 2,894,456
FUND BALANCES, July 1	\$ 26,655,605	\$ 24,473,974	\$ 26,402,189	\$ 20,979,369	\$ 20,415,059
FUND BALANCES, June 30	<u>\$ 24,473,974</u>	<u>\$ 26,402,189</u>	<u>\$ 20,979,369</u>	<u>\$ 20,415,059</u>	<u>\$ 23,309,515</u>

Source: City of Modesto Comprehensive Annual Financial Statements, fiscal years 2001-02 through 2005-06.

CITY OF MODESTO
General Fund Balance Sheets
As of June 30

<i>Assets</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
Cash and cash equivalents	\$ 17,355,651	\$ 19,053,785	\$ 11,110,511	\$ 10,840,532	\$ 9,141,367
Receivables:					
Accounts	453,374	371,249	376,284	241,970	354,635
Interest	62,235	84,836	16,456	252,418	272,623
Utilities, net	613,454	615,687	592,005	766,763	824,856
Taxes	7,880,490	9,073,783	9,077,338	8,760,074	10,485,306
Due from governments	597,046	862,689	249,265	232,950	548,231
Due from other funds	1,689,000	1,210,100	1,700,000	3,634,000	5,572,000
Due from JPA	--	--	46,542	--	--
Notes receivable, net	92,283	92,283	92,283	92,283	92,283
Prepaid expenses/expenditures	--	4,576	--	70,000	--
Restricted assets:					
Cash and cash equivalents	1,460,797	1,390,184	1,445,486	1,445,486	1,845,018
Advances to other funds	<u>662,001</u>	<u>1,898,279</u>	<u>2,153,901</u>	<u>1,877,297</u>	<u>1,644,193</u>
Total assets	<u>\$ 30,866,331</u>	<u>\$ 34,657,451</u>	<u>\$ 26,860,071</u>	<u>\$ 28,213,773</u>	<u>\$ 30,780,512</u>
 <i>Liabilities and Fund Balances</i>					
Liabilities					
Accounts payable	\$ 2,536,338	\$ 1,864,757	\$ 1,707,233	\$ 2,003,433	\$ 2,241,841
Accrued salaries and benefits	2,099,671	2,397,879	453,761	774,239	1,116,500
Deferred revenues	295,551	602,442	274,222	1,537,541	364,061
Payable from restricted assets:					
Refundable deposits	1,460,797	1,390,184	1,445,486	1,483,501	1,845,119
Advances from other funds	<u>--</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>1,903,476</u>
Total Liabilities	<u>\$ 6,392,357</u>	<u>\$ 8,255,262</u>	<u>\$ 5,880,702</u>	<u>\$ 7,798,714</u>	<u>\$ 7,470,997</u>
Fund Balances:					
Reserved	\$ 1,961,061	\$ 3,393,560	\$ 3,327,569	\$ 2,955,054	\$ 2,702,381
Unreserved:					
Designated, reported in:					
General Fund	5,576,555	6,807,996	5,990,699	6,237,000	5,900,886
Undesignated, reported in:					
General Fund	16,936,358	16,200,633	11,661,101	11,223,005	14,706,248
Total Fund Balances	<u>24,473,974</u>	<u>26,402,189</u>	<u>20,979,369</u>	<u>20,415,059</u>	<u>23,309,515</u>
Total Liabilities and Fund Balances	<u>\$ 30,866,331</u>	<u>\$ 34,657,451</u>	<u>\$ 26,860,071</u>	<u>\$ 28,213,773</u>	<u>\$ 30,780,512</u>

Source: City of Modesto Comprehensive Annual Financial Statements for Fiscal Years 2001-02 through 2005-06.

Financial Obligations

Short Term Obligations. The City has no short term obligations outstanding.

Equipment Leases. The City has acquired ballpark parking lot lighting and land for a new park under capital lease agreements. The related liabilities are included in obligations under capital leases in the governmental activities section. The following is a schedule of the future minimum lease payments on capital leases as of June 30, 2006:

<i>Year Ending June 30</i>	
2006	\$ 463,803
Total Minimum Lease Payments	\$ 463,803
Less Interest	<u>(18,899)</u>
Present value of Net Minimum Lease Payments	\$ 444,904

Source: City of Modesto Financial Statements, Fiscal Year 2005-06.

Long Term Leases Evidenced by Certificates of Participation and Lease Revenue Bonds. The City has the following certificate of participation and lease revenue bond transactions outstanding as of June 30, 2006:

<i>Title</i>	<i>Principal Outstanding</i>	<i>Maturity</i>
1993 Refunding Certificates of Participation (Community Center Project)	\$ 21,655,000	November 1, 2023
1993 Refunding Certificates of Participation (Golf Course Project)	5,855,000	November 1, 2023
1997 Lease Revenue Bonds (John Thurman Field Renovation Project) ⁽¹⁾	2,500,000 ⁽²⁾	November 1, 2016
1998 Lease Revenue Bonds (Capital Improvements and Refinancing Project) ⁽¹⁾	<u>60,005,000⁽³⁾</u>	September 1, 2033
	\$ 90,015,000	

⁽¹⁾ Bonds of the Modesto Public Financing Authority in connection with which the City is obligated to make certain lease payments.

⁽²⁾ All of these bonds will be defeased upon the issuance of the Modesto Public Financing Authority's Lease Revenue Refunding and Capital Improvement Bonds, Series 2007.

⁽³⁾ \$54,700,000 of these bonds will be defeased upon the issuance of the Modesto Public Financing Authority's Lease Revenue Refunding and Capital Improvement Bonds, Series 2007.

Source: City of Modesto Financial Statements, Fiscal Year 2005-06.

Overlapping Debt and Debt Ratios

The following table summarizes direct and overlapping bonded debt within the City.

CITY OF MODESTO Statement of Direct and Overlapping Debt as of June 30, 2006

<u>Direct and Overlapping Assessment Debt:</u>	<u>Net Debt Outstanding⁽¹⁾</u>	<u>Percentage Applicable to the City⁽²⁾</u>	<u>Amount Applicable to the City</u>
City of Modesto	\$ 0	100.0%	\$ 0
Total Direct And Overlapping Tax And Assessment Debt			\$ 0
<u>Overlapping General Fund Debt – School Districts:</u>			
Ceres Unified School District	\$ 24,379,806	10.0%	\$ 2,437,981
Modesto High School District	24,328,337	72.5	17,638,044
Modesto High School District	75,789,875	68.5	51,916,064
Sylvan Union School District	9,110,000	85.0	7,743,500
Salida Union School District	1,650,000	27.0	445,500
Stanislaus Union School District	3,725,000	33.0	1,229,250
Yosemite Community College District	<u>94,445,000</u>	28.2	<u>26,633,490</u>
TOTAL OVERLAPPING DEBT	\$ 233,428,018		\$ 108,043,829
TOTAL DIRECT AND OVERLAPPING DEBT	\$ 233,428,018		\$ 108,043,829

⁽¹⁾ Gross debt outstanding less applicable amounts in debt service funds.

⁽²⁾ Determined by ratio of assessed valuation of property subject to taxation in overlapping portion to valuation of all property subject to taxation in jurisdiction.

Source: Stanislaus County Auditor; calculated by Modesto Finance Department.

Assessed Valuation and Tax Collections

In California, property which is subject to *ad valorem* taxes is classified as “secured” or “unsecured.” Secured and unsecured property are entered on separate parts of the assessment roll maintained by the county assessor. 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 opinion of the assessor, to secure payment of the taxes. Other property is placed on the “unsecured roll.”

The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured personal property taxes: (a) filing a civil action against the taxpayer; (b) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (c) filing a certificate of delinquency for record in the county recorder’s office, in order to obtain a lien on certain property of the taxpayer; and (d) seizure and sale of personal property improvements or possessory interest belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes to the State for the amount of taxes which are delinquent.

A 10% penalty is added to delinquent taxes which have been levied in respect of property on the secured roll. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquent penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property

is deemed to the State and then is subject to sale by the county tax collector. A 10% penalty also attaches to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1.5% per month begins to accrue in respect of such taxes beginning the first day of the third month following the delinquency date.

The valuation of property is determined as of March 1 each year and installments of taxes levied upon secured property become delinquent on the following December 10 and April 10. Taxes on unsecured property are due March 1 and become delinquent August 31, and such taxes are levied at the prior year's secured tax rate.

The following tables set forth historical property tax levies and collections in the City and historical information as to the assessed values and actual value of taxable real and personal property. The one percent (1%) property tax is levied and collected by Stanislaus County and remitted to the City.

City Assessed Valuations

The County Assessor of Stanislaus County assesses all real and personal property in the City of Modesto for tax purposes except public utility property which is assessed by the State Board of Equalization. California law exempts \$7,000 of the assessed valuation of an owner occupied dwelling. Effective with the 1980-81 fiscal year, State law also exempted 100% of the value of business inventories from taxation, rather than 50% as in prior years. The law provides for reimbursements to local agencies based on their share of the revenues derived from the application of the maximum tax rate applied to business inventories in the 1979-80 fiscal year, with adjustments to reflect increases in population and the consumer price index.

Revenue estimated to be lost to local taxing agencies due to such exemptions is reimbursed from State sources. Such reimbursement is based upon total taxes due upon such exempt values and is not reduced by any amount for estimated delinquencies. The table below presents a ten year history of assessed valuations of property within the City.

**CITY OF MODESTO
Ten Year History of Assessed Valuations**

<i>Fiscal Year</i>	<i>Real Property Assessed Valuation⁽¹⁾</i>	<i>Personal Property Assessed Valuation</i>
1997-98	\$ 6,733,847,244	\$314,105,845
1998-99	6,814,118,056	364,091,322
1999-00	7,113,017,315	374,764,312
2000-01	8,284,751,572	465,640,345
2001-02	9,240,625,466	400,351,138
2002-03	10,005,769,331	229,231,096
2003-04	10,516,523,400	433,048,483
2004-05	11,405,079,179	504,487,150
2005-06	12,734,371,632	513,206,844
2006-07	14,625,040,482	556,920,513

⁽¹⁾ All years shown at full cash value.
Source: Stanislaus County Assessor; last equalized roll.

Tax Levies and Delinquencies

Taxes are collected by the Stanislaus County Tax Collector and are currently distributed under the “Teeter Plan” (as described below). Taxes and assessments on the secured roll are payable in two installments on November 1 and February 1 of each fiscal year, and become delinquent after December 10 and April 10, respectively. A penalty of 10% is added to the first installment if not paid on or before December 10, and 10%, is added to the second installment if not paid on or before April 10. At the end of the first year of delinquency, property is sold to the State.

Under the Teeter Plan (as described below), a county forwards 100% of property tax levies, including taxes for prior years, to underlying governmental entities, including itself. In exchange, the county keeps moneys from all delinquent taxes, interest, and penalties.

The following table shows property tax levies and collections for the City.

CITY OF MODESTO Property Tax Levies And Collections Fiscal Years 2001-02 to 2005-06

<i>Year Ended June 30</i>	<i>Total Tax Levy⁽¹⁾</i>	<i>Current Tax Collected</i>	<i>Percent of Levy Collected</i>	<i>Delinquent Tax Collections</i>	<i>Total Tax Collections</i>	<i>Total Collections as % of Current Levy⁽²⁾⁽³⁾</i>
2001-02	\$8,312,582	\$8,249,461	99.24%	\$11,028	\$8,260,489	99.37%
2002-03	9,172,429	9,118,481	99.41	16,174	9,134,655	99.59
2003-04	9,709,897	9,440,383	97.22	107,388	9,547,771	98.33
2004-05	10,568,415	10,133,222	95.88	24,163	10,157,385	96.11
2005-06	11,130,020	10,794,066	96.98	233,290	11,027,356	99.08

⁽¹⁾ Totals include exempt organizations.

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

⁽³⁾ Since 1994, the City has participated in the County of Stanislaus “Teeter Plan” (as described below) which guarantees the City 100% of each year’s property tax levy in exchange for the County retaining late fees and delinquency penalties.

Source: City of Modesto, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2005. City of Modesto, 2006.

Teeter Plan

The Board of Supervisors of the County, in 1994, adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 *et seq.* of the State Revenue and Taxation Code. Pursuant to the Teeter Plan, the County establishes a tax losses reserve fund and a tax resources account and each entity levying property taxes in the County may draw on the amount of uncollected taxes and assessments credited to its fund, in the same manner as if the amount credited had been collected.

The County is responsible for determining the amount of the tax levy on each parcel in the taxing entity, which is entered onto the secured real property tax roll. Upon completion of the secured real property tax roll, the County’s Auditor-Controller determines the total amount of taxes and assessments actually extended on the roll for each fund for which a tax levy has been included, and apportions 100% of the tax and assessment levies to that fund’s credit. Such moneys may thereafter be drawn against the taxing agency in the same manner as if the amount credited had been collected. The County determines which moneys in the County treasury (including those credited to the tax losses reserve fund) shall be available to be drawn on to the extent of the amount if

uncollected taxes credited to each fund for which a levy has been included. When amounts are received on the secured tax roll for the current year, or for redemption of tax-defaulted property, Teeter Plan moneys are distributed to the apportioned tax resources accounts.

So long as the Teeter Plan remains in effect, the City's receipt of revenues with respect to the levy of *ad valorem* property taxes will not be dependent upon actual collections of the *ad valorem* property taxes by the County. However, under the statute creating the Teeter Plan, the Board of Supervisors could under certain circumstances terminate the Teeter Plan in its entirety and, in addition, the Board of Supervisors could terminate the Teeter Plan if the delinquency rate for all *ad valorem* property taxes levied within the City in any year exceeds 3%. In the event that the Teeter Plan were terminated, the amount of the levy of *ad valorem* property taxes in the City would depend upon the collections of the *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the City.

Although the County is entitled to draw on the full amount of taxes credited to the tax fund for a taxing entity in approximately October of each tax year, it has been the City's experience that it receives approximately 55% of the tax allocations for the year by December 31, an additional 40% by April 30 and the final 5% by June 30.

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 (\$22,287,940) and in lieu sales tax amount (\$7,339,967) accounted for approximately 38.0% of the City's tax receipts in the General Fund in Fiscal Year 2005-06, an increase of approximately 3% from the prior Fiscal Year. The 7.375% sales and use tax is levied and collected by the State, which returns to the City 0.95% of the amount of sales in the City.

Business License Tax. The City levies a business license tax which accounted for \$10,374,157, or approximately 13.5% of the City's tax receipts in the General Fund in Fiscal Year 2005-06, a decrease of approximately 0.5% 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 on hotel and motel bills, utility consumption, a real property transfer tax and a franchise fee.

The following table presents the tax revenues of the City for the last five Fiscal Years:

CITY OF MODESTO
General Fund Tax Revenues By Source

	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>
Sales and Use Tax	\$27,061,426	\$25,887,064	\$27,150,743	\$21,277,711	\$22,287,940
Utility Users Tax	12,516,962	13,732,571	14,718,858	15,622,652	17,584,060
Property Taxes	9,132,278	10,169,004	11,294,599	11,316,694	14,318,747
Business License Taxes	8,734,281	9,238,797	9,231,136	9,726,816	10,374,157
Other Taxes ⁽¹⁾	<u>5,138,507</u>	<u>5,460,100</u>	<u>4,267,053</u>	<u>10,086,397</u>	<u>12,412,239</u>
Total	\$62,583,454	\$64,487,536	\$66,662,389	\$68,030,270	\$76,977,143

⁽¹⁾ Includes Transient Occupancy Tax, Franchise Tax and after Fiscal Year 2003-04, In-lieu Sales Tax.
Source: City of Modesto Finance Department.

Motor Vehicle License Fees

Prior to 2003, a significant revenue source of the City was State of California payments in-lieu of taxes. The City receives a portion of Department of Motor Vehicles license fees (“VLF”) collected statewide. Payment of State assistance depends on the adoption by the State of its budget, including the appropriations therein providing for local assistance. These revenues are shown in the accompanying financial statements as “intergovernmental revenues from other agencies.”

Several years ago, the state-wide VLF was reduced by approximately two-thirds. However, pursuant to legislation, the State continued to remit to cities and counties the same amount that those local agencies would have received if the VLF had not been reduced, known as the “VLF backfill.” On June 19, 2003, the State triggered an increase in VLF to be effective beginning October 1, 2003. The Governor signed an executive order on November 17, 2003 to reduce the VLF rate once again, eliminating the increase. On December 17, 2003 the Governor issued another executive order, this time appropriating \$2.625 billion to provide backfill funding for the city and county VLF funding in 2003/04 which covered the backfill except for the VLF loan amounts.

The State Legislature adopted AB 1768 which deferred payment to local agencies of the amount of the VLF backfill that related to the period from June 20, 2003 to September 30, 2003 when the higher VLF went into effect, until August 2006. This VLF “gap” or “loan” was approximately \$1.2 billion statewide. The City’s share of the “loan” was \$3.4 million. The State repaid its VLF loans in July 2005.

The City’s budgeted VLF amount of \$1,307,399 for Fiscal Year 2006/07 is based on projected amounts at the reduced VLF rates and does not include the property tax backfill provided for in current state legislation. The State’s 2005/06 Budget realigned certain property tax revenues so that cities and counties would be kept whole with respect to the amount of the VLF backfill in future years. The City accounts for this realignment of property taxes in-lieu of VLF in the same manner as VLF in its financial statements.

Largest Property Taxpayers

The ten largest property-taxpayers in the City for 2005-06 and their percentage of total property taxes are shown in the following table:

CITY OF MODESTO Principal Payers of Property Tax, 2005-06

<i>Property Taxpayer</i>	<i>Type of Business</i>	<i>Assessed Value</i>	<i>Percent of Total Taxes</i>
Doctors Medical Center of Modesto, Inc.	Medical	\$ 124,351,668	0.92%
Macerich Vintage Fair Ltd.	Shopping Ctr.	89,022,304	0.66
Foster Dairy Farms	Food Processing	85,162,505	0.63
Phenix Management Group	Food Processing	55,134,550	0.41
Stanislaus Partners	Real Estate	50,125,907	0.37
Liljenquist Modesto Co.	Real Estate	47,400,844	0.35
HRC Modesto, LLC	Real Estate	33,813,000	0.25
Pan Pacific Retail Properties	Retail Properties	28,220,183	0.21
Gallo Glass Company	Manufacturing	22,365,373	0.17
McClatchy Newspapers Corporation	Publishing	<u>22,265,538</u>	<u>0.17</u>
TOTAL		\$ 557,861,872	4.14%

Source: Stanislaus County Tax Collector.

Employment

The City forms part of the Modesto Metropolitan Area Labor Market (Stanislaus County) reported on periodically by the State Department of Employment Development. As of calendar year 2005, this labor market had a total civilian employment of 210,800.

The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 2002 through 2006. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

MODESTO METROPOLITAN STATISTICAL AREA
Industry Employment and Labor Force
(Annual Averages)

	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
<u>Civilian Labor Force</u>					
Employment	198,900	201,500	204,600	210,800	227,100
Unemployment	21,200	22,000	20,700	19,000	209,000
Unemployment Rate	9.6%	9.8%	9.2%	8.3%	8.0%
<u>Wage and Salary Employment:</u>					
Total Farm	13,900	14,000	13,800	14,100	14,100
Natural Resources, Mining and Construction	10,700	11,400	12,300	13,300	13,400
Manufacturing	22,500	23,100	22,700	22,300	23,100
Wholesale Trade	5,600	5,700	6,000	6,200	5,900
Retail Trade	21,700	21,800	21,500	22,700	22,500
Transport., Warehousing, Utilities	4,500	4,600	4,700	5,200	5,200
Information	2,100	2,200	2,500	2,500	2,400
Financial Activities	5,600	6,000	6,100	6,200	6,400
Professional and Business Services	15,000	13,800	14,200	14,900	14,800
Educational and Health Services	18,100	18,900	19,200	19,500	19,600
Leisure and Hospitality	13,600	13,700	14,200	14,800	15,500
Other Services	6,200	6,200	6,200	6,100	5,900
Federal Government	1,200	1,200	1,200	1,200	1,200
State Government	1,900	1,900	1,700	1,700	1,800
Local Government	<u>22,200</u>	<u>21,900</u>	<u>22,100</u>	<u>22,700</u>	<u>23,300</u>
Total All Industries	164,600	166,300	168,500	173,300	172,500

Note: Totals may not add up because of rounding.

Source: Labor Division of the California State Employment Development Department.

Industrial and Commercial Development

The City is located in the heart of California's Central Valley, a highly productive agricultural area. The availability of low-cost power, modern sewage treatment and disposal facilities, a good supply of water, reasonably priced developable land and excellent transportation facilities have been important factors in the development of a sound and growing industrial base.

Approximately 488 commercial manufacturing plants are located in and surrounding the City, comprising a growing manufacturing base. Manufacturing accounts for approximately 11.7% of all wage and salary workers.

There are over 4,200 total net acres of industrially-zoned lands within the Modesto sphere of influence, of which approximately 1,729 are within the City limits. Most of Modesto's large manufacturing employers are located in the Beard Industrial District, situated south of Yosemite Boulevard in eastern Modesto. Such employers include E&J Gallo Winery, Frito-Lay, Del Monte, Parker Hannifin, Seneca, Georgia Pacific, and Weyerhaeuser. 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 Union Pacific and Burlington Northern Santa Fe (BNSF) railroads in the metropolitan area. The south Modesto industrial area, located within the City, is accessible by the Union Pacific railroad. The largest manufacturing employers in Stanislaus County as of December, 2006, are as follows:

STANISLAUS COUNTY
Largest Manufacturing Employers as of December, 2006

<i>Name of Company</i>	<i>Employment</i>	<i>Product(s)</i>
E & J Gallo Wine	3311	Winery
Del Monte Foods	2600	Fruit Products
Signature Fruit	2321	Fruit Products
Stanislaus Food Products	2300	Tomato Products
Foster Farms	1512	Poultry Processor
Con Agra	1000	Food Processing
Racor	859	Filtration Products
Frito-Lay	700	Snack Food Products
Patterson Frozen Foods	650	Frozen Food Products
Bronco Winery	620	Winery

Source: Modesto Chamber of Commerce.

Construction Activity and Property Value

“Single Family Housing,” includes detached, semi-detached, rowhouse and townhouse units. Rowhouses and townhouses are included when each unit is separated from the adjacent unit by an unbroken ground-to-roof party or fire wall. Condominiums are included in single-family when they are of zero-lot-line or zero-property-line construction; when units are separated by an air space; or, when units are separated by an unbroken ground-to-roof party or fire wall. “Multi-Family Housing,” includes duplexes, 3-4-unit structures and apartment-type structures with five units or more. Multi-family housing also includes condominium units in structures of more than one living unit that do not meet the above single-family housing definition. “Residential Alterations and Additions,” means alterations, additions, and conversions to residential structures, excluding special installation permits for electrical, plumbing, heating, air-conditioning, or similar mechanical work, or installation of fire escapes, elevators, signs, etc.

“New Commercial,” includes new hotels and motels, office and bank buildings, stores and other mercantile buildings, parking garages, service stations, and amusement and recreational buildings. “New Industrial,” includes manufacturing plants and affiliated buildings. “Other New Nonresidential,” includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings, and miscellaneous nonresidential structures. “Nonresidential Alterations and Additions,” means alterations, additions, and conversions to nonresidential structures, excluding special installation permits for electrical, plumbing, heating, air-conditioning, or similar mechanical work, or installation of fire escapes, elevators and signs, etc.

Provided below are the building permits and valuations for the City for calendar years 2002 through 2006.

CITY OF MODESTO
Residential and Nonresidential Building Permit Valuations
and Total Residential Building Permits

	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
Permit Valuation					
New Single-family	\$ 216,245,472	\$ 169,003,473	\$ 69,473,535	\$ 165,909,336	\$ 81,650,097
New Multi-family	1,719,426	6,087,705	20,721,736	1,719,478	3,812,649
Res. Alterations & Additions	<u>9,062,856</u>	<u>9,793,040</u>	<u>15,707,552</u>	<u>17,947,953</u>	<u>49,896,219</u>
Total Residential	\$ 227,027,754	\$ 184,884,218	\$ 105,902,823	\$ 185,576,767	\$ 135,358,965
New Commercial	20,306,197	30,255,734	35,298,696	62,592,553	27,027,078
New Industrial	6,580,320	1,183,692	2,003,992	0	2,279,197
New Other	19,899,918	26,649,779	61,628,516	32,919,890	19,182,213
Non-Res. Alterations & Additions	32,507,506	24,933,722	25,524,261	19,914,523	23,513,438
Total Nonresidential	<u>79,293,941</u>	<u>83,022,927</u>	<u>124,455,465</u>	<u>115,426,966</u>	<u>72,001,926</u>
Total All Building	\$ 306,321,695	\$ 267,907,145	\$ 230,358,288	\$ 301,003,773	\$ 207,360,891
New Dwelling Units					
Single Family	1,067	1,105	348	872	380
Multiple Family	21	78	297	9	35
Total	1,088	1,183	645	881	415

Note: Totals may not add up because of rounding.

Source: Building Permit Summary, Construction Industry Research Board and City of Modesto.

Commercial Activity

The City is the retail, financial and service center of Stanislaus County. The City's economy, while primarily agricultural, does include other economic sectors. The table below summarizes taxable sales for the calendar years 2001 through 2005.

CITY OF MODESTO
Taxable Transactions
Calendar Years 2001 through 2005
(in Thousands of Dollars)

Retail Outlets	2001	2002	2003	2004	2005
Apparel stores	\$ 112,847	\$ 129,773	\$ 126,372	\$ 147,849	\$ 168,064
General merchandise stores	499,333	507,438	518,024	539,780	549,742
Food stores	115,743	119,423	136,462	162,515	168,121
Eating and drinking places	219,205	235,337	245,609	259,861	272,313
Home furnishing and appliances	109,395	131,234	130,089	162,749	169,723
Bldg. materials and farm implements	188,459	188,388	204,427	288,841	316,796
Auto dealers and supplies	230,912	247,861	259,395	260,655	247,795
Service stations	106,229	101,551	115,317	126,608	146,946
Other retail stores	<u>364,468</u>	<u>381,371</u>	<u>392,650</u>	<u>394,363</u>	<u>405,229</u>
Subtotal	\$1,946,591	\$2,042,376	\$2,128,345	\$2,343,221	\$2,444,729
All Other Outlets	<u>367,760</u>	<u>372,899</u>	<u>433,387</u>	<u>311,646</u>	<u>309,659</u>
All Outlets	\$2,314,351	\$2,415,275	\$2,561,732	\$2,654,867	\$2,754,388

Source: State of California, Board of Equalization.

The following table shows the dollar volume of taxable transactions in the County of Stanislaus from 2001 through 2005.

COUNTY OF STANISLAUS
Taxable Transactions
Calendar Years 2001 through 2005
(in Thousands of Dollars)

Retail Outlets	2001	2002	2003	2004	2005
Apparel stores	\$ 127,711	\$ 154,083	\$ 154,867	\$ 192,858	\$ 213,850
General merchandise stores	754,247	784,431	803,255	846,742	927,418
Specialty stores	411,996	432,777	465,562	501,694	535,480
Food stores	255,923	260,781	282,781	291,867	308,864
Eating and drinking places	378,985	403,421	421,793	452,120	489,169
Household	153,417	181,384	187,214	198,691	210,720
Building materials	360,337	368,472	416,983	508,825	572,552
Automotive	1,244,939	1,248,936	1,305,986	1,396,277	1,516,702
Other retail stores	<u>249,876</u>	<u>273,693</u>	<u>297,729</u>	<u>331,376</u>	<u>368,269</u>
Subtotal	\$3,937,431	\$ 4,107,978	\$4,336,170	\$4,720,450	\$5,143,024
Business and Personal Services	214,161	233,862	224,429	240,245	253,838
All Other Outlets	<u>1,421,077</u>	<u>1,494,025</u>	<u>1,614,893</u>	<u>1,804,973</u>	<u>1,889,038</u>
All Outlets	\$5,572,669	\$ 5,825,865	\$6,175,492	\$6,765,668	\$7,285,900

Source: State of California, Board of Equalization.

Agriculture

The City is located in one of the most productive agricultural areas in the United States. The County of Stanislaus 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 789,853 acres of farmland in production in the County of Stanislaus. Following is a five year summary of farm production in the County of Stanislaus.

STANISLAUS COUNTY Agricultural Production 2001-2005

<i>Commodity</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Fruit and Nut Crops	\$ 311,735,000	\$ 393,520,000	\$ 431,642,000	\$ 616,452,000	\$ 686,897,000
Vegetable Crops	100,153,000	105,508,000	105,667,000	125,903,000	91,454,000
Field Crops	139,898,000	132,418,000	127,329,000	137,871,000	147,744,000
Seed Crops	797,000	561,000	533,000	401,000	810,000
Apiary	7,389,000	7,323,000	7,565,000	8,865,000	12,045,000
Nursery Crops	68,960,000	85,889,000	99,164,000	111,272,000	71,240,000
Livestock & Poultry	233,237,000	242,677,000	239,990,000	403,205,000	401,244,000
Livestock & Poultry Products	<u>491,131,000</u>	<u>400,075,000</u>	<u>443,042,000</u>	<u>574,465,000</u>	<u>566,161,000</u>
TOTALS	\$1,353,300,000	\$1,367,971,000	\$1,454,932,000	\$1,978,434,000	\$ 1,977,595,000

Source: Stanislaus County Department of Agriculture.

Fruit and nut crops amounted for nearly a third of the total annual gross value of farm production in Stanislaus County. The production value of fruit and nut crops exceeded \$640 million in 2005 to rank as the major commodity group in Stanislaus County. In 2005, almonds headed the list of products in this group, with a gross value of more than \$473 million. The following table shows a listing of the leading agricultural commodities in 2005.

LEADING FARM COMMODITIES IN STANISLAUS COUNTY

<i>Rank</i>	<i>Commodity</i>	<i>Gross Production Value in 2005</i>
1	Milk, All	\$546,848,000
2	Almonds	473,043,000
3	Cattle & Calves, All	196,253,000
4	Chickens, All	161,480,000
5	Walnuts	80,309,000
6	Silage, All	59,928,000
7	Peaches, All	46,273,000
8	Alfalfa	43,953,000
9	Deciduous Fruit & Nut Nursery	40,760,000
10	Turkeys, All	38,762,000

Source: Stanislaus County 2006 Agricultural Crop Report.

Educational Facilities

There are 24 public elementary schools, 4 junior high schools, 8 high schools, and 1 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 at Stanislaus, which offers both undergraduate and graduate degrees.

Transportation

The City is traversed by three state highways. Interstate 5, with which two of these state roads connects, passes approximately 20 miles to the west of the City of Modesto. 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 Francisco. The deepwater port of Stockton, California, located approximately 30 miles from the City, provides shipping to coastal and overseas markets.

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APPENDIX D

**CITY OF
Modesto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2006**

**Prepared by
Finance Department**

CITY OF MODESTO
 June 30, 2006
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CITY of MODESTO

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December 22, 2006

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Modesto:

The City of Modesto City Charter and Municipal Code require that a complete financial statement and report on the finances of the City be submitted to the City Council at the end of each fiscal year. This report is being submitted to fulfill that requirement for the fiscal year ended June 30, 2006.

City management assumes full responsibility for the completeness and reliability of the information contained in this report. We believe the data fairly represent the financial position and results of operations of the City. The disclosures necessary to enable the reader to understand the City's financial affairs have been included. The City's accounting system has been developed and maintained with due consideration given to the adequacy of internal controls. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The evaluation of the costs and benefits of particular control requires estimates and judgments by management.

The Charter also requires an annual audit by an independent certified public accountant selected by the City Council. The accounting firm of Maze & Associates was selected in 2003 to perform the City's annual financial audits for a period of three years. In 2006, this contract was extended for one year. The auditors have issued an unqualified ("clean") opinion on the financial statements for the year ended June 30, 2006, which is presented on page 3. In addition to meeting the City Charter audit requirements, the audit was also designed to meet the requirements of the federal Single Audit Act of 1996 and related OMB Circular A-133. The auditor's reports related specifically to the Single Audit will be presented separately at a later date.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A is designed to be read in conjunction with this transmittal letter.

City of Modesto Profile

Modesto is a dynamic city located in the heart of California's San Joaquin Valley and is the retail, service and financial center of Stanislaus County. The City currently occupies a land area of approximately 36 square miles and serves a population of over 208,000. Periodically, as allowed by state statute, the City extends its corporate limits by annexation when deemed appropriate by the City Council.

Incorporated in 1884, Modesto adopted its City Charter on March 12, 1951, and has operated under the council- manager form of government since that date. Under this form of government, policy-making and legislative authority are vested in an elected council consisting of the Mayor

INTRODUCTORY SECTION

and six members. The Modesto City Council is elected by chair on a non-partisan basis, meaning 6 members represent the entire City rather than specific geographical areas within the City's boundaries. The Mayor is elected separately on a non-partisan basis. The Mayor and City Council are responsible for passing ordinances, adopting and amending the operating and capital budgets, appointing various committee members, and hiring the City Manager, City Attorney, and City Clerk/Auditor. The City Manager of Modesto is charged with carrying out the policies and ordinances of the City Council, overseeing the day-to-day operations of the City, and for appointing the Deputy City Manager and department heads, with general responsibilities for the Economic Development and Health, Safety & Culture components of the City's Vision. Support services departments, like Finance, Personnel and Information Technology report to the City Manager.

The City provides services typically associated with a municipality. These include administrative services; police and fire protection; highway, street, and utility infrastructure construction and maintenance; sanitation; planning and zoning; recreational activities and cultural events. Parking, airport facilities, water, sewer, storm drainage and bus services are also provided.

The City's financial reporting entity includes all funds and activities of the City of Modesto as the primary government and its component units, which are legally separate entities that operate under the auspices of the City and provide services that supplement City services. The City's component units are blended into the City's funds because their governing boards consist of all seven members of the City Council. These component units are the Modesto Municipal Sewer District No. 1, the Redevelopment Agency of the City of Modesto, the Modesto Public Financing Authority and the City of Modesto Community Facilities Districts.

The annual operating budget serves as the foundation for Modesto's financial planning and control. The proposed budget is adopted annually prior to July 1, by passage of a resolution. The Council's legally adopted budget level is at the fund level. During the fiscal year, the budget may be modified. The City Council has also adopted fiscal policies that delegate budget control authority to the Council, City Manager and the Finance Director.

Local economy

Modesto area employment in retail and manufacturing remained strong over the past year. Retail sector jobs account for one-sixth of Stanislaus County's wage and salary workers with the manufacturing sector trailing close behind. Stanislaus County consistently ranks among the top 10 California counties in terms of annual agricultural production values. The county's leading commodities are milk, almonds and poultry.

The unemployment rate has remained fairly steady for the last several years and is approximately 7%. Just over 10 years ago the unemployment rate was 15%. Since 2000, over 8,200 jobs have been added to the local economy, representing cumulative growth of more than 5%. Industries recording the most growth were: educational and health services; retail sales, and construction. Employees within the community enjoy an average commute time of 26 minutes.

Building permit activity has boomed over the past decade. In fiscal year 1996, the City issued 4,186 permits with estimated cost of construction valued at \$114 million. Permit activity peaked in 2001, when 7,155 permits with construction valued at \$477 million were issued, and activity has remained above 5,000 permits annually since 2001. During fiscal year 2006, 5,968 permits were issued valued at \$298 million.

Since 2000, the City's population grew 10.5% to 208,107. This population growth is largely attributable to the relatively low cost of housing compared to the Bay Area and to the growth of employment within the region.

During the past ten years, public safety costs have risen not only in amount, but also as a percentage of total expenditures. Public safety represented 69.2% of total General Fund expenditures in 2006, compared with 62.4% ten years ago. Expenses for other governmental functions have remained steady or decreased compared to total fund expenses during the same time period. Increased population, as well as higher salaries and charges for retirement, have caused this relative increase in public safety charges.

Long-Term Financial Planning

In Fiscal Year 2003, the City Council adopted a policy of maintaining at least 8% of general fund expenditures in reserve. At the end of Fiscal Year 2006, the general fund unreserved and undesignated balance was \$14.7 million representing 12.93% of total general fund outflows (expenditures and transfers out).

State Impacts

Between Fiscal Years 1991 and 2005, the State of California diverted \$36.6 million in local revenues from the City of Modesto into its own coffers. In 2005 the state enacted new legislation known as the Triple-Flip. As the name implies, a series of revenue exchanges take place leaving the City with 25% less sales tax revenue and more property tax revenue in its place. A similar exchange takes place leaving the City with property tax revenue in place of 67% of the In-Lieu Vehicle License Fees. These exchanges not only affect the character and amount of the revenues received by the City but also affect City cash flow, because a monthly stream of payments has been replaced by semi-annual payments.

Important Financial Policies

In 2003, the City Council adopted a series of financial policies that direct how the City's financial business is conducted. In addition to the 8% General Fund reserve level, these policies include direction on departmental annual budget savings, tracking of all transfers to the Redevelopment Agency for future payback, capital budgeting, interfund loan interest rates and investment pool interest allocation. These policies were reviewed and revised at the start of the 2007 Fiscal Year.

Following the implementation of cost reduction strategies which included a hiring "chill" during the 2004-2005 Fiscal Year, the City Council relaxed somewhat the limitation on new appropriations and lifted the hiring "chill" during the current fiscal year.

Major Initiatives

During Fiscal Year 2005, California voters approved Proposition 1A. This initiative places stricter controls on the state's ability to divert local revenue. While this protection is seen as beneficial to local government, local revenues are still affected by the Triple-Flip component of the legislation described above. In Fiscal Year 2006, the last payment to be made under the revised legislation that shifted local property tax dollars to the Education Revenue Augmentation Fund was made.

Awards and Acknowledgments

For the twenty-second consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Modesto for its comprehensive annual financial report for the fiscal year ended June 30, 2005. The report also received the Outstanding Award for Financial Reporting from the California Society of Municipal Finance Officers (CSMFO). To receive this recognition, the City must publish an easily readable and efficiently organized report. The report must satisfy both generally accepted accounting principles and applicable legal requirements. Both awards are valid for a period of one year. Effective with the fiscal year ending June 30, 2006, the CSMFO changed its program and will accept only reports not submitted to GFOA. We

believe that the current Comprehensive Annual Financial Report continues to meet the requirements of the program, and it will be submitted to the GFOA to determine its eligibility.

The Comprehensive Annual Financial Report is the result of the cooperative work of many people. We wish to convey our appreciation to all members of the Finance Department team who assisted and contributed to its successful completion. In particular, we commend the Accounting Division staff responsible for the preparation of the report.

Respectfully submitted,



M. Wayne Padilla, CPA
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Modesto California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

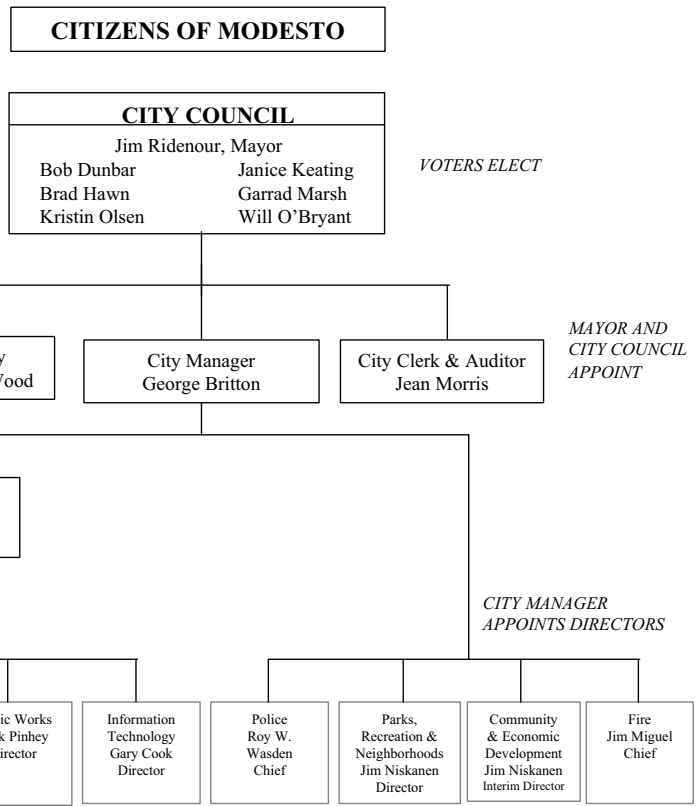


President



Executive Director

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FINANCIAL SECTION

Citizens Advisory Boards, Commissions and Committees

ALSO
APPOINTED BY
THE MAYOR
AND CITY
COUNCIL

- Airport Advisory Committee
- Board of Building Appeals
- Board of Zoning Adjustments
- Charter Review Committee
- Citizen Housing & Community Development
- Citizens Advisory Committee on Recycling
- Citizens Redevelopment Advisory Committee
- Community Qualities Forum
- Culture Commission
- Disabled Access Appeals Board

- Downtown Improvement District Advisory Board
- Equal Opportunity/Disability Commission
- Golf Courses Committee
- Housing Rehabilitation Loan Committee
- Human Relations Commission
- Landmark Preservation Commission
- Local Cable Programming Committee
- Planning Commission
- Tuolumne River Regional Park Citizens Advisory Committee
- Youth Commission

MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 • FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

To the Honorable Mayor and Members of the City Council
City of Modesto, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

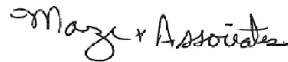
In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto as of June 30, 2006 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued reports dated December 15, 2006 on our consideration of the City's internal control structure and on its compliance with laws and regulations.

Management's Discussion and Analysis and the Budget and Actual statement for the General Fund are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Combining and Individual Fund Statements and Schedules listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic statements of the City of Modesto. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section listed in the Table of Contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



December 15, 2006

A Professional Corporation

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Management's Discussion and Analysis

This section of the City of Modesto (City) comprehensive annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2006. Please read it in conjunction with the transmittal letter at the front of this report and the basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded liabilities at the close of the 2006 fiscal year by \$702,468,163 (*total net assets*). Of this amount, \$64,246,970 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$120,937,678 is restricted for a specific purpose (*restricted net assets*), and \$517,283,315 is invested in capital assets, net of related debt.
- The City's total net assets increased by \$69,959,566. Approximately sixty-four percent of this increase is attributable to governmental activities.
- As of June 30, 2006, the City's governmental funds reported combined fund balances of \$149,662,117, an increase of \$30,620,541 in comparison with the prior year. Approximately 71% of the combined fund balances, \$106,790,850 is available to meet the City's current and future needs (*unreserved fund balance*).
- At the end of the fiscal year, the General Fund fund balance was \$23,309,515, or 22% of total General Fund expenditures. Of this, \$2.7 million is reserved for encumbrances and non-current assets, and \$5.9 million is designated for specific purposes, including \$5.8 million appropriated in the fiscal year 2006-07 budget. The unreserved/undesignated balance of \$14,706,248 represents 14.1% of total General Fund outflows. The City Council has adopted a goal of maintaining an 8% reserve level.
- The City's total long-term debt showed a net decrease of \$2,446,523 in comparison with the prior year. The net decrease resulted from updated actuarial valuations for the insurance estimates (\$2.4 million increase) and normal decreases due to payments of principal (\$3.7 million), combined with a decrease in compensated absences of approximately \$800,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components 1) **Government-wide** financial statements; 2) **Fund** financial statements and 3) **Notes** to basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of City finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all City assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, community development, highways and streets, public works, parks and recreation, and public safety. The business-type activities of the City include the water, sewer, parking, storm drain, airport, bus, golf and community center operations.

Component units are included in our basic financial statements and consist of legally separate entities for which the City is financially accountable and that have substantially the same board as the City Council, or provide services entirely to the City. Examples are the Redevelopment Agency of the City of Modesto and the Modesto Public Financing Authority.

Management's Discussion and Analysis (continued)

The government-wide financial statements can be found on pages 17-19 of this report.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the City can be divided into three categories: *governmental funds*, *proprietary funds* and *fiduciary funds*.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City reports 18 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, the Capital Grants Fund and the Capital Facilities Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The governmental funds financial statements can be found on pages 20-23 of this report

Proprietary funds are maintained two ways. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, Parking, Storm Drain, Airport, Bus, Golf and Community Center operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Fleet Management, Central Services, Information and Technology Services, Insurance, Employee Benefits Management and Building Services functions. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. Internal services benefiting business-type functions have been allocated as "internal balances".

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Water and Sewer funds are considered to be major funds of the City. The City's six internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The proprietary funds financial statements can be found on pages 24-27 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds except for agency funds.

The fiduciary fund financial statements can be found on page 28 of this report.

Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 29-53 of this report.

Management’s Discussion and Analysis (continued)

Required Supplementary Information is also presented. The City adopts an annual appropriated budget. Budgetary comparison schedules for the major governmental funds have been provided to demonstrate compliance with this budget.

Required supplementary information can be found on pages 56-58 of this report.

The *combining and individual fund statements and schedules* referred to earlier provide information for nonmajor governmental, enterprise and internal service funds and are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 62 –98 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$702,468,163 at the close of the most recent fiscal year.

Net Assets

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	235,175,812	\$197,507,688	75,157,357	\$54,304,523	310,330,169	\$251,812,211
Capital assets	362,971,175	355,069,868	284,722,417	281,752,904	647,693,592	636,822,772
Total assets	598,143,987	552,577,556	359,879,774	336,057,427	958,023,761	888,634,983
Current and other liabilities	15,574,156	14,240,830	6,429,320	5,886,911	22,003,476	20,127,741
Long-term liabilities	167,533,635	167,935,092	66,018,487	68,063,553	233,552,122	235,998,645
Total liabilities	183,107,791	182,175,922	72,447,807	73,950,464	255,555,598	256,126,386
Net assets:						
Invested in capital assets, net of related debt	296,401,824	288,391,776	220,881,691	216,558,150	517,283,515	504,949,926
Restricted net assets	120,937,678	88,725,341			120,937,678	88,725,341
Unrestricted net assets	(2,303,306)	(6,715,483)	66,550,276	45,548,813	64,246,970	38,833,330
Total net assets	415,036,196	\$370,401,634	287,431,967	\$262,106,963	702,468,163	\$632,508,597

The largest portion of the City’s net assets, \$517,283,515 (74 percent), reflects its investment in capital assets (e.g. land, buildings, improvements, furnishings and equipment, buses and fare boxes, pipelines, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another significant portion of the City’s net assets represents *unrestricted net assets* of \$64,246,970 (9 percent), which may be used to meet the City’s ongoing obligations to citizens and creditors.

The remaining balance of the City’s net assets of \$120,937,678 (17 percent) represents resources that are subject to external restrictions on how they may be used.

At the end of the 2006 fiscal year, the City reported positive balances in all three categories of net assets for the City as a whole.

The City’s net assets increased by \$69,959,566 during the current fiscal year. Approximately sixty-four percent of this increase is attributable to governmental activities.

Management’s Discussion and Analysis (continued)

The following table indicates the changes in net assets for governmental and business-type activities, as well as comparative data for the prior year.

Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 39,789,386	\$ 43,486,604	\$ 79,482,231	\$ 67,250,435	\$119,271,617	\$110,737,039
Operating grants and contributions	11,892,511	13,736,453	8,317,889	7,525,367	20,210,400	21,261,820
Capital grants and contributions	38,484,548	22,799,320	10,467,873	8,498,408	48,952,421	31,297,728
General revenues:						
Taxes	52,816,226	46,294,592	207,749	260,064	53,023,975	46,554,656
Intergovernmental revenue not restricted for specific purposes	48,685,311	44,695,547			48,685,311	44,695,547
Unrestricted investment earnings	3,255,401	4,463,080	2,504,291	1,819,870	5,759,692	6,282,950
Settlements and recoveries			3,784,295	7,396,627	3,784,295	7,396,627
Miscellaneous	2,827,161	3,792,340			2,827,161	3,792,340
Total revenues	197,750,544	179,267,936	104,764,328	92,750,771	302,514,872	272,018,707
Expenses:						
General government	15,529,735	15,273,174			15,529,735	15,273,174
Community development	12,241,213	14,105,411			12,241,213	14,105,411
Highways and streets	26,025,311	23,721,458			26,025,311	23,721,458
Public works	6,491,062	5,263,984			6,491,062	5,263,984
Parks and recreation	11,733,698	13,334,330			11,733,698	13,334,330
Public safety	74,500,043	71,239,341			74,500,043	71,239,341
Interest on long-term debt	5,178,130	4,987,911			5,178,130	4,987,911
Parking			1,287,450	1,162,479	1,287,450	1,162,479
Water			29,989,775	30,691,348	29,989,775	30,691,348
Sewer			22,716,100	22,422,268	22,716,100	22,422,268
Storm drain			5,795,746	6,111,317	5,795,746	6,111,317
Compost			941,919		941,919	
Airport			1,342,645	1,131,889	1,342,645	1,131,889
Bus			12,119,311	11,074,907	12,119,311	11,074,907
Golf			2,461,470	2,354,759	2,461,470	2,354,759
Community center			2,465,644	2,323,169	2,465,644	2,323,169
Total expenses	151,699,192	147,925,609	79,120,060	77,272,136	230,819,252	225,197,745
Increase in net assets before transfers and special item	46,051,352	31,342,327	25,644,268	15,478,635	71,695,620	46,820,962
Transfers	(1,416,790)	(1,306,914)	1,416,790	1,306,914		
Special item			(1,736,054)	(1,938,606)	(1,736,054)	(1,938,606)
Change in net assets	44,634,562	30,035,413	25,325,004	14,846,943	69,959,566	44,882,356
Net assets - beginning	370,401,634	340,366,221	262,106,963	247,260,020	632,508,597	587,626,241
Net assets – ending	\$415,036,196	\$370,401,634	\$287,431,967	\$262,106,963	\$702,468,163	\$632,508,597

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Management’s Discussion and Analysis (continued)

Management’s Discussion and Analysis (continued)

Governmental activities. Governmental activities increased the City’s net assets by \$44,634,562, accounting for 64 percent of the total growth in net assets of the City. Charges for services are down about \$3.7 million, mainly in Community Development and Highways and Streets due to lower building and construction revenues. Taxes (mainly Utility Users, Property and Business License taxes) increased about \$6.3 million over 2005, due to rising tax *bases*; tax *rates* remained the same. Intergovernmental revenues (primarily sales tax) were up about \$4.0 million. However, the largest increase was in capital grants and contributions, with \$30 million coming from Community Facilities District (CFD) bonds issued in 2006. These CFD bonds have no City commitment, so the debt is not reported as long-term debt and the proceeds are recorded as revenues in these financial statements (see Note III. B).

Expenses in total are up \$3.8 million, or .3%, due to salary and wage increases (3-3.5%) and increased public retirement funding rates. Highways and Streets also included large projects for resurfacing Briggsmore Avenue from Oakdale to Claus Roads, and the Pelandale Ave./SR99 interchange.

Business-type activities. Business-type activities increased the City’s net assets by \$25,325,004. As detailed in the schedule on page 12, the Water, Sewer, Storm Drain, Compost and Airport enterprises posted net incomes during the period. Net losses were experienced by Parking, Bus, Golf and Community Center operations. Depreciation expense, which is the major cause of these net losses, is not included in these funds’ budgets or revenue-setting processes.

Charges for services are up about \$12.2 million, due in part to a 20% City Council-approved water rate increase that became effective on July 1, 2005. Settlements and recoveries revenue decreased \$3.6 million, as PCE settlements slowed pending the outcome of litigation in 2006 (see Note II. L). Finally, expenses across the board are up, primarily due to general increases in salaries and benefits, and the rise in utilities, fuel and materials costs.

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The general government functions are contained in the general, special revenue, capital projects, and debt service funds. The focus of the City’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City’s financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

At June 30, 2006, the City’s governmental funds reported combined fund balances of \$149,662,117, an increase of \$30,620,541 from the prior year. Approximately 71% of the combined fund balances \$106,790,850 constitutes *unreserved fund balance*, which is available to meet the City’s current and future needs. The remainder of fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed: 1) to pay debt service (8,255,446); 2) to reflect advances to other funds, loans receivable and deposits that are long-term that do not represent available spendable resources (\$15,253,461); 3) to liquidate contractual commitments of the period (\$15,116,878); and 4) to meet Redevelopment Agency low and moderate income housing set-aside requirements (\$4,245,482).

The General Fund is the chief operating fund of the City. At June 30, 2006, unreserved fund balance of the General Fund was \$20,607,134 while total fund balance was \$23,309,515. As a measure of the General Fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 20 percent of total fund expenditures, while total fund balance represents 22 percent of that same amount. The prior year ratios were 18% and 20%, respectively. The use of the fund balance reserves was planned and budgeted during the year.

Revenues of governmental funds totaled \$194,420,231 in fiscal year 2005-2006, which represents an increase of 14.3% from fiscal year 2004-2005.

Expenditures of governmental funds totaled \$161,262,932 in fiscal year 2005-2006, representing an increase of 3.5% over the prior year.

The following table presents governmental fund revenues from various sources, with comparisons to the prior year:

Revenues Classified by Source – Governmental Funds

Revenues by Source	FY 2006		FY 2005		Increase (decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Taxes	52,816,596	27.2%	\$ 46,295,678	27.2%	6,520,918	14.1%
Licenses and permits	146,854	0.1%	128,754	0.1%	18,100	14.1%
Intergovernmental	64,759,658	33.3%	73,889,063	43.5%	(9,129,405)	-12.4%
Charges for services	37,802,149	19.4%	41,660,016	24.5%	(3,857,867)	-9.3%
Special assessments	65,909	0.0%	107,696	0.1%	(41,787)	-38.7%
Interest and rent	3,755,169	1.9%	3,146,452	1.9%	608,717	19.3%
Net increase (decrease) in fair value	103,036	0.1%	186,515	0.1%	(83,479)	-44.8%
Fines and forfeits	1,675,926	0.9%	1,646,472	1.0%	29,454	1.8%
Contribution from property owners	30,473,773	15.7%			30,473,773	100.0%
Miscellaneous	2,821,161	1.5%	2,991,745	1.7%	(170,584)	-5.7%
Total	\$194,420,231	100.0%	\$170,052,391	100.0%	\$24,367,840	14.3%

- Taxes –Utility Users taxes, Property taxes, Redevelopment Agency Tax Increment (an allocation of property taxes) and Business license taxes all increased over the prior year (\$2, \$3.1, \$.6, and \$.6 million, respectively), while the other tax categories showed only slight increases.
- Intergovernmental – State sales taxes and motor vehicle license fees make up over half of these revenues. Sales tax was up \$3 million, but vehicle license fees were down \$1.4 million because 2005 included a one-time receipt of \$3.2 million due from the State of California for payments withheld in prior years. The balance of the overall decline is due to lower grant revenues because several large capital projects were completed in the prior year.
- Charges for services – Included in this category are the Capital Facilities and Community Facility District Fees charged to mitigate the impact of new development on City infrastructure needs. These fees decreased \$3.8 million from the prior year, due to an overall slowing of new construction.
- Contributions from property owners – This source is new this year, and represents the proceeds of bonds issued by the Community Facility Districts which will be repaid by district charges to property owners. The City has no commitment for the repayment of these bonds.

The following table presents expenditures by function compared to prior year amounts.

Expenditures by Function	FY 2006		FY 2005		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
General government	14,111,535	8.8%	\$ 11,819,603	7.6%	2,291,932	19.4%
Community development	12,296,072	7.6%	12,832,640	8.2%	(536,568)	-4.2%
Highways and streets	14,357,041	8.9%	12,152,087	7.8%	2,204,954	18.1%
Public works	5,647,023	3.5%	5,053,030	3.2%	593,993	11.8%
Parks and recreation	11,662,263	7.2%	12,021,937	7.7%	(359,674)	-3.0%
Public safety	74,527,875	45.9%	70,882,176	45.5%	3,645,699	5.1%
Capital outlay	21,563,774	13.3%	24,412,735	15.7%	(2,848,961)	-11.7%
Debt Service-principal retirement	1,901,827	1.2%	1,666,764	1.1%	235,063	14.1%
Debt Service-interest charges	4,576,780	2.8%	4,425,980	2.8%	150,800	3.4%
Debt Service-other	618,742	0.4%	553,645	0.4%	65,097	11.8%
Total	\$161,262,932	100.0%	\$155,820,597	100.0%	\$5,442,334	3.5%

The following provides an explanation of the expenditures by function that changed significantly over the prior year.

Management’s Discussion and Analysis (continued)

- General government –Expenditures increased about \$2.3 million, or 19.4% over the prior year. \$1.2 million was for outside legal counsel for new litigation and \$900k was an allocation to the workers compensation insurance internal service fund.
- Highways and streets – Expenditures increased \$2.2 million or 18.1%, including \$1.2 million in the Capital Facility Fees fund.
- Public safety –Expenditures increased about \$3 million, or 5.1% over the prior year. An increase in employer-paid PERS retirement contributions and cost of living increases contributed significantly toward this increase.
- Capital outlay –The decrease of \$2.8 million reflects the completion of the replacement of the 9th Street Bridge and Kansas/Needham Overpass in the prior year.

Other financing sources and uses are presented below to illustrate changes from the prior year:

	Other Financing Sources (Uses)			
	Governmental Funds			
	FY 2006	FY 2005	Increase/(Decrease) Amount	Percent
Transfers in	\$17,724,718	\$17,962,442	(237,724)	-1.3%
Transfers out	(20,267,476)	(19,644,937)	(622,539)	-3.2%
Sale of assets	6,000	928,595	(922,595)	100.00%
Net financing sources (uses)	\$(2,536,758)	\$ (753,900)	\$(1,782,858)	236.5%

- Transfers - The City uses interfund transfers to: (1) move revenues from the funds that collect them in accordance with statutory and/or budgetary requirements, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due.

The net transfers from governmental funds for 2006 were \$2,543,028, compared to \$1,682,495, in the prior year. This net transfer is to the proprietary funds, and consists mainly of the operating subsidy to Community Center operations and funding to the Fleet internal services fund for vehicle and equipment replacement.

The annual totals for both transfers in and out vary, depending on the nature of the activities that are undertaken each year.

The current year excess of revenues and other financing sources over expenditures and other financing uses is presented in the following table:

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

	Major Funds				Nonmajor Funds			Total
	General Fund	Capital Grants Fund	Capital Facility Fees Fund	Community Facility Districts	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	
Revenues	\$114,810,175	\$2,854,861	\$13,208,912	\$35,553,805	\$22,508,256	\$ 2,763,248	\$2,720,974	\$194,420,231
Expenditures	(104,287,942)	(6,917,486)	(9,334,329)	(6,758,111)	(26,308,813)	(1,438,612)	(6,217,639)	(161,262,932)
Other financing sources/ (uses), net	(7,627,777)	2,295,683	10,494	(234,194)	717,011	(1,590,073)	3,892,098	(2,536,758)
Net change in fund balances	2,894,456	(1,766,942)	3,885,077	28,561,500	(3,083,546)	(265,437)	395,433	30,620,541
Fund balance July 1	20,415,059	(2,669,258)	38,222,036	13,573,867	30,525,477	11,114,382	7,860,013	119,041,576
Fund balance June 30	\$23,309,515	\$(4,436,200)	\$42,107,113	\$42,135,367	\$27,441,931	\$10,848,945	\$8,255,446	\$149,662,117

Management’s Discussion and Analysis (continued)

The fund balance of the City’s General Fund increased by \$2,894,456 during the fiscal year. Total revenues increased \$8.4 million, while expenditures increased \$4.7 million over the prior year.

The Capital Grants Fund’s fund balance deficit is due to the timing difference that exists between the realization of expenditures on reimbursable grant projects and the actual receipt of funding from the granting agency.

Capital Facility Fee revenues decreased \$1.6 million from the prior year, while expenditures on capital projects increased by \$5.6 million. Yet, revenues still exceeded expenditures by \$3.9 million.

Community Facility Districts became a major fund in 2006 because of the receipt \$30 million from bonds issued during the year, as previously discussed. Regular CFD charges were \$1.4 million less than 2005, but expenditures increased almost \$2 million. Significant expenditures on capital projects are expected to occur within the next 3 years.

Proprietary funds. The City’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The following table shows actual revenues, expenses and results of operations of enterprise funds for the current fiscal year:

	Major Funds		Nonmajor Funds							Total
	Water	Sewer	Storm Parking	Storm Drain	Compost	Airport	Bus	Golf	Community Center	
Operating revenues	\$42,639,348	\$23,083,280	\$1,176,061	\$5,277,304	\$1,317,105	\$577,688	\$2,645,622	\$2,222,738	\$543,085	\$79,482,231
Operating expenses	(28,672,955)	(20,809,387)	(1,279,104)	(5,889,410)	(950,637)	(1,326,453)	(12,171,868)	(2,159,640)	(2,484,552)	(75,744,006)
Operating income (loss)	13,966,393	2,273,893	(103,043)	(612,106)	366,468	(748,765)	(9,526,246)	63,098	(1,941,467)	3,738,225
Non-operating revenues (expenses), net	318,834	1,007,528	5,448	22,010	(9,189)	419,117	8,655,787	(228,937)	502,918	10,693,516
Income (loss) before capital contributions, transfers and special items	14,285,227	3,281,421	(97,595)	(590,096)	357,279	(329,648)	(870,459)	(165,839)	(1,438,549)	14,431,741
Contributions, transfers and special items	3,345,787	2,215,159		1,327,331	696,690	1,327,301	467,053	65,288	704,000	10,148,609
Net income (loss)	\$17,631,014	\$5,496,580	\$(97,595)	\$737,235	\$1,053,969	\$997,635	\$(403,406)	\$(100,551)	\$(734,549)	\$24,580,350

The Water, Sewer, Storm Drain, Compost and Airport enterprises posted net incomes during the period. It is important to note that while the Water and Sewer funds show rather healthy operating results, capital improvement expenditures and debt service principal payments incurred during the year are not reflected in the expenditure totals shown above. Net losses were experienced by the other enterprise funds. Golf and Community Center normally receive annual operating subsidies from the General fund, but these subsidies do not cover depreciation expenses, resulting in net losses overall. Also, the Golf fund did not receive a subsidy in 2006. Revenues in the Water utility fund rose during the year due to an average 15% rate increase, as well as normal growth in the customer base. Compost operations were previously part of the Sewer enterprise fund because of the use of bio-solids in the compost mixture. Since that nexus has been significantly reduced, compost operations are now reported as a stand-alone enterprise fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the major governmental funds are presented as Required Supplementary Information, beginning on page 56 of this report.

While the City Council amended the budget several times, the differences between the original budget and the final amended budget for the General Fund were relatively minor. The estimated revenues increased about \$7.6 million,

Management’s Discussion and Analysis (continued)

while total appropriations were increased \$4.6 million, or about 4.4%. These amendments, generally, were to adjust the actual beginning balances and carryovers after closing the prior fiscal year, and to reflect adjustments to current estimates based on the periodic monitoring of revenue and expenditures throughout the year.

Revenues came in \$4 million more than estimates, primarily in Motor Vehicle License fees (\$3 million) due to budgetary uncertainties with the State’s “triple flip” restructuring. Also, interest revenues came in about \$700,000 more than estimated, due to higher returns on investments.

Expenditures, overall, were \$3.3 million under budget, primarily due to efforts of departments to realize savings, and certain purchases being deferred to future periods.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounted to \$636,822,772 (net of accumulated depreciation). The total increase in the City’s investment in capital assets for the current period was 1.7 percent.

Capital assets, net of depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year:

	Governmental activities		Business-type activities		Total		Increase (Decrease) Percent Change
	2006	2005	2006	2005	2006	2005	
Land	\$ 22,982,481	\$22,081,279	\$26,539,639	\$26,001,514	\$49,522,120	\$48,082,793	3.3%
Buildings	21,142,099	19,313,523	48,322,570	50,762,320	69,464,669	70,075,843	-0.9%
Improvements	16,668,974	16,990,103	59,863,277	64,197,749	76,532,251	81,187,852	-5.7%
Furnishings and equipment	8,059,702	7,550,416	2,893,008	3,154,512	10,952,710	10,704,928	2.3%
Equipment pool	15,232,410	14,245,320			15,232,410	14,245,320	6.9%
Streets	234,966,127	233,954,645			234,966,127	233,954,645	0.4%
Signalization	6,583,733	6,700,751			6,583,733	6,700,751	-1.7%
Bridges	25,239,107	25,024,283			25,239,107	25,024,283	0.9%
Buses and fare box es			8,197,997	8,914,629	8,197,997	8,914,629	-8.0%
Pipelines			110,263,919	107,571,640	110,263,919	107,571,640	2.5%
Construction in progress	12,096,542	9,209,548	28,642,007	21,150,540	40,738,549	31,360,088	34.2%
Total	\$362,971,175	\$355,069,868	\$284,722,417	\$281,752,904	\$647,693,592	\$636,822,772	1.7%

Major capital asset events during the current fiscal year included the following:

- Construction in progress – Work continued on the Virginia Corridor Pedestrian/Bicycle trail on the old Union Pacific railroad right of way, as well as other parks development such as Merle Park, Maddux Youth Center and a joint fire/police/recreation facility at Marshall Park.
- Equipment – The Fire department purchased a new ladder truck costing \$700,000.

The City’s infrastructure assets are recorded at historical cost in the government-wide financial statements. Depreciation expense is recorded using the straight-line method, based on estimated useful life of the asset. Additional information on the City’s capital assets can be found in note II.B on pages 39-40 of this report.

Long-term debt

At June 30, 2006, the City had total long-term liabilities outstanding of \$233,552,122, net of unamortized discounts and deferred amounts on refunding, as compared to \$235,998,645 in the prior year. This amount was comprised of \$62,505,000 of lease revenue bonds, \$46,275,078 of certificates of participation, \$36,842,020 of revenue bonds payable, \$61,616,953 of estimated compensated absences, \$16,331,110 of claims liability, \$2,601,674 of loans payable, \$2,177,761 of developer advances, \$667,492 of capital leases, and \$4,535,034 of notes payable. During the year, retirement of debt and other reductions amounted to \$18,832,635, and new debt and other additions totaled \$16,386,112. The additions were related to new estimates for compensated absences and claims liabilities (\$8.9 and

Management’s Discussion and Analysis (continued)

\$7.5 million, respectively). Additional information on the City’s long-term debt can be found in note II.C on pages 39-43 of this report.

Modesto maintains an Employee Benefits internal service fund (EBF) to pay a portion of retiree health benefits and other employee related expenses. While the City has yet to implement GASB Statement No. 45 related to Other Post Employment Benefits, the City has consistently included an estimate of its retiree health care obligation from sick-leave conversion in its compensated absences liability. As of June 30, 2006, this amounts to approximately \$54.6 million of the \$61.6 million listed above. This contributes significantly to the EBF’s unfunded liability of more than \$45 million. Additional information on the City’s EBF can be found in Notes II-H and III-G.

Economic Factors and Next Year’s Budget and Rates

- *Consumer Price Index* - The national CPI has been relatively stable during the past six years. In 2000, the CPI-Western Urban was 3.5 %. In June 2006, the CPI-Western Urban increased 4.1%.
- *Taxable Sales* - Taxable sales growth has ranged from 11% to 5.7% during the last couple of years. In future years, annual taxable sales growth is projected at 4.4%.
- *Building Permit Activity* - Building permit activity, which had been extremely robust for several years, has leveled off with 5,797 total permits in 2004, 5,892 in 2005 and 5,968 for the year ended June 30, 2006. The average construction value of these permits decreased from about \$57,000 to \$50,000.
- *Utility Service Charges* - Water utility rates were increased an average of 15% effective July 1, 2006. This is one in a series of increases adopted by the City Council and is intended to fund major capital improvements to the water system.

All of these factors were considered in preparing the City’s budget for fiscal year 2006.

During the current fiscal year, unreserved fund balance in the General Fund increased by \$3,047,129, to \$20,507,134. Of this amount, \$5.9 million is designated for specific purposes, including \$5.8 million appropriated in the fiscal year 2006-07 budget. The unreserved/undesignated balance of \$14,706,248 presents 14.1% of total General Fund outflows, versus the City Council’s target of 8%. The budget adopted for fiscal year 2006-2007 maintains this target reserve level.

Requests for Information

This financial report is designed to provide a general overview of the City’s finances for all those with an interest in the City’s financial condition. Questions concerning any of the information provided in this report and requests for additional financial information should be addressed to the City of Modesto, Attention: Finance Department, P.O. Box 642, Modesto, CA 95353.

CITY OF MODESTO
STATEMENT OF NET ASSETS
June 30, 2006

BASIC FINANCIAL STATEMENTS

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 179,383,700	\$ 59,095,752	\$ 238,479,452
Accounts receivable, net	1,665,060	426,296	2,091,356
Interest receivable	920,077	393,977	1,314,054
Utility billings receivable, net	856,362	8,291,254	9,147,616
Taxes receivable	11,094,539	3,940	11,098,479
Due from governments, net	11,100,278	3,635,812	14,736,090
Notes receivable, net	13,270,036		13,270,036
Prepaid expenses	780,000	1,003,000	1,783,000
Property held for resale		630,000	630,000
Internal balances	(837,201)	837,201	
Inventories	516,919		516,919
Unamortized costs of debt issuance		840,125	840,125
Investments in joint ventures	16,423,042		16,423,042
Capital assets:			
Land and construction in progress	35,079,023	55,181,646	90,260,669
Other capital assets, net of accumulated depreciation	<u>327,892,152</u>	<u>229,540,771</u>	<u>557,432,923</u>
Total assets	<u>598,143,987</u>	<u>359,879,774</u>	<u>958,023,761</u>
<u>LIABILITIES</u>			
Accounts payable	7,610,606	2,415,957	10,026,563
Accrued salaries and benefits	1,341,285	227,808	1,569,093
Approved loans payable	589,219		589,219
Interest payable	1,244,326	633,918	1,878,244
Unearned revenues	2,728,304	2,124,426	4,852,730
Refundable deposits	2,060,416	1,027,211	3,087,627
Long-term liabilities:			
Due within one year	9,960,789	3,000,479	12,961,268
Due in more than one year	<u>157,572,846</u>	<u>63,018,008</u>	<u>220,590,854</u>
Total liabilities	<u>183,107,791</u>	<u>72,447,807</u>	<u>255,555,598</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	296,401,824	220,881,691	517,283,515
Restricted for:			
Capital projects	78,526,510		78,526,510
Housing and community development	18,188,683		18,188,683
Other purposes	21,114,567		21,114,567
Unrestricted	<u>804,612</u>	<u>66,550,276</u>	<u>67,354,888</u>
Total net assets	<u>\$ 415,036,196</u>	<u>\$ 287,431,967</u>	<u>\$ 702,468,163</u>

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

FUNCTIONS/PROGRAMS:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 15,529,735	\$ 4,179,505			\$ (11,350,230)		\$ (11,350,230)
Community development	12,241,213	9,466,082		\$ 30,473,773	27,698,642		27,698,642
Highways and streets	26,025,311	12,104,089	\$ 4,699,992	5,762,921	(3,458,309)		(3,458,309)
Public works	6,491,062	1,986,957	316,384		(4,187,721)		(4,187,721)
Parks and recreation	11,733,698	4,928,366	3,222,811	2,247,854	(1,334,667)		(1,334,667)
Public safety	74,500,043	7,124,387	3,653,324		(63,722,332)		(63,722,332)
Interest on long-term debt	5,178,130				(5,178,130)		(5,178,130)
Total governmental activities	<u>151,699,192</u>	<u>39,789,386</u>	<u>11,892,511</u>	<u>38,484,548</u>	<u>(61,532,747)</u>		<u>(61,532,747)</u>
Business-type activities:							
Parking	1,287,450	1,176,061				\$ (111,389)	(111,389)
Water	29,989,775	42,639,348		4,156,357		16,805,930	16,805,930
Sewer	22,716,100	23,083,280		3,343,231		3,710,411	3,710,411
Storm Drain	5,795,746	5,277,304		1,132,034		613,592	613,592
Compost	941,919	1,317,105		30,070		405,256	405,256
Airport	1,342,645	577,688	50,351	1,327,385		612,779	612,779
Bus	12,119,311	2,645,622	8,267,538	478,796		(727,355)	(727,355)
Golf	2,461,470	2,222,738				(238,732)	(238,732)
Community Center	2,465,644	543,085				(1,922,559)	(1,922,559)
Total business-type activities	<u>79,120,060</u>	<u>79,482,231</u>	<u>8,317,889</u>	<u>10,467,873</u>		<u>19,147,933</u>	<u>19,147,933</u>
Total	<u>\$ 230,819,252</u>	<u>\$ 119,271,617</u>	<u>\$ 20,210,400</u>	<u>\$ 48,952,421</u>	<u>(61,532,747)</u>	<u>19,147,933</u>	<u>(42,384,814)</u>
General revenues:							
Taxes:							
Utility users tax					17,583,690		17,583,690
Property taxes, levied for general purposes					14,318,747		14,318,747
Property taxes, generated by and allocated to the airport						166,641	166,641
Tax increments for redevelopment agency					4,450,836		4,450,836
Transient occupancy tax					2,181,467		2,181,467
Franchise tax					3,693,307		3,693,307
Business license tax, levied for general purposes					10,374,157		10,374,157
Business license tax, levied for downtown improvement district					214,022		214,022
Business license tax, generated by and allocated to the airport						41,108	41,108
Intergovernmental revenue not restricted to specific programs:							
Sales tax					29,627,835		29,627,835
Motor vehicle license fee					14,986,883		14,986,883
Other					4,070,593		4,070,593
Unrestricted investment earnings					3,255,401	2,504,291	5,759,692
Miscellaneous					2,827,161		2,827,161
Transfers, net					(1,416,790)	1,416,790	
Settlements and recoveries						3,784,295	3,784,295
Special item - PCE legal fees						(1,736,054)	(1,736,054)
Total general revenues, transfers and special item					<u>106,167,309</u>	<u>6,177,071</u>	<u>112,344,380</u>
Change in net assets					44,634,562	25,325,004	69,959,566
Net assets, July 1					<u>370,401,634</u>	<u>262,106,963</u>	<u>632,508,597</u>
Net assets, June 30	<u>\$ 415,036,196</u>	<u>\$ 287,431,967</u>	<u>\$ 702,468,163</u>				

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2006**

**CITY OF MODESTO
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
June 30, 2006**

	General	Capital Grants	Capital Facility Fees	Community Facilities Districts	Other Governmental	Total Governmental
ASSETS						
Cash and cash equivalents	\$ 9,141,367	\$ 257	\$ 44,019,271	\$ 13,977,058	\$ 21,994,093	\$ 89,132,046
Cash and cash equivalents with fiscal agent				29,091,868	11,072,496	40,164,364
Receivables:						
Accounts	354,635	9,341	33		466,993	831,002
Interest	272,623		210,696	58,998	158,201	700,518
Utilities, net	824,856				31,506	856,362
Taxes	10,485,306			104,390	504,843	11,094,539
Due from governments	548,231	5,416,376	84,108		5,012,876	11,061,591
Due from other funds	5,572,000					5,572,000
Notes receivable, net	92,283				13,177,753	13,270,036
Prepaid expenses/expenditures					780,000	780,000
Restricted assets:						
Cash and cash equivalents	1,845,018			214,297		2,059,315
Advances to other funds	1,644,193				148,451	1,792,644
Total assets	\$ 30,780,512	\$ 5,425,974	\$ 44,314,108	\$ 43,446,611	\$ 53,347,212	\$ 177,314,417
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 2,241,841	\$ 623,716	\$ 748,685	\$ 684,018	\$ 1,795,856	\$ 6,094,116
Accrued salaries and benefits	1,116,500			4,553	135,797	1,256,850
Approved loans payable					589,219	589,219
Due to other funds		4,443,000			1,129,000	5,572,000
Deferred revenues	364,061	4,795,458	17,434	408,376	2,798,250	8,383,579
Payable from restricted assets:						
Refundable deposits	1,845,119			214,297	1,000	2,060,416
Advances from other funds	1,903,476		1,440,876		351,768	3,696,120
Total liabilities	7,470,997	9,862,174	2,206,995	1,311,244	6,800,890	27,652,300
Fund balances:						
Reserved	2,702,381	1,337,898	1,992,255	3,231,123	33,607,610	42,871,267
Unreserved:						
Designated, reported in:						
General fund	5,900,886					5,900,886
Special revenue funds					12,314,680	12,314,680
Capital projects funds			40,114,858	38,904,244	(492,592)	78,526,510
Undesignated, reported in:						
General fund	14,706,248					14,706,248
Special revenue funds					1,116,624	1,116,624
Capital projects funds		(5,774,098)				(5,774,098)
Total fund balances	23,309,515	(4,436,200)	42,107,113	42,135,367	46,546,322	149,662,117
Total liabilities and fund balances	\$ 30,780,512	\$ 5,425,974	\$ 44,314,108	\$ 43,446,611	\$ 53,347,212	\$ 177,314,417

The notes to basic financial statements are an integral part of this statement.
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Total fund balances - total governmental funds \$ 149,662,117

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

General capital assets:

Nondepreciable	\$ 34,257,990	
Depreciable	78,434,583	
Accumulated depreciation on general capital assets	(36,249,289)	
Infrastructure:		
Depreciable	465,959,564	
Accumulated depreciation on infrastructure	<u>(199,170,597)</u>	343,232,251

Other long-term assets are not available to pay for current-period expenditures and, therefore, are:

Deferred in the governmental funds, or	\$ 5,655,275	
Investments in joint ventures	<u>16,423,042</u>	22,078,317

Internal service funds are used by management to charge the costs of activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.

(9,277,625)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable and other long-term debt	\$ (89,414,538)	
Accrued interest	<u>(1,244,326)</u>	<u>(90,658,864)</u>

Net assets of governmental activities \$ 415,036,196

The notes to basic financial statements are an integral part of this statement.
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CITY OF MODESTO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year ended June 30, 2006

CITY OF MODESTO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES -GOVERNMENTAL ACTIVITIES
Year Ended June 30, 2006

	General	Capital Grants	Capital Facility Fees	Community Facility Districts	Other Governmental	Total Governmental
REVENUES:						
Taxes	\$ 47,349,236				\$ 5,467,360	\$ 52,816,596
Licenses and permits	96,081				50,773	146,854
Intergovernmental	48,205,287	\$ 2,854,861	\$ 112,128		13,587,382	64,759,658
Charges for services	14,953,869		12,186,244	\$ 4,615,308	6,046,728	37,802,149
Special assessments levied	65,909					65,909
Interest and rent	1,217,293		884,879	423,364	1,229,633	3,755,169
Net increase in fair value of investments	16,814		25,661	33,735	26,826	103,036
Fines and forfeits	877,376				798,550	1,675,926
Contribution from property owners				30,473,773		30,473,773
Miscellaneous	2,028,310			7,625	785,226	2,821,161
Total revenues	<u>114,810,175</u>	<u>2,854,861</u>	<u>13,208,912</u>	<u>35,553,805</u>	<u>27,992,478</u>	<u>194,420,231</u>
EXPENDITURES:						
Current:						
General government	13,336,716		96,077		678,742	14,111,535
Community development	5,146,011			1,884,276	5,265,785	12,296,072
Highways and streets		603,259	1,572,273		12,181,509	14,357,041
Public works	1,719,587				3,927,436	5,647,023
Parks and recreation	11,471,198	158,085	14,544		18,436	11,662,263
Public safety	72,205,341		6,413		2,316,121	74,527,875
Capital outlay	398,112	6,156,142	7,187,022	4,873,835	2,948,663	21,563,774
Debt service:						
Principal retirement	9,916		421,468		1,470,443	1,901,827
Interest	1,061		36,532		4,539,187	4,576,780
Other					618,742	618,742
Total expenditures	<u>104,287,942</u>	<u>6,917,486</u>	<u>9,334,329</u>	<u>6,758,111</u>	<u>33,965,064</u>	<u>161,262,932</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>10,522,233</u>	<u>(4,062,625)</u>	<u>3,874,583</u>	<u>28,795,694</u>	<u>(5,972,586)</u>	<u>33,157,299</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	2,111,925	2,295,683	969,002	65,806	12,282,302	17,724,718
Transfers out	(9,739,702)		(964,508)	(300,000)	(9,263,266)	(20,267,476)
Sale of Assets			6,000			6,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(7,627,777)</u>	<u>2,295,683</u>	<u>10,494</u>	<u>(234,194)</u>	<u>3,019,036</u>	<u>(2,536,758)</u>
NET CHANGE IN FUND BALANCES	<u>2,894,456</u>	<u>(1,766,942)</u>	<u>3,885,077</u>	<u>28,561,500</u>	<u>(2,953,550)</u>	<u>30,620,541</u>
FUND BALANCES, July 1	20,415,059	(2,669,258)	38,222,036	13,573,867	49,499,872	119,041,576
FUND BALANCES, June 30	<u>\$ 23,309,515</u>	<u>\$ (4,436,200)</u>	<u>\$ 42,107,113</u>	<u>\$ 42,135,367</u>	<u>\$ 46,546,322</u>	<u>\$ 149,662,117</u>

Net change in fund balances - total governmental funds \$ 30,620,541

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 21,563,774	
Depreciation expense	(14,984,083)	6,579,691

In the statement of activities, only the gain or loss on the sales of capital assets is reported, whereas in the governmental funds, the proceeds from such sales increase financial resources. Thus, the change in net assets differs from the change in fund balances by the cost of the assets sold. (1,595,152)

Developer donations of infrastructure assets are not included in the fund statements. Thus, the change in net assets differs from the change in fund balance by the value of these asset donations. 1,529,376

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred revenue	\$ 2,397,741	
Change in investment in joint venture	(1,519,073)	878,668

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Principal retirement		1,901,827
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in accrued interest		28,933
----------------------------	--	--------

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.

		4,690,678
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Change in net assets of governmental activities \$ 44,634,562

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The notes to basic financial statements are an integral part of this statement.

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
 June 30, 2006

	Enterprise				Internal Service
	Water	Sewer	Enterprise	Total Enterprise	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 23,549,341	\$ 23,764,487	\$ 6,247,047	\$ 53,560,875	\$ 48,027,975
Cash and cash equivalents with fiscal agent	273,350	3,621,532	612,784	4,507,666	
Receivables:					
Accounts	1,440	58,709	366,147	426,296	834,058
Interest	124,354	208,228	61,395	393,977	219,559
Utilities, net	5,292,161	2,440,681	558,412	8,291,254	
Taxes	3,940			3,940	
Due from governments		127,064	3,508,748	3,635,812	38,687
Prepaid expenses	1,003,000			1,003,000	
Inventories					516,919
Property held for resale			630,000	630,000	
Advances to other funds					1,903,476
Total current assets	<u>30,247,586</u>	<u>30,220,701</u>	<u>11,984,533</u>	<u>72,452,820</u>	<u>51,540,674</u>
Noncurrent assets:					
Restricted assets-cash and cash equivalents	664,110	363,101		1,027,211	
Unamortized costs of issuance	240,613	599,512		840,125	
Land and construction in progress	10,241,729	26,615,981	18,323,936	55,181,646	821,033
Other capital assets, net of accumulated depreciation	<u>65,827,962</u>	<u>104,251,720</u>	<u>59,461,089</u>	<u>229,540,771</u>	<u>18,917,891</u>
Total assets	<u>107,222,000</u>	<u>162,051,015</u>	<u>89,769,558</u>	<u>359,042,573</u>	<u>71,279,598</u>
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 818,584	\$ 341,524	\$ 1,255,849	\$ 2,415,957	\$ 1,516,490
Accrued salaries and benefits	68,500	99,803	59,505	227,808	84,435
Interest payable	275,213	302,907	55,798	633,918	
Current portion - compensated absences					2,769,104
Current portion - claims liability					5,156,560
Current portion - long-term debt	977,764	1,650,000	275,955	2,903,719	26,587
Current portion - developer advances	96,760			96,760	
Deferred revenues			2,124,426	2,124,426	
Total current liabilities	<u>2,236,821</u>	<u>2,394,234</u>	<u>3,771,533</u>	<u>6,402,588</u>	<u>9,553,176</u>
Noncurrent liabilities:					
Payable from restricted assets - refundable deposits	664,110	363,101		1,027,211	
Compensated absences					58,847,850
Claims liability					11,174,550
Long-term debt:					
Revenue bonds payable		35,192,020		35,192,020	
Loan payable	1,958,276			1,958,276	
Notes payable					144,446
Obligations under capital leases			151,633	151,633	
Certificates of participation	17,985,078		5,650,000	23,635,078	
Developer advances	2,081,001			2,081,001	
Total noncurrent liabilities	<u>22,688,465</u>	<u>35,555,121</u>	<u>5,801,633</u>	<u>64,045,219</u>	<u>70,166,846</u>
Total liabilities	<u>24,925,286</u>	<u>37,949,355</u>	<u>9,573,166</u>	<u>72,447,807</u>	<u>79,720,022</u>
NET ASSETS					
Invested in capital assets, net of related debt	55,148,573	94,025,681	71,707,437	220,881,691	19,567,891
Unrestricted	<u>27,148,141</u>	<u>30,075,979</u>	<u>8,488,955</u>	<u>65,713,075</u>	<u>(28,008,315)</u>
Total net assets	<u>\$ 82,296,714</u>	<u>\$ 124,101,660</u>	<u>\$ 80,196,392</u>	<u>286,594,766</u>	<u>\$ (8,440,424)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				837,201	
Net assets of business-type activities				<u>\$ 287,431,967</u>	

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
 Year ended June 30, 2006

	Water	Sewer	Other Enterprise	Total Enterprise	Internal Service
OPERATING REVENUES:					
Charges for services	\$ 42,639,348	\$ 23,057,564	\$ 13,450,725	\$ 79,147,637	\$ 73,979,591
Sales					2,616,588
Cost of sales					(2,604,232)
Miscellaneous		25,716	308,878	334,594	
Total operating revenues	<u>42,639,348</u>	<u>23,083,280</u>	<u>13,759,603</u>	<u>79,482,231</u>	<u>73,991,947</u>
OPERATING EXPENSES:					
Salaries and wages	3,921,478	4,991,009	3,574,322	12,486,809	4,072,026
Contractual services	1,716,729	2,791,417	10,808,264	15,316,410	1,013,441
Utilities	1,703,202	1,048,853	576,197	3,328,252	473,011
Maintenance and supplies	3,425,200	2,542,441	3,660,229	9,627,870	4,085,997
Water purchases	10,674,717			10,674,717	
Insurance	133,175	245,008	176,119	554,302	11,054,260
Claims expense					7,458,436
Employee benefits	1,427,839	1,852,398	1,290,449	4,570,686	37,751,321
Administration services	2,186,919	1,425,147	1,599,526	5,211,592	1,492,365
Allocated indirect administrative costs	1,049,489	760,932	684,216	2,494,637	264,010
Other	50,641	124,429	235,925	410,995	160,718
Depreciation	2,383,566	5,027,753	3,656,417	11,067,736	2,838,477
Total operating expenses	<u>28,672,955</u>	<u>20,809,387</u>	<u>26,261,664</u>	<u>75,744,006</u>	<u>70,664,062</u>
OPERATING INCOME (LOSS)	<u>13,966,393</u>	<u>2,273,893</u>	<u>(12,502,061)</u>	<u>3,738,225</u>	<u>3,327,885</u>
NONOPERATING REVENUES (EXPENSES)					
Operating grants			8,317,889	8,317,889	
Gain (Loss) on disposition of capital assets	(241,380)	(46,939)	(24,043)	(312,362)	(241,883)
Tax revenue			207,749	207,749	
Tax expense	(84,556)	(91,215)	(17,286)	(193,057)	
Interest income	487,165	694,320	161,180	1,342,665	895,959
Net increase in fair value of investments	14,009	32,123	7,089	53,221	20,310
Rental income	33,060	39,182	1,036,163	1,108,405	
Settlements and recoveries	1,334,259	2,450,036		3,784,295	
Interest expense	(1,209,884)	(2,034,714)	(321,587)	(3,566,185)	(11,541)
Amortization of costs of issuance	(13,839)	(35,265)		(49,104)	
Total nonoperating revenues (expenses)	<u>318,834</u>	<u>1,007,528</u>	<u>9,367,154</u>	<u>10,693,516</u>	<u>662,845</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>14,285,227</u>	<u>3,281,421</u>	<u>(3,134,907)</u>	<u>14,431,741</u>	<u>3,990,730</u>
Capital contributions	4,156,357	3,343,231	2,968,285	10,467,873	318,634
Transfers in		608,400	1,741,437	2,349,837	1,712,361
Transfers out	(95,385)	(715,603)	(122,059)	(933,047)	(586,393)
Special item	(715,185)	(1,020,869)		(1,736,054)	
CHANGE IN NET ASSETS	<u>17,631,014</u>	<u>5,496,580</u>	<u>1,452,756</u>	<u>24,580,350</u>	<u>5,435,332</u>
NET ASSETS, July 1	<u>64,665,700</u>	<u>118,605,080</u>	<u>78,743,636</u>	<u>(13,875,756)</u>	
NET ASSETS, June 30	<u>\$ 82,296,714</u>	<u>\$ 124,101,660</u>	<u>\$ 80,196,392</u>	<u>\$ (8,440,424)</u>	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				744,654	
Change in net assets of business-type activities				<u>\$ 25,325,004</u>	

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year ended June 30, 2006

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 41,033,042	\$ 23,086,747	\$ 14,635,268	\$ 78,755,057	\$ 1,076,798
Receipts from interfund services provided	797,367	119,091	23,910	940,368	72,377,540
Payments to suppliers	(18,027,267)	(6,229,721)	(13,430,505)	(37,687,493)	(16,163,026)
Payment of insurance claims					(5,089,127)
Payments to employees	(5,331,913)	(6,812,624)	(4,847,597)	(16,992,134)	(42,611,729)
Payments for interfund services used	(3,541,710)	(4,078,294)	(3,924,272)	(11,544,276)	(2,200,479)
Net cash provided (used) by operating activities	<u>14,929,519</u>	<u>6,085,199</u>	<u>(7,543,196)</u>	<u>13,471,522</u>	<u>7,389,977</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Operating grants received			6,593,915	6,593,915	
Taxes received			207,749	207,749	
Settlements and recoveries	1,334,259	2,450,036		3,784,295	
Transfers in		608,400	1,438,124	2,046,524	1,712,361
Transfers out	(95,385)	(1,643,481)	(122,059)	(1,860,925)	(586,393)
Repayments of advances to other funds					96,524
Net cash provided (used) by noncapital financing activities	<u>1,238,874</u>	<u>1,414,955</u>	<u>8,117,729</u>	<u>10,771,558</u>	<u>1,222,492</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(5,170,271)	(1,126,014)	(1,904,104)	(8,200,389)	(4,264,019)
Principal repayments	(1,033,670)	(990,000)	(262,899)	(2,286,569)	(45,588)
Interest paid	(1,123,749)	(1,926,462)	(323,310)	(3,373,521)	(11,541)
Capital grants received			1,550,637	1,550,637	
Connection fees for capital purposes	3,029,293	705,614		3,734,907	
Net cash used by capital and related financing activities	<u>(4,298,397)</u>	<u>(3,336,862)</u>	<u>(939,676)</u>	<u>(8,574,935)</u>	<u>(4,321,148)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	445,467	660,350	165,747	1,271,564	875,832
Net increase in the fair value of investments	14,009	32,123	7,089	53,221	20,310
Net cash provided by investing activities	<u>459,476</u>	<u>692,473</u>	<u>172,836</u>	<u>1,324,785</u>	<u>896,142</u>
Net increase (decrease) in cash and cash equivalents	12,329,472	4,855,765	(192,307)	16,992,930	5,138,677
CASH AND CASH EQUIVALENTS, JULY 1	<u>12,157,329</u>	<u>22,893,355</u>	<u>7,052,138</u>	<u>42,102,822</u>	<u>42,889,298</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 24,486,801</u>	<u>\$ 27,749,120</u>	<u>\$ 6,859,831</u>	<u>\$ 59,095,752</u>	<u>\$ 48,027,975</u>
RECONCILIATION TO STATEMENT OF NET ASSETS:					
Cash and cash equivalents	\$ 23,549,341	\$ 23,764,487	\$ 6,247,047	\$ 53,560,875	\$ 48,027,975
Cash and cash equivalents with fiscal agent	273,350	3,621,532	612,784	4,507,666	
Restricted assets-cash and cash equivalents	664,110	363,101		1,027,211	
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 24,486,801</u>	<u>\$ 27,749,120</u>	<u>\$ 6,859,831</u>	<u>\$ 59,095,752</u>	<u>\$ 48,027,975</u>

(continued)

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)
Year ended June 30, 2006

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 13,966,393	\$ 2,273,893	\$ (12,502,061)	\$ 3,738,225	\$ 3,327,885
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,383,566	5,027,753	3,656,417	11,067,736	2,838,477
Rental income	33,060	39,182	1,036,163	1,108,405	
Taxes paid	(84,556)	(91,215)	(17,084)	(192,855)	
Special item	(715,185)	(1,020,869)		(1,736,054)	
Change in assets and liabilities:					
(Increase) in accounts receivable	(1,440)	109,052	(38,880)	68,732	(537,609)
(Increase) in utilities receivable	(1,002,841)	(73,545)	(9,538)	(1,085,924)	
(Increase) in taxes receivable	(569)			(569)	
Decrease in notes receivable					3,096
(Increase) in prepaid expenses	(61,825)			(61,825)	
(Increase) in inventories					(141,322)
(Decrease) in accounts payable and accrued expenses	232,661	(257,704)	402,985	377,942	321,619
Increase in accrued salaries and benefits	17,404	30,783	17,174	65,361	31,873
Increase in compensated absences					(823,351)
(Decrease) in claims liability					2,369,309
Increase in deferred revenues			(88,372)	(88,372)	
Increase (decrease) in refundable deposits	162,851	47,869		210,720	
Total adjustments	<u>963,126</u>	<u>3,811,306</u>	<u>4,958,865</u>	<u>9,733,297</u>	<u>4,062,092</u>
Net cash provided (used) by operating activities	<u>\$ 14,929,519</u>	<u>\$ 6,085,199</u>	<u>\$ (7,543,196)</u>	<u>\$ 13,471,522</u>	<u>\$ 7,389,977</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:					
Capital assets transferred in	\$ 862,587	\$ 45,682	\$ 749,502	\$ 1,657,771	\$ 318,634
Developer infrastructure contributions	264,477	2,591,935	370,166	3,226,578	

The notes to basic financial statements are an integral part of this statement.

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The notes to basic financial statements are an integral part of this statement.

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CITY OF MODESTO
STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUNDS
 June 30, 2006

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 2,546,703
Cash and cash equivalents held with fiscal agent	4,512,890
	\$ 7,059,593
LIABILITIES	
Due to special district bondholders	\$ 5,763,312
Deposits held as agent for others	1,296,281
	\$ 7,059,593

CITY OF MODESTO
NOTES TO BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. THE FINANCIAL REPORTING ENTITY

The City of Modesto (the City) 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, drinking water, wastewater collection and treatment, storm drainage, public transit, recreation and social services, public improvements, community development, planning and zoning, and general administrative services.

These financial statements present the financial status of the City and its component units. The component units discussed in the following paragraphs are included in the City's reporting entity because the City is financially accountable for their operations.

1. The Redevelopment Agency of the City of Modesto (the Agency) was established by the City as a separate legal entity in accordance with state law. The purpose of the Agency is to encourage new investment and reinvestment within legally designated redevelopment areas in partnership with property owners.
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.
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.
4. The City of Modesto has established several Community Facilities Districts to provide funding and reimbursement mechanisms for public facilities and services required by each District Specific Plan. These Districts are the vehicles used to ensure that all landowners in the Districts contribute to the cost of public improvements. There are currently eight active Districts, which are combined for presentation in these financial statements. Individual component unit financial statements are prepared for each District.

Although these component units are legally separate from the City, they are reported on a blended basis as part of the primary government because their boards consist of all seven members of the City Council. Component unit financial statements may be obtained from the City's Finance Department.

The joint ventures and jointly governed organization described in Note III - E are not considered part of the reporting entity because the City is not financially accountable for their operations.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that

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The notes to basic financial statements are an integral part of this statement.

are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. BASIS OF PRESENTATION, BASIS OF ACCOUNTING, AND MEASUREMENT FOCUS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest expenditures 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.

Substantially all property taxes, taxpayer-assessed taxes (such as sales and use, utility users, business license, transient occupancy, franchise fees, and gas taxes), interest, special assessments levied, state and federal grants, and charges for current services are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Revenues from licenses, permits, and fines and forfeits are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Grants Fund accounts for receipts and disbursements of a variety of Governmental Fund capital grants.

The Capital Facility Fees Fund accounts for special fees collected on new building permits to be used for construction of growth related projects, including police department expansion, fire department expansion, expressway loop, street lights, parks, new traffic signals, city hall expansion, wastewater treatment, streets, public transportation, and air quality improvements.

The Community Facilities Districts Fund accounts for the construction of public improvements deemed to benefit properties against which special taxes are levied.

The City reports the following major proprietary funds:

The Water Fund accounts for all revenues collected by the City for the purpose of financing the construction, operation, and maintenance of the City water distribution system. Revenues are derived from water service charges and various installation fees.

The Sewer Fund accounts for revenues collected by the City for the purpose of financing the construction, operation, and maintenance of the City sewer system. Revenues include, but are not limited to, sewer service charges and sewer lateral charges.

Additionally, the City reports the following fund types:

Internal service funds account for fleet management, central services, technology and information services, insurance, employee benefits management, and building services provided to other departments or agencies of the City on a cost-reimbursement basis.

Agency funds account for cash and investments held by the City as agent for various assessment districts, governmental entities and non-public organizations. Agency funds cannot be major funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide – business-type activities and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are exchange or exchange-like transactions between functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. The Water and Sewer Funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Cash and Cash Equivalents

Cash and investments (including restricted assets) held in the City's investment pool are reported as cash and cash equivalents on the statement of net assets and balance sheet because funds can spend cash at any time without prior notice or penalty. All investments with fiscal agents are also considered cash equivalents because they are highly liquid and have maturities of 3 months or less at the time of purchase. Investments are stated at fair value. Valuations are obtained by using quotations obtained from independent published sources.

2. Restricted Assets - Cash and Cash Equivalents

Refundable deposits of the General Fund and the Community Facilities Districts Capital Projects Fund are classified as restricted assets – cash and cash equivalents on the governmental funds balance sheet because their use is restricted for repayment of those refundable deposits. Refundable deposits in the Water and Sewer funds are also classified as restricted assets on the proprietary funds statement of net assets.

3. Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at the end of the fiscal year are reported as either "due from/due to other funds" (amounts due within one year), or "advances to/from other funds" (non-current portions of interfund lending/borrowing transactions). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Advances to other funds are offset by a fund balance reserve in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All property taxes are collected and allocated by the County of Stanislaus to the various taxing entities. Property taxes are determined annually as of March 1 and attach as an enforceable lien on real property as of January 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The City participates in the County "Teeter Plan" method of property tax distribution. Under the Teeter Plan, the County remits property taxes to the City based on assessments, not on collections, according to the following schedule: 55 percent in December, 40 percent in April, and 5 percent at the end of the fiscal year. Property tax is recognized when it is available and measurable. The City considers property tax as available if it is received within 60 days after year-end.

Revenue from taxpayer-assessed taxes (sales and use, business license, transient occupancy, utility users, gas, and franchise fees) are accrued in the governmental funds when they are both measurable and available. The City considers these revenues available if they are received during the period when settlement of prior fiscal year accounts payable occurs. Historically, the majority of these taxes are received within 60 days of the fiscal year end; therefore, revenue from taxpayer-assessed taxes is accrued if it is received by August 31.

Grant and entitlement revenues are recorded as receivables in the funds when they are susceptible to accrual (i.e., when all eligibility requirements have been met). The corresponding governmental fund revenues are recorded when they become available, with the differences recorded as deferred revenue. The corresponding proprietary fund revenues are recorded as nonoperating revenues when the receivables are recorded. Some grant and entitlement revenues are not susceptible to accrual, in which case the corresponding revenues are recorded when received. The total amount due from governments for grants, entitlements, and shared receivables and revenues at June 30, 2006 is \$14,736,090.

Utility service accounts receivable are reported net of \$383,084 allowance for doubtful collections and include unbilled receivables using actual amounts billed in July for June services. Accounts receivable are reported net of \$1,061,498 allowance for doubtful collections, and are based on miscellaneous receivables from the City's invoice system as well as other receivables accrued at year end.

4. Inventories

Inventories of material and supplies held by proprietary funds are stated at average cost.

5. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an

initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation is recorded using the straight line method over the estimated useful lives of the assets, which are 75 years for pipelines, 30 years for buildings, 20 years for improvements, 12 years for buses, 10 years for furnishings and equipment, 2 to 10 years for vehicles, 30 to 50 years for streets, 20 years for signalization, and 50 years for bridges. Operating expenses include depreciation on all depreciable capital assets.

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.

6. Compensated Absences

All earned vacation, holiday, and compensating time, and a portion of accumulated sick leave payable upon termination or retirement, are accrued in the Employee Benefits Management Internal Service Fund as compensated absences. Estimated sick leave termination payments have been calculated using the Governmental Accounting Standards Board Statement 16 vesting method. Under this method, a liability is accrued for a portion of the sick leave balances of all employees who are currently eligible, or are assumed to become eligible in the future, to receive a payment for sick leave upon termination, as well as amounts set aside to pay future health care premiums. As of June 30, 2006, the total estimated liability for all compensated absences, including sick leave, is \$61,616,953. The estimated current portion of \$2,769,103 is funded by charges to all operating funds. The estimated long-term portion is \$58,847,850.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. OTHER SIGNIFICANT ACCOUNTING POLICIES

1. Employee Benefits

The City established the Employee Benefits Management Internal Service Fund to account for all compensated absences and non-insurance benefits. Insurance benefits for current employees are paid from the Insurance Internal Service Fund. The Employee Benefits Management Fund is reimbursed based on actual benefits paid and leave taken, through payroll charges to the City's operating funds. Leave earned but not taken is being funded over time by budgeted charges to the operating funds.

2. Interfund Transactions

The City transfers resources among funds in the course of normal operations. Interfund service provided and used, such as equipment pool rental, are accounted for as revenues and 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 are reported as transfers.

II. DETAILED NOTES

A. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is used by all funds. Each fund's portion of the City's cash and investment pool is displayed on the balance sheet and proprietary and fiduciary fund statements of net assets as "cash and cash equivalents." Each fund is allocated interest on average monthly cash balances held by the funds throughout the year. A majority of the interest from the Fleet Management Internal Service Fund is credited to the General Fund in accordance with the City's policy. Certain deposits held in trust are displayed on the governmental funds balance sheet and the proprietary funds statement of net assets as "restricted assets - 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 projects costs.

Investments Authorized by the California Government Code and the City's Investment Policy

The City's investment policy and the California Government Code allow the City to invest in the following types of instruments, and the table also identifies certain provisions of the California Government Code, or the City's investment policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
City of Modesto Bonds	5 years	N/A	None	None
U.S. Treasury Obligations	5 years	N/A	None	None
State of California Securities	5 years	AAA	None	None
California Municipal Securities	5 years	AAA	None	None
Federal Agency Securities	5 years	N/A	None	None
Bankers' Acceptances	180 days	N/A	40%	10% or \$1 million
Commercial Paper	270 days	Top rating category	25%	10%
Certificates of Deposit	1 year	N/A	20% of surplus	None
Negotiable Certificates of Deposit	5 years	AA	30%	None
Repurchase Agreements	90 days	Top rating category	None	None
Reverse Repurchase Agreements	92 days	N/A	20%	None
Medium Term Corporate Notes	5 years	AA -	30%	None
Money Market Funds	N/A	Top rating category	None	None
California Local Agency Investment Fund	N/A	N/A	None	None
Mortgage and Asset-Backed Securities	5 years	AA	20% of surplus	None

Investments are stated at fair value. The City's investment in the Local Agency Investment Fund (LAIF) is \$44,118,475. The value of the pool shares in LAIF, which may be withdrawn on demand, is determined on an amortized cost basis, which is not materially different than the fair value of the City's portion in the pool. The total amount invested by all public agencies in LAIF is \$63,366,260,064. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinance, bond indentures or State statute. All current bond indentures authorize the same investments as the City's investment policy. In addition some bond indentures authorize investments in guaranteed investment contracts with maturity dates of September 1, 2033 and November 1, 2016 and a repurchase agreement with a maximum maturity of May 27, 2013.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The following table summarizes the City's interest rate risk, based on maturity dates of various investments:

Investment Type	Total	Remaining Time to Maturity			
		Less Than 1 Year	1 – 2 Years	2 – 3 Years	Over 5 Years
U.S. Treasury Notes	\$24,465,131	\$4,943,750	\$16,509,790	\$3,011,591	
Federal agency securities					
Bonds	20,265,938	11,671,874	8,594,064		
Notes	64,154,962	32,592,295	11,075,574	20,487,093	
Discount notes	5,941,255	5,941,255			
Commercial Paper	38,739,006	38,739,006			
LAIF	44,118,475	44,118,475			
Cash in banks (overdraft)	(1,212,329)	(1,212,329)			
Held by trustee:					
Money market funds	3,254,702	3,254,702			
Commercial Paper	5,360,534	5,360,534			
U.S. Treasury Bill	1,684,559	1,684,559			
U.S. Treasury Notes	1,296,313	1,296,313			
Federal Agency discount Notes	13,661,439	13,661,439			
Federal agency securities notes	16,536,319	13,394,169	3,142,150		
Repurchase agreements	1,977,051				\$1,977,051
Guaranteed investment contracts	5,295,690				5,295,690
Total	\$245,539,045	\$175,446,042	\$39,321,578	\$23,498,684	\$7,272,741

Maturity dates for callable notes are based on call dates.

Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the rating as of June 30, 2006 for each investment type:

Investment Type	Total	Exempt from Disclosure	AAA and A-1+	Not Rated
U.S. Treasury Notes	\$24,465,131	\$24,465,131		
Federal agency securities	90,362,155		\$90,362,155	
Commercial Paper	38,739,006		38,739,006	
LAIF	44,118,475			44,118,475
Cash in banks (overdraft)	(1,212,329)	(1,212,329)		
Held by trustee:				
Money market funds	3,254,702		3,254,702	
Commercial Paper	5,360,534		5,360,534	
U.S. Treasury Bill	1,684,559	1,684,559		
U.S. Treasury Notes	1,296,313	1,296,313		
Federal Agency notes	13,661,439		13,661,439	
Federal agency securities notes	16,536,319		16,536,319	
Repurchase agreements	1,977,051			\$1,977,051
Guaranteed investment contracts	5,295,690			5,295,690
Total	\$245,539,045	\$26,233,674	\$167,914,155	\$51,391,216

Concentration of Credit Risk

The City's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total entity-wide investments are as follows at June 30, 2006:

Issuer	Investment Type	Reported Amount	Percent of Portfolio
Fannie Mae (FNMA)	Federal agency securities	\$35,714,087	15.0%
Freddie Mac (FHLMC)	Federal agency securities	53,751,134	22.5%
Federal Home Loan Bank	Federal agency securities	31,094,639	13.0%

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of governmental fund investments, fund level investments were as follows at June 30, 2006:

Issuer	Investment Type	Reported Amount
Community Facilities Districts:		
Fannie Mae (FNMA)	Federal agency securities	\$ 6,688,076
Freddie Mac (FHLMC)	Federal agency securities	14,024,225
Federal Home Loan Bank	Federal agency securities	2,889,469
Merrill Lynch	Commercial paper	2,338,729
Other Governmental Funds:		
AIGMFL Investment Agreement	Guaranteed investment contract	4,981,284
Lehman Government Securities	Repurchase agreement	1,977,051

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of enterprise funds were for the Sewer Enterprise Fund as follows at June 30, 2006:

Issuer	Investment Type	Reported Amount
Fannie Mae (FNMA)	Federal agency securities	\$3,453,839

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of Agency Fund investments were as follows at June 30, 2006:

Issuer	Investment Type	Reported Amount
Freddie Mac (FHMLC)	Federal agency securities	\$1,587,025
Fannie Mae (FNMA)	Federal agency securities	1,555,125
Credit Suisse First Boston	Commercial paper	700,571

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institution in the City's name.

The custodial credit risk for investments is the risk that, in the event of the failures of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's investment policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

B. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$22,081,279	\$ 1,439,327	\$ 538,125	\$22,982,481
Construction in progress	9,209,548	2,886,994		12,096,542
Total capital assets, not being depreciated	31,290,827	4,326,321	538,125	35,079,023
Capital assets, being depreciated:				
Buildings	28,504,623	2,724,322		31,228,945
Improvements other than buildings	36,813,148	1,075,864		37,889,012
Furnishings and equipment	16,253,004	2,029,250	320,837	17,961,417
Equipment pool	26,101,661	3,609,642	1,666,132	28,045,171
Streets	414,200,120	12,032,915	253,303	425,979,732
Signalization	13,399,019	827,281		14,226,300
Bridges	25,499,161	254,371		25,753,532
Total capital assets, being depreciated	560,770,736	22,553,645	2,240,272	581,084,109
Less accumulated depreciation for:				
Buildings	(9,191,100)	(895,746)		(10,086,846)
Improvements other than buildings	(19,823,045)	(1,396,993)		(21,220,038)
Furnishings and equipment	(8,702,588)	(1,418,489)	219,359	(9,901,715)
Equipment pool	(11,856,341)	(2,359,360)	1,402,940	(12,812,761)
Streets	(180,245,475)	(10,768,130)		(191,013,605)
Signalization	(6,698,268)	(944,299)		(7,642,567)
Bridges	(474,878)	(39,547)		(514,425)
Total accumulated depreciation	(236,991,695)	(17,822,561)	1,622,299	(253,191,957)
Total capital assets, being depreciated, net	323,779,041	4,731,084	617,973	327,892,152
Governmental activities capital assets, net	\$355,069,868	\$9,057,405	\$1,156,098	\$362,686,175
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$26,001,514	\$ 538,125		26,539,639
Construction in progress	21,150,540	7,763,333	\$271,906	28,642,007
Total capital assets, not being depreciated	47,152,054	8,301,498	271,906	55,181,646
Capital assets, being depreciated:				
Buildings	82,823,385	84,540		82,907,925
Improvements other than buildings	136,472,897	1,281,460		134,754,357
Furnishings and equipment	5,743,215	228,086		5,971,301
Buses and fareboxes	15,116,742	104,445		15,221,187
Pipelines	127,554,420	4,309,126		131,863,546
Total capital assets, being depreciated	367,710,659	6,007,657		373,718,316
Less accumulated depreciation for:				
Buildings	(32,061,065)	(2,524,290)		(34,585,355)
Improvements other than buildings	(72,275,148)	(5,615,932)		(77,891,080)
Furnishings and equipment	(2,588,703)	(489,590)		(3,078,293)
Buses and fareboxes	(6,202,113)	(821,077)		(7,023,190)
Pipelines	(19,982,780)	(1,616,847)		(21,599,627)
Total accumulated depreciation	(133,109,809)	(11,067,736)		(144,177,545)
Total capital assets, being depreciated, net	234,600,850	(5,060,079)		229,540,771
Business-type activities capital assets, net	\$281,752,904	\$3,241,419	\$271,906	\$284,722,417

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 97,218
Community development	83,778
Highways and streets, including depreciation of general infrastructure assets	11,818,154
Public works	981,022
Parks and recreation	359,275
Public safety	1,644,637
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	2,838,477
Total depreciation expense – governmental activities	\$17,822,561
Business-type activities:	
Parking	\$ 388,499
Water	2,383,566
Sewer	5,027,753
Storm Drain	577,784
Compost	65,227
Airport	411,413
Bus	1,125,709
Golf	311,818
Community center	775,967
Total depreciation expense – business-type activities	\$11,067,736

C. LONG-TERM DEBT

Loans Payable

Governmental activities:

Loan payable to the California Energy Commission for the purpose of reimbursing the City for costs of replacing incandescent bulbs for traffic signals with Light Emitting diodes (LED's); interest at 3%; semi-annual installments on December 22 and June 22, in the amount of \$20,776 , including interest, through June 22, 2007. \$ 40,634

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay master plan costs incurred by the City's Redevelopment Agency for the Kansas Avenue Business Park Project; no obligation to begin repayments until project is complete and revenue stream begins; final payment due in 2015 if not repaid sooner. 405,000

Total governmental activities loans payable \$ 445,634

Business-type activities:

Water Enterprise Fund:

Loan payable to the State of California Department of Water Resources, assumed from Del Este Water Company at acquisition, for purposes of upgrading the water delivery system; interest at 3.2%; semi-annual installments on April 1 and October 1 of \$132,360, including interest, through October 1, 2015. \$ 2,156,040

Annual debt service requirements to maturity for loans payable are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 40,634	\$917	\$ 197,764	\$ 66,955
2008			203,976	60,743
2009			210,745	53,974
2010			217,380	47,339
2011			224,343	40,376
2012-2016	405,000		1,101,832	89,404
Total	\$445,634	\$917	\$2,156,040	\$358,791

Certificates of Participation

Governmental activities:

1993 Refunding Certificates of Participation (Community Center Project); serial certificates with annual maturities on November 1, in amounts from \$835,000 to \$1,040,000; interest rates from 5.4% - 5.6%; term certificates at 5.6% in the amount of \$4,740,000 maturing November 1, 2014, and in the amount of \$12,235,000 at 5.0% maturing November 1, 2023, with annual payments of \$1,090,000 to \$1,610,000 beginning in 2011. \$ 21,655,000

Business-type activities:

Golf Enterprise Fund:

1993 Refunding Certificates of Participation (Golf Course Project); serial certificates with annual maturities on November 1, in amounts from \$205,000 to \$235,000; interest rates from 5.4% to 5.5%; term certificates at 5.6% in the amount of \$1,390,000 due November 1, 2014, and in the amount of \$3,585,000 at 5.0% due November 1, 2023, with annual payments ranging from \$250,000 to \$480,000 beginning in 2010. \$ 5,855,000

Water Enterprise Fund:

1997 Refunding Certificates of Participation (Water Utility System Project); serial certificates with annual maturities on October 1, in amounts from \$780,000 to \$1,050,000; interest rates from 4.625% to 5.0%; term certificates at 5.4% in the amount of \$6,145,000 maturing on October 1, 2017, and in the amount of \$7,965,000 at 5.43% maturing on October 1, 2022, with annual payments from \$1,015,000 to \$1,765,000 beginning in 2013. 20,450,000

Total principal balances – business-type activities 26,305,000

Less:
Unamortized bond discount – Water Enterprise Fund (385,551)
Deferred amount on refunding – Water Enterprise Fund (1,299,371)

Total business-type activities certificates of participation \$ 24,620,078

Annual debt service requirements to maturity for certificates of participation are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 835,000	\$ 1,111,365	\$ 985,000	\$ 1,313,655
2008	885,000	1,064,925	1,030,000	1,265,125
2009	935,000	1,015,318	1,080,000	1,213,460
2010	985,000	962,517	1,135,000	1,158,241
2011	1,040,000	906,310	1,195,000	1,099,103
2012-2016	6,080,000	3,574,330	7,005,000	4,476,789
2017-2021	6,295,000	1,968,125	9,060,000	2,427,601
2022-2024	4,600,000	352,750	4,815,000	283,981
Total	\$21,655,000	\$10,955,640	\$26,305,000	\$13,237,955

Lease Revenue Bonds – Governmental activities:

1997 Lease Revenue Bonds (John Thurman Field Renovation Project); term certificates bearing interest at 6.125% maturing November 1, 2016, with mandatory annual redemption of amounts from \$165,000 to \$305,000 on November 1. \$ 2,500,000

1998 Lease Revenue Bonds (Capital Improvements and Refinancing Project); serial certificates with annual maturities on September 1, in amounts from \$380,000 to \$910,000; interest payments at 4.1% to 4.8%; term certificates totaling \$55,305,000, maturing in 2016, 2020, 2024, 2029, and 2033, bearing interest rates of 4.75% to 5.125%, with annual payments beginning in 2014. Of the total principal, \$18,405,000 is payable through a reimbursement agreement with the Redevelopment Agency. 60,005,000

Total lease revenue bonds \$ 62,505,000

Annual debt service requirements to maturity for lease revenue bonds are as follows:

Year Ending June 30,	Principal	Interest
2007	\$ 545,000	\$ 3,124,228
2008	580,000	3,097,520
2009	635,000	3,068,427
2010	685,000	3,036,508
2011	795,000	3,000,224
2012-2016	5,835,000	14,231,419
2017-2021	8,335,000	12,386,365
2022-2026	12,675,000	9,855,349
2027-2031	18,575,000	6,011,083
2032-2034	13,845,000	1,088,678
Total	\$62,505,000	\$58,899,801

Revenue Bonds – Business-type activities:

Sewer Enterprise Fund:

Wastewater Treatment Facility Revenue Bonds, Series 2005 Series A and B; Series A (non-taxable) interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$575,000 to \$3,230,000, with interest rates from 3.0% to 5.25%; Series B (taxable) interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$1,075,000 to \$1,115,000, with interest rates from 4.14% to 4.40%. \$ 38,245,000

Plus: Unamortized bond premium 2,172,605

Less: Deferred amount on refunding (3,575,585)

Total business-type activities revenue bonds \$ 36,842,020

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30,	Principal	Interest
2007	\$ 1,650,000	\$1,786,563
2008	1,710,000	1,722,230
2009	1,660,000	1,663,875
2010	1,710,000	1,613,325
2011	1,765,000	1,543,550
2012-2016	10,290,000	6,262,625
2017-2021	13,165,000	3,410,544
2022-2023	6,295,000	334,819
Total	\$38,245,000	\$18,337,531

Notes Payable – Governmental activities:

Note payable to the Federal Housing and Development Department for the purpose of constructing the Neighborhood Center at Marshall Park and the expansion of the Maddux Youth Center; to be repaid using future Community Development Block Grant revenue; interest rates from 2.31% to 6.01%; semi-annual installments on August 1 and February 1 through August 2024.

\$4,364,000

Fleet Management Internal Service Fund:

Note payable for the acquisition of property related to the Police Fleet Shop; variable interest rate with a minimum of 6% and a maximum of 9%; monthly payments of \$3,010, including interest, through February 2012.

171,034

Total notes payable

\$4,535,034

Annual debt service requirements to maturity for these notes payable are as follows:

Year Ending June 30,	Principal	Interest
2007	\$ 169,588	\$ 238,940
2008	178,226	232,373
2009	187,968	224,759
2010	196,816	216,184
2011	207,778	206,685
2012-2016	1,026,658	881,955
2017-2021	1,286,000	572,603
2022-2025	1,282,000	157,947
Total	\$4,535,034	\$2,731,446

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Loans payable	\$ 485,077		\$ 39,443	\$ 445,634	\$ 40,634
Certificates of participation	22,455,000		800,000	21,655,000	835,000
Lease revenue bonds	63,000,000		495,000	62,505,000	545,000
Notes payable	4,696,076		161,042	4,535,034	169,588
Obligations under capital leases	896,833		451,929	444,904	444,904
Compensated absences	62,440,305	\$8,927,676	9,751,028	61,616,953	2,769,103
Claims liability	13,961,801	7,458,436	5,089,127	16,331,110	5,156,560
Governmental activities long-term liabilities	\$167,935,092	\$16,386,112	\$16,787,569	\$167,533,635	\$9,960,789
Business-type activities:					
Loan payable	\$ 2,347,602		\$191,562	\$ 2,156,040	\$ 197,764
Certificates of participation	27,240,000		935,000	26,305,000	985,000
Unamortized discounts	(407,726)		(22,175)	(385,551)	
Deferred amount on refunding	(1,374,107)		(74,736)	(1,299,371)	
Revenue bonds	39,235,000		990,000	38,245,000	1,650,000
Unamortized premium	2,300,405		127,800	2,172,605	
Deferred amount on refunding	(3,847,977)		(272,392)	(3,575,585)	
Capital lease	290,487		67,899	222,588	70,955
Developer advances	2,279,869		102,108	2,177,761	96,760
Business-type activities long-term liabilities	\$68,063,553		\$2,045,066	\$66,018,487	\$3,000,479

Principal balances are reported on the government-wide and enterprise funds statements of net assets net of unamortized issuance discounts and deferred amounts on refunding.

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$171,034 of internal service funds obligations under notes payable are included in the above amounts. Also, the compensated absences and claims liability balances relate to the internal service funds, and as such they are liquidated by the internal service funds.

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D. OBLIGATIONS UNDER CAPITAL LEASES

Governmental Funds:

The City has acquired ballfield parking lot lighting and land for a park under capital lease agreements. The related liability is included in obligations under capital leases under governmental activities. The following is a schedule of the future minimum lease payments on the capital lease as of June 30, 2006:

<u>Year Ending June 30,</u>	
2007	<u>\$463,803</u>
Total minimum lease payments	463,803
Less: amount representing interest	<u>(18,899)</u>
Present value of minimum lease payments	<u>\$444,904</u>

Assets subject to the above capital leases valued at \$2,062,962, net of \$34,787 accumulated depreciation, have been presented under governmental activities. Rental expenses incurred under operating leases are not material.

Enterprise Funds

Two wheel loaders, valued at \$371,458, net of \$44,520 accumulated depreciation, are being leased under a capital lease arrangement. The following is a schedule of the future minimum lease payments on this capital lease as of June 30, 2006:

<u>Year Ending June 30,</u>	
2007	\$ 80,971
2008	80,972
2009	<u>80,972</u>
Total minimum lease payments	242,915
Less: amount representing interest	<u>(20,327)</u>
Present value of minimum lease payments	<u>\$222,588</u>

E. DEVELOPER ADVANCES

The Del Este Water Company (Del Este) entered into various agreements with developers under which infrastructure components were either constructed on behalf of Del Este or cash was advanced to the company to construct the infrastructure. Agreements in existence at the time of the City's acquisition of Del Este were assumed by the City. The terms of repayment call for no interest, with principal paid over a 40-year period. As of June 30, 2006, the total outstanding balance due under the agreements is \$2,177,761. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2006, the amount of \$96,760 due during fiscal year 2007, has been reported as "current portion-developer advances" on the Proprietary Funds statement of net assets. The remaining \$2,081,001 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2006 consist of the following:

<u>Due to General Fund from:</u>	
Capital Grants Fund	\$4,443,000
Non Major Special Revenue Funds	<u>1,129,000</u>
Total due to/due from	<u>\$5,572,000</u>
<u>Advances from General Fund to:</u>	
Capital Facility Fees Fund	\$1,292,425
Other governmental funds	<u>351,768</u>
Total advances from General Fund	1,644,193
Advances from other governmental funds to Capital Facility Fees Fund	148,451
Advances from internal service funds to General Fund	<u>1,903,476</u>
Total advances from/advances to	<u>\$3,696,120</u>

All balances reported as "due to/due from" are short-term loans to cover temporary fund cash shortages as of June 30, 2006, and were repaid early in fiscal year 2007. Balances reported as "advance to/advance from" were for capital projects expenditures and are either in the process of being repaid or have scheduled repayments in future years. \$3,411,626 of advances are not currently scheduled for repayment during 2007.

G. RESERVES AND DESIGNATIONS OF FUND BALANCES

The City's reserves and designations at June 30, 2006 are comprised of the following:

	General	Capital Grants	Capital Facility Fees	Community Facility Districts	Other Governmental
<u>Reserved for:</u>					
Encumbrances	\$965,905	\$1,337,898	\$1,992,255	\$3,231,123	\$7,589,697
Loan programs and prepaids	92,283				13,368,534
Interfund advances	1,644,193				148,451
Set-aside requirement					4,245,482
Debt service					8,255,446
Total reserved	\$2,702,381	\$1,337,898	\$1,992,255	\$3,231,123	\$33,607,610
<u>Designated for:</u>					
Pending projects			\$40,114,858	\$38,904,244	\$14,930,006
Subsequent year expenditures	\$5,900,886				
Total designated	\$5,900,886		\$40,114,858	\$38,904,244	\$14,930,006

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 loan programs - Amounts equal to the outstanding housing program and small business notes receivable are reserved in the Housing and Community Development Fund Special Revenue Fund, General Fund and the Redevelopment Agency Capital Projects Fund.
3. Reserve for interfund advances - The City reserves an amount in each fund equal to the advances to other funds.
4. Reserve for Redevelopment Agency set-aside requirement - The portion of fund balance relating to State required low-to-moderate income housing set-aside, has been reserved in the Redevelopment Agency Capital Projects Fund.
5. Reserve for debt service - The total fund balances of the debt service funds are reserved for future debt service requirements.
6. Designation for pending projects - Designations for pending projects are established to fund projects approved but not yet appropriated.
7. Designation for subsequent year expenditures - Designations for subsequent year expenditures represent that portion of fund balance set aside for fiscal year 2006/07.

H. DEFICIT FUND EQUITY

The Capital Grants Capital Projects Fund has a deficit fund balance of \$4,436,200. Recognition of deferred revenue is expected to cure this deficit.

The Golf Enterprise Fund has a net assets deficit of \$1,474,655, due to a change in accounting policy several years ago, as well as revenues not keeping up with expenses. The City originally classified the 1993 Refunding Certificates of Participation as debt of the governmental funds, with construction proceeds transferred to the Golf Enterprise Fund when the certificates were issued. However, since the Golf Fund is paying, and is expected to continue paying, the entire debt service cost, it was decided that the balance of the debt should be recorded in the Golf fund. The Golf fund also is struggling due to competition and lagging revenues. Depreciation expense further contributes to the deficit.

The Employee Benefits Management Internal Service Fund has a net assets deficit of \$45,402,585. It exists partially because the total compensated absences balance previously classified as debt of the governmental funds was included in this fund at its inception several years ago, and has never been fully funded. In addition, the City normally contracts for an actuarial valuation of the sick leave liability on an annual basis. Because the City will be required to implement GASB 45, which will change the way post-retirement benefits are presented, it was decided that for this fiscal year the sick leave would again be estimated. The City is continuing to charge a higher benefit rate to help reduce this deficit. In addition, one-time revenues having to do with employee benefits are deposited to this fund.

I. INTERFUND TRANSFERS

The following is a schedule of interfund transfers.

Transfers to:	Transfers from:								Total
	General Fund	Capital Grants	Facility Fees	Community Facility Districts	Other Govern mental	Sewer	Other Enterprise	Internal Service	
General Fund			\$565,772		\$6,120,902	\$608,400	\$1,059,288	\$1,386,150	\$9,739,702
Capital Facility Fees	\$345,000	\$112,542		\$60,755	120,000			326,211	964,508
Community Facility District			300,000						300,000
Other Governmental	1,480,779	2,183,141			5,583,817		15,529		9,263,266
Water	95,385								95,385
Sewer	171,932			5,051			538,620		715,603
Other Enterprise	18,829		103,230						122,059
Internal Service					458,393		128,000		586,393
Grand Total	\$2,111,925	\$2,295,683	\$969,002	\$65,806	\$12,282,302	\$608,400	\$1,741,437	\$1,712,361	\$21,786,916

In general, the City uses interfund transfers to (1) move revenues from the funds that collect them to the funds that statute or budget requires to expend them, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due.

J. NOTES RECEIVABLE

The notes receivable in the Other Governmental Funds of \$13,177,753, net of \$73,182, allowance 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 or 5 percent and, with a few exceptions, require no repayment of principal until the loans reach maturity.

The General Fund notes receivable of \$92,283 consist of small business loans. These notes were determined to be ineligible for federal grant funds; therefore, the General Fund purchased them from the Housing and Community Development Special Revenue Fund.

K. APPROVED LOANS PAYABLE

The approved loans payable in the Housing and Community Development Special Revenue Fund of \$589,219 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.

L. SPECIAL ITEMS

These expenses in the Water and Sewer Enterprise funds represent legal costs incurred in pursuit of mitigating damages from the manufacturers of perchlorethylene, or PCE, a common chemical used in the dry cleaning industry. This chemical has seeped into the groundwater through sewer lines when improperly disposed, and threatens the City's groundwater supplies. Modesto has been proactive in attempting to recover damages and future cleanup costs from the dry cleaners and their insurers, and has also instituted litigation with the manufacturers. In the current year the City received \$3,784,295 in insurance recoveries and settlements from some of the smaller defendants.

III. OTHER INFORMATION

A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The City maintains the Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for the following risks up to the maximum amount per claim as follows: workers' compensation \$750,000; liability \$1,000,000; employee disability \$216,000; and dental care \$1,200. In July 1995, the City dropped its self-insured health plan, and now offers a variety of commercial plans to its employees. The City purchases commercial insurance for property loss, airport liability, and for claims in excess of the preceding self-insured coverage amounts.

For liability claims, the City is one of twelve members of the Authority for California Cities Excess Liability (ACCEL) risk pool. This pool covers City claims between \$1,000,000 and \$4,000,000. The purpose of the pool is to spread the adverse effect of losses among the member agencies. The City contributes its pro rata share of anticipated losses to the pool. Should actual losses among participants be greater than anticipated, the City will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, the City will be refunded its pro rata share of the excess. Commercial insurance covers claims over \$5,000,000 in two excess layers of \$10,000,000 each, for an additional \$20,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past five fiscal years.

All operating funds participate in the program and make payments to the Insurance Fund based on historical cost and/or actuarial estimates of the amounts needed to pay prior and current year claims, and to allow accrual of estimated incurred but not reported claims and allocated loss adjustment expenses. Insurance premiums to

commercial insurers are also processed through the Insurance Fund. The total claims liability at June 30, 2006 is \$16,331,110 consisting of \$13,267,000 workers' compensation, \$2,599,000 general liability, \$305,535 dental, \$114,060 disability, and \$45,515 vision. Workers' compensation and general liability claims liabilities are estimated on an actuarial basis. The current portion of the total claims liability is estimated to be \$5,156,560 and the balance of \$11,174,550 is reported as a long-term liability on the statement of net assets. These claim estimates are based on the requirements of Governmental Accounting Standards Board Statement 10, and include estimated claims incurred but not yet reported and allocated loss adjustment expenses as of June 30, 2006. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2005 and June 30, 2006 were:

	Claims Liability July 1	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Claims Liability June 30
2004-05	\$16,089,306	\$2,874,266	\$(5,001,771)	\$13,961,801
2005-06	\$13,961,801	\$7,458,436	\$(5,089,127)	\$16,331,110

B. COMMUNITY FACILITIES DEBT WITHOUT CITY COMMITMENT

Special assessment and community facilities districts have been established in various areas of the City to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements; these assessments are payable solely by the property owners over the term of the debt issued to finance the improvements. The City is not legally obligated to pay these debts or be the purchaser of last resort of foreclosed properties in the special assessment districts, nor is it obligated to advance City funds to repay this debt in the event of default by any property owners. The City functions as an agent for the property owners by collecting assessments and forwarding collections to trustees for payment to bond holders. At June 30, 2006, the balance of these districts' outstanding debt was as follows:

Issue	Outstanding Amount
Village One #2 Community Facilities District	\$31,085,000
Fairview Village Community Facilities District	\$4,960,000

C. CONDUIT DEBT OBLIGATIONS

From time to time, the City has issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial, commercial, health care, and multiple-family housing facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from developer payments on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are considered conduit debt obligations and are not reported as liabilities in the accompanying financial statements.

As of June 30, 2006 there were seven series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing and health care facility bond issues, issued between 1993 and 2002, was \$44,960,000.

D. 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 effect on the financial statements beyond the amounts accrued in the Insurance Internal Service Fund.

The City receives funding from a number of federal, state and local grant programs, principally the Federal Highway Administration, Community Development Block Grants, and Federal Transit Administration grants.

These programs are subject to financial and compliance review by the grantors. Accordingly, the City's compliance with applicable grant requirements will be determined at some future date. 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 basic financial statements. Receipt of these federal, state and local grant revenues is not assured in the future.

The City has commitments of \$28,547,529 of June 30, 2006 for contracts awarded but not completed and other outstanding purchase orders. This amount consists of \$965,905 in the General Fund, \$1,337,898 in the Capital Grants Fund, \$1,992,256 in the Capital Facility Fees Fund, \$3,231,123 in the Community Facilities Districts Funds, \$7,589,697 in other governmental funds, \$11,563,255 in the enterprise funds, and \$1,867,391 in the internal service funds. Commitments of the governmental funds are recorded as fund balance reserves for encumbrances on the balance sheet. As of June 30, 2006, there are major contracts and other purchase orders outstanding for the 9th Street bridge replacement, various new parks, storm drain improvements, water and sewer system improvements, a sewer emergency repair, major street improvements, and the purchase of replacement trucks for the City fleet.

E. JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

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 the County Board of Supervisors, 2 members from the Modesto City Council, and 1 member from the Ceres City Council. 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 capital assets of TRRP based on the percentage of cumulative contributions paid. The City's contribution to TRRP was \$132,4861 for the fiscal year ended June 30, 2006. As of June 30, 2006 the City's investment in this joint venture was \$1,032,840, and is included in governmental activities on the statement of net assets. Financial statements for TRRP are prepared by the City of Modesto Finance Department.

Stanislaus Drug Enforcement Agency

Stanislaus County (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 the fiscal year ended June 30, 2006 was \$608,266, consisting of a \$209,038 cash contribution and in-kind services valued at \$399,228. The City's investment in this joint venture was estimated to be \$416,016as of June 30, 2006, based on the most recent available information. This amount is reported in governmental activities in the statement of net assets. Financial statements of the SDEA are prepared by the City of Modesto Finance Department.

City-County Capital Improvements and Financing Agency

The City and Stanislaus County formed the City-County Capital Improvements and Financing Agency (Agency) to provide for the design, construction, ownership, operation, management and financing of a City-County administration center located in Modesto's downtown redevelopment area. The governing body is a commission consisting of 2 members of the City Council, 2 members of the County Board of Supervisors, the County Chief Executive Officer, and the City Manager. The commission is responsible for developing an annual budget and determining the annual contribution rates, subject to approval by both the City and the County. The Stanislaus County Auditor Controller was the fiscal administrator during the construction phase, which was finalized at the end of June 2003. Since then, the City of Modesto has been the fiscal administrator. For the fiscal year ended June 30, 2006, the City's contribution to the Agency was \$631,986. The City's equity interest in the Agency is

\$14,974,186, equal to its fixed asset contributions to date net of depreciation, and is reported in governmental activities as investments in joint ventures in the Statement of Net Assets. Financial statements of the Agency will be available from the Agency after the initial audit of the Agency's books has been completed.

Stanislaus Waste-to-Energy Financing Agency

The City participates with Stanislaus County in the Stanislaus Waste-to-Energy Financing Agency (Agency). The Agency was created to provide financing for a facility that 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 members each from the County Board of Supervisors and the Modesto City Council. As of June 30, 2006, the City has no equity interest. Stanislaus County Treasurer's office prepares the Agency's financial statements.

Regional Fire Training Center

The City has entered into an agreement with the Yosemite Community College District (YCCD) and Stanislaus County for the use and management of the regional fire training center at Modesto Junior College. The executive board consists of the YCCD Chancellor, the President of Modesto Junior College, the City Manager of the City of Modesto, and the Chief Executive Officer of Stanislaus County. The YCCD is responsible for accounting and for monitoring the center's budget. All three entities share in the operating costs. Initial construction costs were paid by the YCCD from borrowed funds, with the City and County reimbursing a portion of these costs in exchange for future use of the center. The City has paid its share of the construction costs in full. Title to the constructed asset is held by the YCCD; therefore, the City has no equity interest.

F. TREATMENT AND DELIVERY AGREEMENT

In 1992, the City entered into a treatment and delivery agreement with the Modesto Irrigation District (MID) and the Del Este Water Company (Del Este). The City assumed Del Este's interest and obligations under the agreement when it acquired Del Este in July 1995. Under the agreement, MID built and operates a surface water treatment plant on the Tuolumne River for the purpose of providing a long-term source of domestic treated water for the City. MID is the sole owner of the project, and has all management and operations responsibility. In exchange for the treated water, the City has agreed to pay: all debt service on bonds issued by MID for the construction of the project; a raw water charge as set forth in the agreement; project operation, administration, and maintenance costs; and insurance on the project. Gross revenues of the City's Water Fund are irrevocably pledged for the punctual payment of the MID debt service and all obligations of the City under any parity debt. Current parity debt of the City consists of the 1997 Water System Improvement Project Refunding Certificates of Participation, and the California Safe Drinking Water Act loan (Note II-C). The minimum annual amount payable to MID, consisting of the debt service component only, is \$6,690,994. The treatment plant completed all tests and began commercial operations on May 15, 1995, at which time the City began paying for raw water and operations. The total cash paid to MID during the fiscal year ended June 30, 2006 was \$10,736,542, which is reported as "water purchases" expense on the proprietary funds statement of revenues, expenses and changes in net assets in the amount of \$10,674,717, and as prepaid expense of \$1,003,000. Prior year prepaid expense of \$941,175 reduced the amount of cash paid during the current fiscal year. The total outstanding on the MID bonds is \$76,710,000.

G. POST-RETIREMENT HEALTH CARE BENEFITS

In addition to the pension benefits described below in Note III-H, the City provides health care benefits to employees who retire from the City, under contractual agreements with all employee groups. All full-time employees, except firefighters who receive a cash payout, are eligible to set aside a percentage of accumulated sick leave upon retirement, to be used for payment of future health care premiums to a choice of four insurance plans. The City has no obligation to pay premiums for retirees with no accumulated sick leave. The estimated liability for current retirees' future premiums is \$14,534,598 as of June 30, 2006. The estimated current portion of \$1,659,707 is fully funded. The long-term portion \$12,874,891 is partially funded, with the balance being funded over time by charges to the City's operating funds. The current and long-term portions are reported in the Employee Benefits Management Fund as part of the compensated absences liability balances.

H. DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan, which acts as a common investment and administrative agent for participating public entities in California. CalPERS provides retirement and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814. An annual financial report for the City's portion of the plan is not available.

Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary, of which the City pays the majority on behalf of the employees. The City is required to contribute at an actuarially determined rate; the current rate is 9.029% of annual covered payroll for non-safety employees and 25.370% for safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost

For 2006, the City's annual pension cost of \$11,748,699 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual merit or seniority salary increases that vary by length of service, and (c) no post-retirement benefit increases. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the City's CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). The City's CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2005 was 32 years for both the miscellaneous and safety plans.

THREE-YEAR TREND INFORMATION FOR PERS – ALL PLANS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$4,348,620	100%	-
6/30/05	\$8,276,570	100%	-
6/30/06	\$11,748,699	100%	-

SCHEDULE OF FUNDING PROGRESS FOR PERS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Entry Age Actuarial Accrued Liability (B)</u>	<u>Overfunded (Underfunded) Actuarial Accrued Liability (A – B)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]</u>
6/30/03:						
Misc.	\$194,253,457	\$198,259,563	\$(4,006,106)	98.0%	\$39,440,399	10.2%
Safety	208,797,417	237,995,854	(29,198,437)	87.7%	25,316,473	(115.3)%
6/30/04:						
Misc.	\$204,261,809	\$212,669,957	\$(8,408,148)	96.0%	\$41,083,600	20.5%
Safety	221,621,121	257,554,567	(35,933,446)	86.0%	29,085,514	(123.5)%
6/30/05:						
Misc.	\$218,307,677	\$231,079,054	\$12,771,377	94.5%	\$62,221,273	30.2%
Safety	239,178,942	273,741,974	34,563,032	87.4%	30,117,501	114.8%

I. SUBSEQUENT EVENTS

1. On November 2, 2006, the City issued \$46,275,000 of Water Revenue Certificates of Participation. The proceeds of the certificates will be used to finance the acquisition and construction of various additions, betterments, extensions and improvements to the City's water system. The proceeds will also be used to fund a parity reserve fund and to provide for payment of the interest estimated to accrue on the certificates through October 1, 2007.
2. On December 14, 2006, the City issued \$16,535,000 of Wastewater Revenue Bonds. The proceeds of the bonds will be used to finance the planning, design, acquisition, construction and improvement of its wastewater treatment and conveyance facilities. The proceeds will also be used to fund a parity reserve fund and pay the costs of issuance.
3. In the 1950's and 1960's, the City operated a landfill facility outside the city limits. This facility was closed in 1968, to the standards in effect at that time. Testing has indicated that methane emissions in the area have recently exceeded State standards. The City is in the process of engaging a consultant to 1) assess the cause and magnitude of these methane emissions, and 2) develop and recommend a plan of mitigation. Potential costs of mitigation are not known at this time.

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF MODESTO
SCHEDULE OF REVENUES - BUDGET (GAAP BASIS)
AND ACTUAL - GENERAL FUND
Year ended June 30, 2006**

**CITY OF MODESTO
SCHEDULE OF EXPENDITURES BY FUNCTION - BUDGET
(GAAP BASIS) AND ACTUAL - GENERAL FUND
Year ended June 30, 2006**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
TAXES:				
Utility users tax	\$ 16,694,128	\$ 16,694,128	\$ 17,584,060	\$ 889,932
Property tax	12,840,000	15,128,738	14,318,747	(809,991)
Transient occupancy tax	2,217,721	2,217,721	2,181,467	(36,254)
Franchise tax	2,677,701	2,751,373	2,890,805	139,432
Business license tax	10,078,122	10,078,122	10,374,157	296,035
Total taxes	44,507,672	46,870,082	47,349,236	479,154
LICENSES AND PERMITS	154,440	154,440	96,081	(58,359)
INTERGOVERNMENTAL:				
Sales tax	22,204,353	22,204,353	22,287,940	83,587
In-lieu sales tax	6,888,771	7,339,967	7,339,967	
Motor vehicle license fees	10,385,000	12,044,703	14,986,883	2,942,180
State	1,913,000	2,420,678	2,605,856	185,178
County	148,600	148,600	245,808	97,208
Federal	295,000	308,804	86,129	(222,675)
Other intergovernmental	511,657	630,007	652,704	22,697
Total intergovernmental	42,346,381	45,097,112	48,205,287	3,108,175
CHARGES FOR SERVICES:				
General government	3,024,636	3,024,636	3,099,666	75,030
Community development	3,879,109	3,954,109	3,528,268	(425,841)
Public works	945,609	1,052,418	1,054,087	1,669
Parks and recreation	1,922,645	1,939,233	1,853,623	(85,610)
Public safety	1,466,014	1,858,195	2,268,970	410,775
Other current charges for services	263,000	263,000	263,000	
Indirect cost recovery	2,890,495	2,890,495	2,886,255	(4,240)
Total charges for services	14,391,508	14,982,086	14,953,869	(28,217)
SPECIAL ASSESSMENT	156,000	156,000	65,909	(90,091)
INTEREST AND RENT	512,530	559,963	1,217,293	657,330
NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS			16,814	16,814
FINES AND FORFEITURES	609,000	941,000	877,376	(63,624)
MISCELLANEOUS:				
Mandated cost recovery		100,000	227,254	127,254
Other	556,893	1,967,286	1,801,056	(166,230)
Total miscellaneous	556,893	2,067,286	2,028,310	(38,976)
Total revenues	\$ 103,234,424	\$ 110,827,969	\$ 114,810,175	\$ 3,982,206

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
General government:				
City council	\$ 213,253	\$ 213,253	\$ 194,297	\$ 18,956
Personnel/training	1,424,308	1,542,847	1,382,206	160,641
City manager	1,186,362	1,262,041	1,115,329	146,712
City attorney	1,806,534	3,043,626	2,898,489	145,137
City clerk/auditor	508,834	542,057	476,692	65,365
Finance	5,860,772	6,322,477	5,845,693	476,784
Other		1,205,702	1,457,450	(251,748)
Total general government	11,000,063	14,132,003	13,370,156	761,847
Community development	5,525,049	5,849,006	5,201,794	647,212
Public works:				
Engineering and Transportation Dept:				
Construction administration/permits	735,457	799,127	688,819	110,308
Engineering administration	1,024,723	1,157,164	1,030,768	126,396
Total public works	1,760,180	1,956,291	1,719,587	236,704
Parks and recreation:				
Operations and Maintenance Dept:				
Service and maintenance	5,820,624	5,918,250	5,173,051	745,199
Graffiti abatement	297,697	297,697	294,357	3,340
Community Services & Neighborhood Connection:				
Administration	783,575	815,162	741,999	73,163
Planning and development	514,749	461,549	448,734	12,815
Culture	1,288,596	1,318,798	1,280,629	38,169
Recreation division	2,930,130	3,015,585	2,983,009	32,576
Facilities	644,804	696,790	638,250	58,540
Total parks and recreation	12,280,175	12,523,831	11,560,029	963,802
Public safety:				
Fire protection	23,960,376	23,989,693	23,865,064	124,629
Police protection	48,510,517	49,159,177	48,560,335	598,842
Total public safety	72,470,893	73,148,870	72,425,399	723,471
Total expenditures by department	103,036,360	107,610,001	104,276,965	3,333,036
Debt service:				
Principal retirement	9,917	9,917	9,916	1
Interest	1,061	1,061	1,061	
Total debt service	10,978	10,978	10,977	1
Total expenditures	\$ 103,047,338	\$ 107,620,979	\$ 104,287,942	\$ 3,333,037

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The notes to required supplementary information are an integral part of this schedule
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The notes to required supplementary information are an integral part of this schedule
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**CITY OF MODESTO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006**

BUDGETARY INFORMATION - The City follows these procedures annually in establishing the budgetary data reflected in the budgetary comparison schedules:

1. 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 at specially scheduled sessions, which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.
3. Prior to July 1, the budget is legally adopted through passage of an ordinance. This budget is reported as the Original Budget in the budgetary comparison schedules.
4. During the fiscal year, changes to the adopted budget may be authorized, as follows:
 - a. Items requiring City Council action - appropriation of fund balance reserves; transfers of appropriations between funds; appropriation of any non-departmental revenue; new interfund loans or advances; and creation of new capital projects or increases to existing capital projects.
 - b. Items delegated to the City Manager - transfers between departments within funds; appropriation of unbudgeted departmental revenues; and approval of transfers that increase salary and benefit appropriations.
 - c. Items delegated to the Finance Director - approval authority over any changes in or transfers from budgeted allocations for Internal Service Fund charges.
 - d. Items delegated to Department Heads - allocation of departmental appropriations to line item level.
5. Formal budgetary accounting is employed as a management tool for all funds. Annual budgets are legally adopted and amended as required for the general, special revenue, enterprise and internal service funds. Project length budgets are adopted for the capital projects funds. All budgets are prepared on a basis consistent with generally accepted accounting principles (GAAP), and budgetary comparisons for the general and major special revenue funds are presented on this basis in the required supplementary information. A debt service payment schedule for the debt service funds is also approved as part of the budget process.
6. Budget amounts are reflected after all authorized amendments and revisions. This budget is reported as the Final Budget in the budgetary comparison schedules.
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 an entire department having multiple organizations within the same fund (e.g., Operations and Maintenance), or an entire fund (e.g., Downtown Improvement District). All departments and funds completed the year within their legally authorized expenditures. Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded to reserve the applicable appropriations, is employed in the governmental funds.

The City does, however, honor the contracts represented by year-end encumbrances and the subsequent year's appropriations provide authority to complete these transactions.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

Nonmajor Governmental Funds

Nonmajor Special Revenue Funds

Special Revenue Funds include funds which are restricted as to use by the Federal or State governments, and special purpose funds established by authority of the City Council. Nonmajor Special Revenue Funds include:

OPERATING GRANTS FUND – To account for a variety of governmental fund operating grants, including law enforcement grants.

LOCAL TRANSPORTATION FUND – To account for revenues and expenditures of Local Transportation Fund allocations for streets, urban trails, and non-motorized facilities. Allocations for the City bus system are reported directly in the Bus Enterprise Fund.

TRAFFIC SAFETY FUND – To account for receipts and expenditures of traffic safety fines.

SPECIAL GAS TAX STREET IMPROVEMENT FUND – To account for State-collected, locally-shared gas tax monies. These funds may be used for all street purposes including construction, purchase of rights-of-way, and maintenance.

DOWNTOWN IMPROVEMENT DISTRICT FUND – To account for the fiscal activities of Business Improvement Area A of the City of Modesto.

HOUSING AND COMMUNITY DEVELOPMENT FUND – To account for grants and other monies received and disbursed for projects developed and administered under the Housing and Community Development Act of 1974.

STRATEGIC PLANNING AND DEVELOPMENT FUND – Established to provide a funding source for future village planning, general plan update and other large expenses related to planning and development. This fund was originally financed with an apportionment of the PERS rebate related to AB702. Subsequent funding has been provided by transfers from the General Fund. Future funding will be provided by fees imposed on private development.

Nonmajor Capital Projects Funds

Capital Projects 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. Nonmajor Capital Projects Funds include:

SPECIAL FUND FOR CAPITAL OUTLAYS – To account for capital outlay authorized by the City Council. No monies placed in this fund are to be disbursed except for this purpose unless authorized by a vote of the people.

PARKS FUND – To account for a discretionary transfer of General Fund property tax revenue to provide for the development of parks within the City, as directed by the City Council.

McHENRY MANSION RESTORATION FUND – To account for donations and other revenues received and appropriated for the purpose of restoring the McHenry Mansion.

REDEVELOPMENT AGENCY FUND – To account for the construction of capital projects financed by the Redevelopment Agency of the City of Modesto.

IMPROVEMENT DISTRICTS FUND – To account for the construction of public improvements deemed to benefit properties against which special assessments are levied.

Nonmajor 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. Nonmajor Debt Service Funds include:

REDEVELOPMENT AGENCY FUND – To account for certificates of participation issued to finance the acquisitions and construction of the Modesto Centre Plaza.

PUBLIC FINANCING AUTHORITY FUND – To account for payment of debt issued to finance projects authorized by the Modesto Public Financing Authority.

**CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006**

	Special Revenue					Housing and Community Development	Strategic Planning and Development	Capital Projects						
	Operating Grants	Local Transportation	Traffic Safety	Special Gas Tax Street Improvement	Downtown Improvement District			Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration	Redevelop- ment Agency	Improvem- ent Districts		
ASSETS														
Cash and cash equivalents	\$ 691,189	\$ 353	\$ 200,667	\$ 6,300,726	\$ 57,188	\$ 2,382,261	\$ 1,641,097	\$ 1,913,617	\$ 1,406,735	\$ 6,352	\$ 6,141,457	\$ 27,597		
Cash and cash equivalents with fiscal agent						3,793,980								
Receivables:														
Accounts	386,283					80,710								
Interest	6,232	15,965		31,225	2,409	6,750	7,160	5,816	4,833	191	15,757			
Utilities, net	8,364			23,142										
Taxes				206,773										
Due from governments	930,967	3,088,176		556,156		437,577								
Notes receivable, net						12,245,270					932,483			
Prepaid expenses/deposits											780,000			
Advances to other funds								148,451						
Total assets	\$ 2,023,035	\$ 3,104,494	\$ 200,667	\$ 7,118,022	\$ 59,597	\$ 18,946,548	\$ 1,648,257	\$ 2,067,884	\$ 1,411,568	\$ 6,543	\$ 7,869,697	\$ 27,597		
LIABILITIES AND FUND BALANCES														
Liabilities:														
Accounts payable	\$ 160,709	\$ 31,310	\$ 27,727	\$ 611,927		\$ 158,519	\$ 16,231	\$ 146,425	\$ 30		\$ 7,524	\$ 27,597		
Accrued salaries and benefits	57,912			67,758		10,127								
Due to other funds		1,129,000												
Approved loans payable						589,219								
Deferred revenues	619,951	1,934,910		243,389										
Refundable deposits											1,000			
Advances from other funds									351,768					
Total liabilities	838,572	3,095,220	27,727	923,074		757,865	16,231	146,425	351,798		8,524	27,597		
Fund balances:														
Reserved for:														
Encumbrances	74,591	2,522		962,607		17,407	1,297,449	4,880,926			354,195			
Loan programs and prepaids						11,656,051					1,712,483			
Interfund advances								148,451						
Set-aside requirement											4,245,482			
Debt service														
Unreserved/designated for:														
Pending projects			172,940	5,232,341	\$ 59,597	6,515,225	334,577		1,059,770	\$ 6,543	1,549,013			
Unreserved/undesignated	1,109,872	6,752						(3,107,918)						
Total fund balances	1,184,463	9,274	172,940	6,194,948	59,597	18,188,683	1,632,026	1,921,459	1,059,770	6,543	7,861,173			
Total liabilities and fund balances	\$ 2,023,035	\$ 3,104,494	\$ 200,667	\$ 7,118,022	\$ 59,597	\$ 18,946,548	\$ 1,648,257	\$ 2,067,884	\$ 1,411,568	\$ 6,543	\$ 7,869,697	\$ 27,597		

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CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)
June 30, 2006

	Debt Service		Total
	Redevelopment Agency	Public Financing Authority	
ASSETS			
Cash and cash equivalents	\$ 1,224,854		\$ 21,994,093
Cash and cash equivalents with fiscal agent	1,979,630	\$ 5,298,886	11,072,496
Receivables:			
Accounts			466,993
Interest	61,863		158,201
Utilities, net			31,506
Taxes	298,070		504,843
Due from governments			5,012,876
Notes receivable, net			13,177,753
Prepaid expenses/deposits			780,000
Advances to other funds			148,451
Total assets	\$ 3,564,417	\$ 5,298,886	\$ 53,347,212
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 607,857		\$ 1,795,856
Accrued salaries and benefits			135,797
Due to other funds			1,129,000
Approved loans payable			589,219
Deferred revenues			2,798,250
Refundable deposits			1,000
Advances from other funds			351,768
Total liabilities	607,857		6,800,890
Fund balances:			
Reserved for:			
Encumbrances			7,589,697
Loan programs			13,368,534
Interfund advances			148,451
Set-aside requirement			4,245,482
Debt service	2,956,560	\$ 5,298,886	8,255,446
Unreserved/designated for:			
Pending projects			14,930,006
Unreserved/undesignated			(1,991,294)
Total fund balances	2,956,560	5,298,886	46,546,322
Total liabilities and fund balances	\$ 3,564,417	\$ 5,298,886	\$ 53,347,212

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CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2006

	Special Revenue						Capital Projects					
	Operating Grants	Local Transportation	Traffic Safety	Special Gas Tax Street Improvement	Downtown Improvement District		Housing and Community Development	Strategic Planning and Development				
REVENUES:												
Taxes				\$ 802,502	\$ 214,022						\$ 2,268,387	
Licenses and permits	\$ 44,000			6,773								
Intergovernmental	1,943,352	\$ 2,711,734		5,614,266		\$ 3,151,545		\$ 166,485				
Charges for services	3,111,846			1,585,804		97,545	\$ 1,226,000	4,878	\$ 20,655			
Interest and rent	36,552	19,618		74,855	1,265	300,545	40,385	75,352	21,820	\$ 140	122,703	
Net increase (decrease) in fair value of investments	6,592	705		1,144	36	11,029	994	988	531	4	2,676	
Fines and forfeits	5,280		\$ 793,270									
Miscellaneous	495,355			78,391		21,687	111,164	31,500	47,129			
Total revenues	<u>5,642,977</u>	<u>2,732,057</u>	<u>793,270</u>	<u>8,163,735</u>	<u>215,323</u>	<u>3,582,351</u>	<u>1,378,543</u>	<u>279,203</u>	<u>90,135</u>	<u>144</u>	<u>2,393,766</u>	
EXPENDITURES:												
Current:												
General government	678,742											
Community development					200,743	2,940,389	1,266,621				830,436	\$ 27,596
Highways and streets		20,779		12,160,034				696				
Public works	3,784,471							142,965				
Parks and recreation	10,152								8,284			
Public safety	1,955,764		360,357									
Capital outlay:												
General government												
Community development						429,126		14,411				
Highways and streets		377,428		1,302,346								
Public works		1,658										
Parks and recreation	321,134							93,947	141,863			
Public safety	88,336							178,414				
Debt service:												
Principal retirement				39,443		136,000						
Interest				2,110		233,180						
Other												
Total expenditures	<u>6,838,599</u>	<u>399,865</u>	<u>360,357</u>	<u>13,503,933</u>	<u>200,743</u>	<u>3,738,695</u>	<u>1,266,621</u>	<u>430,433</u>	<u>150,147</u>		<u>830,436</u>	<u>27,596</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,195,622)</u>	<u>2,332,192</u>	<u>432,913</u>	<u>(5,340,198)</u>	<u>14,580</u>	<u>(156,344)</u>	<u>111,922</u>	<u>(151,230)</u>	<u>(60,012)</u>	<u>144</u>	<u>1,563,330</u>	<u>(27,596)</u>
OTHER FINANCING SOURCES (USES):												
Transfers in	1,349,628			5,157,376				91,755	898,293			
Transfers out		(2,322,918)	(1,130,000)	(574,189)		(1,462,886)	(300,000)	(850,579)	(330,330)		(1,399,212)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,349,628</u>	<u>(2,322,918)</u>	<u>(1,130,000)</u>	<u>4,583,187</u>		<u>(1,462,886)</u>	<u>(300,000)</u>	<u>(758,824)</u>	<u>567,963</u>		<u>(1,399,212)</u>	
NET CHANGE IN FUND BALANCES	<u>154,006</u>	<u>9,274</u>	<u>(697,087)</u>	<u>(757,011)</u>	<u>14,580</u>	<u>(1,619,230)</u>	<u>(188,078)</u>	<u>(910,054)</u>	<u>507,951</u>	<u>144</u>	<u>164,118</u>	<u>(27,596)</u>
FUND BALANCES, July 1	1,030,457			870,027	6,951,959	19,807,913	1,820,104	2,831,513	551,819	6,399	7,697,055	27,596
FUND BALANCES, June 30	<u>\$ 1,184,463</u>	<u>\$ 9,274</u>	<u>\$ 172,940</u>	<u>\$ 6,194,948</u>	<u>\$ 59,597</u>	<u>\$ 18,188,683</u>	<u>\$ 1,632,026</u>	<u>\$ 1,921,459</u>	<u>\$ 1,059,770</u>	<u>\$ 6,543</u>	<u>\$ 7,861,173</u>	<u>\$</u>

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**CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (Continued)
Year ended June 30, 2006**

**CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - OPERATING GRANTS SPECIAL REVENUE FUND
Year ended June 30, 2006**

	Debt Service		Total
	Redevelopment Agency	Public Financing Authority	
REVENUES:			
Taxes	\$ 2,182,449		\$ 5,467,360
Licenses and permits			50,773
Intergovernmental			13,587,382
Charges for services			6,046,728
Interest and rent	268,774	\$ 267,624	1,229,633
Net increase (decrease) in fair value of investments	2,127		26,826
Fines and forfeits			798,550
Miscellaneous			785,226
Total revenues	<u>2,453,350</u>	<u>267,624</u>	<u>27,992,478</u>
EXPENDITURES:			
Current:			
General government			678,742
Community development			5,265,785
Highways and streets			12,181,509
Public works			3,927,436
Parks and recreation			18,436
Public safety			2,316,121
Capital outlay:			
General government			14,411
Community development			429,126
Highways and streets			1,679,774
Public works			1,658
Parks and recreation			556,944
Public safety			266,750
Debt service:			
Principal retirement	800,000	495,000	1,470,443
Interest	1,155,110	3,148,787	4,539,187
Other	610,706	8,036	618,742
Total expenditures	<u>2,565,816</u>	<u>3,651,823</u>	<u>33,965,064</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(112,466)</u>	<u>(3,384,199)</u>	<u>(5,972,586)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	1,399,212	3,386,038	12,282,302
Transfers out	<u>(893,152)</u>		<u>(9,263,266)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>506,060</u>	<u>3,386,038</u>	<u>3,019,036</u>
NET CHANGE IN FUND BALANCES	393,594	1,839	(2,953,550)
FUND BALANCES, July 1	2,562,966	5,297,047	49,499,872
FUND BALANCES, June 30	<u>\$ 2,956,560</u>	<u>\$ 5,298,886</u>	<u>\$ 46,546,322</u>

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Licenses and permits	\$ 50,000	\$ 50,000	\$ 44,000	\$ (6,000)
Intergovernmental	3,629,019	4,724,725	1,943,352	(2,781,373)
Charges for services	2,959,169	3,132,208	3,111,846	(20,362)
Interest and rent - interest			36,552	36,552
Net increase in fair value of investments			6,592	6,592
Fines and forfeits	300	300	5,280	4,980
Miscellaneous	362,665	377,065	495,355	118,290
Total revenues	<u>7,001,153</u>	<u>8,284,298</u>	<u>5,642,977</u>	<u>(2,641,321)</u>
EXPENDITURES:				
General government	1,178,630	1,244,990	678,742	566,248
Public works	4,093,257	4,525,644	3,784,471	741,173
Parks and recreation	53,740	577,020	331,286	245,734
Public safety	3,474,801	4,029,091	2,044,100	1,984,991
Total expenditures	<u>8,800,428</u>	<u>10,376,745</u>	<u>6,838,599</u>	<u>3,538,146</u>
DEFICIENCY OF REVENUES (UNDER) EXPENDITURES	<u>(1,799,275)</u>	<u>(2,092,447)</u>	<u>(1,195,622)</u>	<u>896,825</u>
OTHER FINANCING SOURCES:				
Transfers in	1,353,211	1,353,211	1,349,628	(3,583)
NET CHANGE IN FUND BALANCE	(446,064)	(739,236)	154,006	893,242
FUND BALANCES, JULY 1	1,030,457	1,030,457	1,030,457	
FUND BALANCES, JUNE 30	<u>\$ 584,393</u>	<u>\$ 291,221</u>	<u>\$ 1,184,463</u>	<u>\$ 893,242</u>

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CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - LOCAL TRANSPORTATION SPECIAL REVENUE FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 3,357,708	\$ 3,357,708	\$ 2,711,734	\$ (645,974)
Interest and rent - interest			19,618	19,618
Net increase in fair value of investments			705	705
Total revenues	<u>3,357,708</u>	<u>3,357,708</u>	<u>2,732,057</u>	<u>(625,651)</u>
EXPENDITURES:				
Highways and streets	1,520,879	1,520,879	398,207	1,122,672
Parks and recreation	1,658	1,658	1,658	
Total expenditures	<u>1,522,537</u>	<u>1,522,537</u>	<u>399,865</u>	<u>1,122,672</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,835,171</u>	<u>1,835,171</u>	<u>2,332,192</u>	<u>497,021</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(2,377,000)	(2,285,094)	(2,322,918)	(37,824)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,377,000)</u>	<u>(2,285,094)</u>	<u>(2,322,918)</u>	<u>(37,824)</u>
NET CHANGE IN FUND BALANCE	(541,829)	(449,923)	9,274	459,197
FUND BALANCES, JULY 1				
FUND BALANCE (DEFICITS), JUNE 30	<u>\$ (541,829)</u>	<u>\$ (449,923)</u>	<u>\$ 9,274</u>	<u>\$ 459,197</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - TRAFFIC SAFETY SPECIAL REVENUE FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Motor vehicle fines	\$ 825,000	\$ 825,000	\$ 793,270	\$ (31,730)
EXPENDITURES:				
Public safety		502,738	360,357	142,381
EXCESS OF REVENUES OVER EXPENDITURES	<u>825,000</u>	<u>322,262</u>	<u>432,913</u>	<u>(174,111)</u>
OTHER FINANCING USES:				
Transfers out	(1,130,000)	(1,130,000)	(1,130,000)	
NET CHANGE IN FUND BALANCE	(305,000)	(807,738)	(697,087)	(174,111)
FUND BALANCES, JULY 1	870,027	870,027	870,027	
FUND BALANCES, JUNE 30	<u>\$ 565,027</u>	<u>\$ 62,289</u>	<u>\$ 172,940</u>	<u>\$ (174,111)</u>

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CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - SPECIAL
GAS TAX STREET IMPROVEMENT SPECIAL REVENUE FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental:				
State grants	\$ 3,693,720	\$ 4,359,444	\$ 4,476,986	\$ 117,542
Federal grants	782,603	782,603	1,137,280	354,677
Other grants	100	100		(100)
Total intergovernmental revenues	<u>4,476,423</u>	<u>5,142,147</u>	<u>5,614,266</u>	<u>472,119</u>
Taxes	700,000	788,961	802,502	13,541
Licenses and permits	10,724	10,724	6,773	(3,951)
Charges for services	1,302,713	1,581,713	1,585,804	4,091
Interest and rent			74,855	74,855
Net decrease in fair value of investments			1,144	1,144
Miscellaneous	21,328	49,165	78,391	29,226
Total revenues	<u>6,511,188</u>	<u>7,572,710</u>	<u>8,163,735</u>	<u>591,025</u>
EXPENDITURES:				
Current:				
Highway and streets	13,354,741	14,735,748	13,462,380	1,273,368
Debt service:				
Principal retirement	39,443	39,443	39,443	
Interest	2,110	2,110	2,110	
Total expenditures	<u>13,396,294</u>	<u>14,777,301</u>	<u>13,503,933</u>	<u>1,273,368</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(6,885,106)</u>	<u>(7,204,591)</u>	<u>(5,340,198)</u>	<u>1,864,393</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	5,128,227	5,128,227	5,157,376	29,149
Transfers out	(86,882)	(87,082)	(574,189)	(487,107)
TOTAL OTHER FINANCING SOURCES (USES)	<u>5,041,345</u>	<u>5,041,145</u>	<u>4,583,187</u>	<u>(457,958)</u>
NET CHANGE IN FUNDS BALANCE	(1,843,761)	(2,163,446)	(757,011)	1,406,435
FUND BALANCES, JULY 1	<u>6,951,959</u>	<u>6,951,959</u>	<u>6,951,959</u>	
FUND BALANCES, JUNE 30	<u>\$ 5,108,198</u>	<u>\$ 4,788,513</u>	<u>\$ 6,194,948</u>	<u>\$ 1,406,435</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - DOWNTOWN
IMPROVEMENT DISTRICT SPECIAL REVENUE FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes - business license tax	\$ 210,000	\$ 210,000	\$ 214,022	\$ 4,022
Interest and rent - interest	500	500	1,265	765
Net increase in fair value of investments			36	36
Total revenues	<u>210,500</u>	<u>210,500</u>	<u>215,323</u>	<u>4,823</u>
EXPENDITURES - community development				
Downtown improvement district administration:				
Professional and contractual services	160,260	165,260	166,239	(979)
Materials and supplies	7,500	7,500	7,092	408
Other	28,000	28,000	27,412	588
Total expenditures	<u>195,760</u>	<u>200,760</u>	<u>200,743</u>	<u>17</u>
NET CHANGE IN FUND BALANCE	14,740	9,740	14,580	4,840
FUND BALANCES, JULY 1	<u>45,017</u>	<u>45,017</u>	<u>45,017</u>	
FUND BALANCES, JUNE 30	<u>\$ 59,757</u>	<u>\$ 54,757</u>	<u>\$ 59,597</u>	<u>\$ 4,840</u>

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CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - HOUSING
AND COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental - federal grants	\$ 4,332,932	\$ 4,646,202	\$ 3,151,545	\$ (1,494,657)
Charges for services	127,496	127,496	97,545	(29,951)
Interest and rent - interest	400,000	420,000	300,545	(119,455)
Net increase in fair value of investments			11,029	11,029
Miscellaneous			21,687	21,687
Total revenues	<u>4,860,428</u>	<u>5,193,698</u>	<u>3,582,351</u>	<u>(1,611,347)</u>
EXPENDITURES - community development				
Housing program	2,764,933	2,625,203	1,925,183	700,020
Removal of architectural barriers	2,539,173	2,999,689	1,444,332	1,555,357
Debt service:				
Principal retirement	136,000	136,000	136,000	
Interest	233,180	233,180	233,180	
Total expenditures	<u>5,673,286</u>	<u>5,994,072</u>	<u>3,738,695</u>	<u>2,255,377</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(812,858)</u>	<u>(800,374)</u>	<u>(156,344)</u>	<u>644,030</u>
OTHER FINANCING USES:				
Transfers out		(1,624,669)	(1,462,886)	161,783
TOTAL OTHER FINANCING SOURCES (USES)		<u>(1,624,669)</u>	<u>(1,462,886)</u>	<u>161,783</u>
NET CHANGE IN FUND BALANCE	(812,858)	(2,425,043)	(1,619,230)	805,813
FUND BALANCES, JULY 1	<u>19,807,913</u>	<u>19,807,913</u>	<u>19,807,913</u>	
FUND BALANCES, JUNE 30	<u>\$ 18,995,055</u>	<u>\$ 17,382,870</u>	<u>\$ 18,188,683</u>	<u>\$ 805,813</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - STRATEGIC
PLANNING AND DEVELOPMENT SPECIAL REVENUE FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 1,294,509	\$ 1,294,509	\$ 1,226,000	\$ (68,509)
Interest and rent - interest			40,385	40,385
Net increase in fair value of investments			994	994
Miscellaneous	111,114	111,114	111,164	50
Total revenues	<u>1,405,623</u>	<u>1,405,623</u>	<u>1,378,543</u>	<u>(27,080)</u>
EXPENDITURES:				
Community development		3,272,595	1,266,621	2,005,974
Total expenditures		<u>3,272,595</u>	<u>1,266,621</u>	<u>2,005,974</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,405,623	(1,866,972)	111,922	1,978,894
OTHER FINANCING USES:				
Transfers out	(300,000)	(300,000)	(300,000)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>(300,000)</u>	<u>(300,000)</u>	<u>(300,000)</u>	
NET CHANGE IN FUND BALANCE	1,105,623	(2,166,972)	(188,078)	1,978,894
FUND BALANCES, JULY 1	<u>1,820,104</u>	<u>1,820,104</u>	<u>1,820,104</u>	
FUND BALANCES, JUNE 30	<u>\$ 2,925,727</u>	<u>\$ (346,868)</u>	<u>\$ 1,632,026</u>	<u>\$ 1,978,894</u>

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Nonmajor Enterprise Funds

Enterprise Funds are established to account for activities that render services on a user-charge basis to the general public. Nonmajor Enterprise Funds include:

PARKING FUND – Revenues in this fund consist of charges for off-street parking and the downtown parking garage, as well as in-lieu parking fees. The revenue is used to develop and maintain parking facilities.

STORM DRAIN FUND – To account for storm drain improvements, operations and maintenance. The activities of the fund include street cleaning, rock well maintenance, and compliance with Federal and State water quality standards on storm water discharge.

COMPOST FUND – To account for tip fees charged at the City’s composting facility for processing various compostable materials and the sale of compost product. Excess revenues over expenses are set aside to protect the enterprise against market fluctuations, and to provide for capital improvements to the facility infrastructure.

AIRPORT FUND – To account for all airport operations as stipulated in the City-Stanislaus County agreement of January 1968. Amounts received from the Federal government, State of California, and Stanislaus County, requiring matching amounts by the City, are recorded in this fund and are appropriated to finance approved capital projects.

BUS FUND – Pursuant to the terms of a Federal grant agreement, the City has agreed to provide mass transportation service. All operating, maintenance, and capital expenditures are appropriated in this fund. Buses are operated by a private contractor under the terms of a supervisory agreement with the City. A separate contract agreement provides Dial-a-Ride service for the elderly and handicapped.

GOLF FUND – Revenues in this fund consist of fees charged for using the City’s golf courses. The revenue is used to improve, operate, and maintain golf courses.

COMMUNITY CENTER FUND – Accounted for in this fund are all amounts collected for the purpose of operating and maintaining the Modesto Centre Plaza Community Center. Revenues include room rental, catering fees, ticket sales, and other charges for using the center.

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CITY OF MODESTO
COMBINING STATEMENT OF NET ASSETS - NON MAJOR ENTERPRISE FUNDS
June 30, 2006

	Parking	Storm Drain	Compost	Airport	Bus	Golf	Community Center	Total
<u>ASSETS</u>								
Current assets:								
Cash and cash equivalents	\$ 1,067,156	\$ 883,536	\$ 366,544	\$ 1,390,515	\$ 1,846,214	\$ 253,324	\$ 439,758	\$ 6,247,047
Cash and cash equivalents with fiscal agent						612,784		612,784
Receivables:								
Accounts	8,825	5,930	263,172	11,621	6,026	16,607	53,966	366,147
Interest	3,442	37,951	822	4,412	9,148	5,394	226	61,395
Utilities, net		558,412						558,412
Due from governments		4,538		422,629	3,080,432	1,149		3,508,748
Property held for resale	630,000							630,000
Total current assets	1,709,423	1,490,367	630,538	1,829,177	4,941,820	889,258	493,950	11,984,533
Capital assets:								
Land and construction in progress	3,142,479	1,818,415		3,697,735	5,405,525	494,938	3,764,844	18,323,936
Other capital assets, net of accumulated depreciation	8,003,588	15,658,887	658,317	5,612,652	14,627,250	3,259,831	11,640,564	59,461,089
Total assets	12,855,490	18,967,669	1,288,855	11,139,564	24,974,595	4,644,027	15,899,358	89,769,558
<u>LIABILITIES</u>								
Current liabilities:								
Accounts payable	30,572	102,789	3,704	398,288	683,643	3,540	33,313	1,255,849
Accrued salaries and benefits	4,400	18,549	3,641	6,199	16,104		10,612	59,505
Interest payable			4,953			50,845		55,798
Current portion - long-term debt			70,955			205,000		275,955
Deferred revenues		(9,684)		13,425	1,911,388	209,297		2,124,426
Total current liabilities	34,972	111,654	83,253	417,912	2,611,135	468,682	43,925	3,771,533
Noncurrent liabilities:								
Obligations under capital leases			151,633					151,633
Certificates of participation						5,650,000		5,650,000
Total liabilities	34,972	111,654	234,886	417,912	2,611,135	6,118,682	43,925	9,573,166
<u>NET ASSETS</u>								
Invested in capital assets, net of related debt	11,146,067	17,477,302	587,362	9,310,387	20,032,775	(2,100,231)	15,405,408	71,859,070
Unrestricted	1,674,451	1,378,713	466,607	1,411,265	2,330,685	625,576	450,025	8,337,322
Total net assets	\$ 12,820,518	\$ 18,856,015	\$ 1,053,969	\$ 10,721,652	\$ 22,363,460	\$ (1,474,655)	\$ 15,855,433	\$ 80,196,392

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CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - NON MAJOR ENTERPRISE FUNDS
Year ended June 30, 2006

	Parking	Storm Drain	Compost	Airport	Bus	Golf	Community Center	Total
OPERATING REVENUES:								
Charges for services	\$ 1,176,061	\$ 5,273,902	\$ 1,317,105	\$ 574,011	\$ 2,352,734	\$ 2,222,736	\$ 534,176	\$ 13,450,725
Miscellaneous		3,402		3,677	292,888	2	8,909	308,878
Total operating revenues	<u>1,176,061</u>	<u>5,277,304</u>	<u>1,317,105</u>	<u>577,688</u>	<u>2,645,622</u>	<u>2,222,738</u>	<u>543,085</u>	<u>13,759,603</u>
OPERATING EXPENSES:								
Salaries and wages	245,229	1,074,081	238,417	322,823	847,030		846,742	3,574,322
Contractual services	251,374	1,651,553	74,483	103,593	7,041,782	1,628,646	56,833	10,808,264
Utilities	104,984	100,190	1,914	93,413	85,250	3,565	186,881	576,197
Maintenance and supplies	74,033	881,600	346,691	99,906	1,877,910	57,740	322,349	3,660,229
Insurance	26,264	7,647	3,065	63,347	17,322	10,012	48,462	176,119
Employee benefits	51,378	436,164	131,585	118,147	324,870		228,305	1,290,449
Administration services	101,249	899,490	83,851	21,463	432,479	50,580	10,414	1,599,526
Allocated indirect administrative costs	26,679	249,352		38,256	277,794	92,135		684,216
Other	9,415	11,549	5,404	54,092	141,722	5,144	8,599	235,925
Depreciation	388,499	577,784	65,227	411,413	1,125,709	311,818	775,967	3,656,417
Total operating expenses	<u>1,279,104</u>	<u>5,889,410</u>	<u>950,637</u>	<u>1,326,453</u>	<u>12,171,868</u>	<u>2,159,640</u>	<u>2,484,552</u>	<u>26,261,664</u>
OPERATING INCOME (LOSS)	<u>(103,043)</u>	<u>(612,106)</u>	<u>366,468</u>	<u>(748,765)</u>	<u>(9,526,246)</u>	<u>63,098</u>	<u>(1,941,467)</u>	<u>(12,502,061)</u>
NONOPERATING REVENUES (EXPENSES)								
Operating grants				50,351	8,267,538			8,317,889
Gain (Loss) on disposition of capital assets		4,912		(28,955)				(24,043)
Tax revenue				207,749				207,749
Tax expense	(16,551)			(735)				(17,286)
Interest income	21,414	16,665	140	25,900	70,450	24,813	1,798	161,180
Net increase in fair value of investments	585	433	3,743	677	1,554	95	2	7,089
Rental income				164,130	316,245	54,670	501,118	1,036,163
Interest expense			(13,072)			(308,515)		(321,587)
Total nonoperating revenues (expenses)	<u>5,448</u>	<u>22,010</u>	<u>(9,189)</u>	<u>419,117</u>	<u>8,655,787</u>	<u>(228,937)</u>	<u>502,918</u>	<u>9,367,154</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(97,595)</u>	<u>(590,096)</u>	<u>357,279</u>	<u>(329,648)</u>	<u>(870,459)</u>	<u>(165,839)</u>	<u>(1,438,549)</u>	<u>(3,134,907)</u>
Capital contributions		1,132,034	30,070	1,327,385	478,796			2,968,285
Transfers in		298,647	666,620		6,882	65,288	704,000	1,741,437
Transfers out		(103,350)		(84)	(18,625)			(122,059)
CHANGE IN NET ASSETS	<u>(97,595)</u>	<u>737,235</u>	<u>1,053,969</u>	<u>997,653</u>	<u>(403,406)</u>	<u>(100,551)</u>	<u>(734,549)</u>	<u>1,452,756</u>
NET ASSETS (DEFICIT), July 1	<u>12,918,113</u>	<u>18,118,780</u>		<u>9,723,999</u>	<u>22,766,866</u>	<u>(1,374,104)</u>	<u>16,589,982</u>	<u>78,743,636</u>
NET ASSETS (DEFICIT), June 30	<u>\$ 12,820,518</u>	<u>\$ 18,856,015</u>	<u>\$ 1,053,969</u>	<u>\$ 10,721,652</u>	<u>\$ 22,363,460</u>	<u>\$ (1,474,655)</u>	<u>\$ 15,855,433</u>	<u>\$ 80,196,392</u>

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CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS
Year ended June 30, 2006

	Parking	Storm Drain	Compost	Airport	Bus	Golf	Community Center	Total
CASH FLOWS FROM OPERATING ACTIVITIES:								
Receipts from customers and users	\$ 1,171,223	\$ 5,244,115	\$ 1,164,719	\$ 759,909	\$ 2,963,721	\$ 2,279,820	\$ 1,051,761	\$ 14,635,268
Receipts from interfund services provided		23,910						23,910
Payments to suppliers	(400,574)	(1,822,347)	(255,998)	101,874	(8,832,946)	(1,697,396)	(523,118)	(13,430,505)
Payments to employees	(293,534)	(1,505,418)	(369,630)	(438,279)	(1,167,767)		(1,072,969)	(4,847,597)
Payments for interfund services used	(196,523)	(1,947,221)	(279,644)	(196,326)	(1,025,498)	(150,447)	(128,613)	(3,924,272)
Net cash provided (used) by operating activities	<u>280,592</u>	<u>(6,961)</u>	<u>259,447</u>	<u>227,178</u>	<u>(8,062,490)</u>	<u>431,977</u>	<u>(672,939)</u>	<u>(7,543,196)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:								
Operating grants received				50,351	6,543,564			6,593,915
Taxes received				207,749				207,749
Transfers in		298,647	363,307		6,882	65,288	704,000	1,438,124
Transfers out		(103,350)		(84)	(18,625)			(122,059)
Net cash provided (used) by noncapital financing activities		<u>195,297</u>	<u>363,307</u>	<u>258,016</u>	<u>6,531,821</u>	<u>65,288</u>	<u>704,000</u>	<u>8,117,729</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:								
Acquisition and construction of capital assets	(2)	(109,720)	(6,569)	(1,230,223)	(478,796)	(6,691)	(72,103)	(1,904,104)
Principal repayments			(67,899)			(195,000)		(262,899)
Interest paid			(13,072)			(310,238)		(323,310)
Capital grants received		96,906		974,935	478,796			1,550,637
Net cash used by capital and related financing activities	<u>(2)</u>	<u>(12,814)</u>	<u>(87,540)</u>	<u>(255,288)</u>		<u>(511,929)</u>	<u>(72,103)</u>	<u>(939,676)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:								
Interest received	20,682	17,804	(1,310)	25,304	76,048	24,805	2,414	165,747
Net increase in the fair value of investments	585	433	3,743	677	1,554	95	2	7,089
Net cash provided by investing activities	<u>21,267</u>	<u>18,237</u>	<u>2,433</u>	<u>25,981</u>	<u>77,602</u>	<u>24,900</u>	<u>2,416</u>	<u>172,836</u>
Net increase (decrease) in cash and cash equivalents	301,857	193,759	537,647	255,887	(1,453,067)	10,236	(38,626)	(192,307)
CASH AND CASH EQUIVALENTS, JULY 1	<u>765,299</u>	<u>689,777</u>	<u>(171,103)</u>	<u>1,134,628</u>	<u>3,299,281</u>	<u>855,872</u>	<u>478,384</u>	<u>7,052,138</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 1,067,156</u>	<u>\$ 883,536</u>	<u>\$ 366,544</u>	<u>\$ 1,390,515</u>	<u>\$ 1,846,214</u>	<u>\$ 866,108</u>	<u>\$ 439,758</u>	<u>\$ 6,859,831</u>
RECONCILIATION TO STATEMENT OF NET ASSETS:								
Cash and cash equivalents	\$ 1,067,156	883,536	366,544	\$ 1,390,515	\$ 1,846,214	\$ 253,324	\$ 439,758	\$ 6,247,047
Cash and cash equivalents with fiscal agent						612,784		612,784
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 1,067,156</u>	<u>\$ 883,536</u>	<u>\$ 366,544</u>	<u>\$ 1,390,515</u>	<u>\$ 1,846,214</u>	<u>\$ 866,108</u>	<u>\$ 439,758</u>	<u>\$ 6,859,831</u>

(continued)

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CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NON MAJOR ENTERPRISE FUNDS (Continued)
Year ended June 30, 2006

	Parking	Storm Drain	Compost	Airport	Bus	Golf	Community Center	Total
RECONCILIATION OF OPERATING INCOME (LOSS)								
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:								
Operating income (loss)	\$ (103,043)	\$ (612,106)	\$ 366,468	\$ (748,765)	\$ (9,526,246)	\$ 63,098	\$ (1,941,467)	\$ (12,502,061)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:								
Depreciation	388,499	577,784	65,227	411,413	1,125,709	311,818	775,967	3,656,417
Rental income				164,130	316,245	54,670	501,118	1,036,163
Taxes paid	(16,551)			(533)				(17,084)
Change in assets and liabilities:								
(Increase) decrease in accounts receivable	104,534	259	(152,386)	4,464	1,854	(5,163)	7,558	(38,880)
(Increase) in utilities receivable		(9,538)						(9,538)
Increase (decrease) in accounts payable and accrued expenses	13,452	31,813	(20,234)	380,353	15,815	(21)	(18,193)	402,985
Increase in accrued salaries and benefits	3,073	4,827	372	2,691	4,133		2,078	17,174
Increase in deferred revenues	(109,372)			13,425		7,575		(88,372)
Total adjustments	383,635	605,145	(107,021)	975,943	1,463,756	368,879	1,268,528	4,958,865
Net cash provided (used) by operating activities	\$ 280,592	\$ (6,961)	\$ 259,447	\$ 227,178	\$ (8,062,490)	\$ 431,977	\$ (672,939)	\$ (7,543,196)

NONCASH INVESTING, CAPITAL AND FINANCING
ACTIVITIES:

Capital assets transferred from other funds	\$	664,962	\$	84,540				\$	749,502
Developer infrastructure contributions		370,166							370,166

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Internal Service Funds

Internal Service Funds are established to finance and account for services and commodities furnished by a designated agency of a governmental unit to other departments of the same governmental unit. Since the services and commodities are supplied exclusively to other departments of a governmental jurisdiction, they are distinguishable from those public services which are rendered to the public in general and which are accounted for in General, Special Revenue, or Enterprise Funds. Internal Service Funds include:

FLEET MANAGEMENT FUND – To provide the maintenance necessary for the City's equipment pool, which serves the needs of all City departments.

CENTRAL SERVICES FUND – To provide office supplies, various maintenance and construction materials, records storage, and mail services to all City departments.

INFORMATION AND TECHNOLOGY SERVICES FUND – To finance and account for the replacement, upgrade and maintenance of the City's network and technology infrastructure, and to develop and implement a coordinated City-wide information technology plan.

INSURANCE FUND – To finance and account for the City's insurance and risk management programs.

EMPLOYEE BENEFITS MANAGEMENT FUND – To account for all compensated absences and other employee benefits. Insurance benefits for current employees are accounted for in the Insurance Fund.

BUILDING SERVICES FUND – To account for the true cost of occupying and maintaining office space, to better reflect the value of that space, and to accumulate amounts for future building repair costs.

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CITY OF MODESTO
COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS
June 30, 2006

	Fleet Management	Central Services	Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 12,073,921	\$ 275,339	\$ 2,217,145	\$ 16,514,047	\$ 16,905,858	\$ 41,665	\$ 48,027,975
Receivables:							
Accounts receivable	8,125			821,403	4,530		834,058
Interest	11,593	1,249	6,681	143,485	56,551		219,559
Inventories		516,919					516,919
Due from governments	38,687						38,687
Advances to other funds	1,903,476						1,903,476
Total current assets	14,035,802	793,507	2,223,826	17,478,935	16,966,939	41,665	51,540,674
Noncurrent assets:							
Land and construction in progress	821,033						821,033
Other capital assets, net of accumulated depreciation	16,272,661	67,480	2,352,511	28,751	5,405	191,083	18,917,891
Total assets	31,129,496	860,987	4,576,337	17,507,686	16,972,344	232,748	71,279,598
LIABILITIES							
Current liabilities:							
Accounts payable	129,980	184,928	66,155	355,307	757,085	23,035	1,516,490
Accrued salaries and benefits	21,540	4,188	32,222	6,965	890	18,630	84,435
Current portion - compensated absences					2,769,104		2,769,104
Current portion - claims liability				5,156,560			5,156,560
Current portion - long-term debt	26,587						26,587
Total current liabilities	178,107	189,116	98,377	5,518,832	3,527,079	41,665	9,553,176
Noncurrent liabilities:							
Compensated absences					58,847,850		58,847,850
Claims liability				11,174,550			11,174,550
Long-term debt:							
Notes payable	144,446						144,446
Total liabilities	322,553	189,116	98,377	16,693,382	62,374,929	41,665	79,720,022
NET ASSETS							
Invested in capital assets, net of related debt	16,922,661	67,480	2,352,511	28,751	5,405	191,083	19,567,891
Unrestricted	13,884,282	604,391	2,125,449	785,553	(45,407,990)		(28,008,315)
Total net assets	\$ 30,806,943	\$ 671,871	\$ 4,477,960	\$ 814,304	\$ (45,402,585)	\$ 191,083	\$ (8,440,424)

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CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
Year ended June 30, 2006

	Fleet Management	Central Services	Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
OPERATING REVENUES:							
Charges for services	\$ 7,953,420	\$ 306,351	\$ 3,546,441	\$ 21,316,594	\$ 38,633,482	\$ 2,223,303	\$ 73,979,591
Sales		2,616,588					2,616,588
Cost of sales		(2,604,232)					(2,604,232)
Total operating revenues	<u>7,953,420</u>	<u>318,707</u>	<u>3,546,441</u>	<u>21,316,594</u>	<u>38,633,482</u>	<u>2,223,303</u>	<u>73,991,947</u>
OPERATING EXPENSES:							
Salaries and wages	1,083,045	200,178	1,437,826	355,025	46,890	949,062	4,072,026
Contractual services	430,497	70,071	250,566	51,811	51,950	158,546	1,013,441
Utilities	8,098	919	273,257	945		189,792	473,011
Maintenance and supplies	2,404,170	41,384	1,353,121	11,468	35,484	240,370	4,085,997
Insurance	52,881	3,516	12,864	10,976,444	364	8,191	11,054,260
Claims expense				7,458,436			7,458,436
Employee benefits	456,818	88,848	517,423	133,042	36,157,104	398,086	37,751,321
Administration services	73,752	6,565	551	1,283,028	46,668	81,801	1,492,365
Allocated indirect administrative costs	264,010						264,010
Other	16,419	566	53,668	30,083	56,031	3,951	160,718
Depreciation	2,433,441	9,598	356,103	8,808	1,562	28,965	2,838,477
Total operating expenses	<u>7,223,131</u>	<u>421,645</u>	<u>4,255,379</u>	<u>20,309,090</u>	<u>36,396,053</u>	<u>2,058,764</u>	<u>70,664,062</u>
OPERATING INCOME (LOSS)	<u>730,289</u>	<u>(102,938)</u>	<u>(708,938)</u>	<u>1,007,504</u>	<u>2,237,429</u>	<u>164,539</u>	<u>3,327,885</u>
NONOPERATING REVENUES (EXPENSES)							
Loss on disposition of capital assets	(171,110)		(70,773)				(241,883)
Interest income	152,100	8,546	39,171	348,395	354,923	(7,176)	895,959
Net increase (decrease) in fair value of investments		212	1,134	9,577	9,604	(217)	20,310
Interest expense	(11,083)		(458)				(11,541)
Total nonoperating revenues (expenses)	<u>(30,093)</u>	<u>8,758</u>	<u>(30,926)</u>	<u>357,972</u>	<u>364,527</u>	<u>(7,393)</u>	<u>662,845</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>700,196</u>	<u>(94,180)</u>	<u>(739,864)</u>	<u>1,365,476</u>	<u>2,601,956</u>	<u>157,146</u>	<u>3,990,730</u>
Capital contributions	304,210					14,424	318,634
Transfers in	251,179		1,461,182				1,712,361
Transfers out	(586,393)						(586,393)
CHANGE IN NET ASSETS	<u>669,192</u>	<u>(94,180)</u>	<u>721,318</u>	<u>1,365,476</u>	<u>2,601,956</u>	<u>171,570</u>	<u>5,435,332</u>
NET ASSETS (DEFICITS), July 1	<u>30,137,751</u>	<u>766,051</u>	<u>3,756,642</u>	<u>(551,172)</u>	<u>(48,004,541)</u>	<u>19,513</u>	<u>(13,875,756)</u>
NET ASSETS (DEFICITS), June 30	<u>\$ 30,806,943</u>	<u>\$ 671,871</u>	<u>\$ 4,477,960</u>	<u>\$ 814,304</u>	<u>\$ (45,402,585)</u>	<u>\$ 191,083</u>	<u>\$ (8,440,424)</u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
Year ended June 30, 2006

	Fleet Management	Central Services	Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from customers and users	\$ 153,585	\$ 34,642		\$ 836,081	\$ 13,803		\$ 1,038,111
Receipts from interfund services provided	7,753,023	284,065	\$ 3,546,441	19,955,559	38,615,149	\$ 2,223,303	72,377,540
Payments to suppliers	(2,691,075)	(68,231)	(1,903,045)	(10,999,355)	35,116	(536,436)	(16,163,026)
Payment of insurance claims				(5,089,127)			(5,089,127)
Payments to employees	(1,534,437)	(288,535)	(1,938,570)	(485,190)	(37,023,970)	(1,341,027)	(42,611,729)
Payments for interfund services used	(515,269)	(70,596)	(57,323)	(1,329,363)	(51,852)	(176,076)	(2,200,479)
Net cash provided (used) by operating activities	<u>3,165,827</u>	<u>(108,655)</u>	<u>(352,497)</u>	<u>2,888,605</u>	<u>1,588,246</u>	<u>169,764</u>	<u>7,351,290</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers in	251,179		1,461,182				1,712,361
Transfers out	(586,393)						(586,393)
Repayment of advances to other funds	96,524						96,524
Due to other funds						(125,000)	(125,000)
Net cash provided (used) by noncapital financing activities	<u>(238,690)</u>		<u>1,461,182</u>			<u>(125,000)</u>	<u>1,097,492</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Acquisition and construction of capital assets	(3,341,583)	(24,413)	(898,022)			(1)	(4,264,019)
Proceeds from sale of capital assets	101,024		13,877				114,901
Principal repayments	(25,043)		(20,545)				(45,588)
Interest paid	(11,083)		(458)				(11,541)
Net cash used by capital and related financing activities	<u>(3,276,685)</u>	<u>(24,413)</u>	<u>(905,148)</u>			<u>(1)</u>	<u>(4,206,247)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:							
Interest received	152,100	8,281	38,074	335,828	347,299	(5,750)	875,832
Net increase in the fair value of investments		212	1,134	9,577	9,604	(217)	20,310
Net cash provided by investing activities	<u>152,100</u>	<u>8,493</u>	<u>39,208</u>	<u>345,405</u>	<u>356,903</u>	<u>(5,967)</u>	<u>896,142</u>
Net increase (decrease) in cash and cash equivalents	(197,448)	(124,575)	242,745	3,234,010	1,945,149	38,796	5,138,677
CASH AND CASH EQUIVALENTS, JULY 1	<u>12,271,369</u>	<u>399,914</u>	<u>1,974,400</u>	<u>13,280,037</u>	<u>14,960,709</u>	<u>2,869</u>	<u>42,889,298</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 12,073,921</u>	<u>\$ 275,339</u>	<u>\$ 2,217,145</u>	<u>\$ 16,514,047</u>	<u>\$ 16,905,858</u>	<u>\$ 41,665</u>	<u>\$ 48,027,975</u>

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)
Year ended June 30, 2006

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information & Technology Services</u>	<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO							
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:							
Operating income (loss)	\$ 730,289	\$ (102,938)	\$ (708,938)	\$ 1,007,504	\$ 2,237,429	\$ 164,539	\$ 3,327,885
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	2,433,441	9,598	356,103	8,808	1,562	28,965	2,838,477
Change in assets and liabilities:							
(Increase) decrease in accounts receivable	(8,125)			(524,954)	(4,530)		(537,609)
(Increase) decrease in due from governments	(38,687)						(38,687)
(Increase) in notes receivable					3,096		3,096
Decrease in inventories		(141,400)				78	(141,322)
Increase (decrease) in accounts payable and accrued expenses	43,483	125,594	(16,341)	25,061	173,761	(29,939)	321,619
Increase in accrued salaries and benefits payable	5,426	491	16,679	2,877	279	6,121	31,873
Increase in compensated absences					(823,351)		(823,351)
Decrease in claims liability				2,369,309			2,369,309
Total adjustments	<u>2,435,538</u>	<u>(5,717)</u>	<u>356,441</u>	<u>1,881,101</u>	<u>(649,183)</u>	<u>5,225</u>	<u>4,023,405</u>
Net cash provided (used) by operating activities	<u>\$ 3,165,827</u>	<u>\$ (108,655)</u>	<u>\$ (352,497)</u>	<u>\$ 2,888,605</u>	<u>\$ 1,588,246</u>	<u>\$ 169,764</u>	<u>\$ 7,351,290</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:							
Capital assets transferred in	\$ 304,210					\$ 14,424	\$ 318,634

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AGENCY FUNDS

Agency Funds account for assets held by the City as an agent for individuals, governmental entities and non-public organizations.

Special Districts – To account for collection of special district assessments from property owners and forwarding these collections to trustees for payment to bondholders.

Tuolumne River Regional Park – To account for cash and investments of the Tuolumne River Regional Park, a joint powers agency between the City of Modesto, Stanislaus County and City of Ceres. The agency provides financing, development, and maintenance of the Tuolumne River Regional Park facilities. The cash and investments of the Park are invested as part of the City's investment pool.

City-County Capital Improvements and Financing Agency - To account for cash and investments of the City-County Capital Improvements and Financing Agency, a joint powers agency between the City of Modesto and Stanislaus County. The agency built and maintains a joint City-County government complex in downtown Modesto. The cash and investments of the Agency are invested as part of the City's investment pool.

Stanislaus Drug Enforcement Agency - To account for cash and investments of the Stanislaus Drug Enforcement Agency, a joint powers agency between Stanislaus County and the cities of Modesto, Oakdale, Turlock, Ceres, Hughson, Newman, Patterson, and Waterford. The agency's purpose 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. Cash and investments of the Agency are invested in the City's investment pool.

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CITY OF MODESTO
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS
Year ended June 30, 2006

STATISTICAL SECTION

	Balance			Balance
	June 30, 2005	Additions	Deletions	June 30, 2006
<u>Special Districts</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 120,416	\$ 1,357,817	\$ 227,811	\$ 1,250,422
Cash and cash equivalents with fiscal agent	118,313	5,614,107	1,219,530	4,512,890
	<u>\$ 238,729</u>	<u>\$ 6,971,924</u>	<u>\$ 1,447,341</u>	<u>\$ 5,763,312</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 238,729	\$ 6,971,924	\$ 1,447,341	\$ 5,763,312
<u>Tuolumne River Regional Park</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 315,698	\$ 444,203	\$ 725,975	\$ 33,926
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 315,698	\$ 444,203	\$ 725,975	\$ 33,926
<u>City/County Joint Powers Financing Authority</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 113,595	\$ 1,409,491	\$ 1,428,366	\$ 94,720
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 113,595	\$ 1,409,491	\$ 1,428,366	\$ 94,720
<u>Stanislaus Drug Enforcement Agency</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 0	\$ 3,084,151	\$ 1,916,516	\$ 1,167,635
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 0	\$ 3,084,151	\$ 1,916,516	\$ 1,167,635
<u>Totals - All Agency Funds</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 549,709	\$ 6,295,662	\$ 4,298,668	\$ 2,546,703
Cash and cash equivalents with fiscal agent	118,313	5,614,107	1,219,530	4,512,890
	<u>\$ 668,022</u>	<u>\$ 11,909,769</u>	<u>\$ 5,518,198</u>	<u>\$ 7,059,593</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 238,729	\$ 6,971,924	\$ 1,447,341	\$ 5,763,312
Deposits held as agent for others	429,293	4,937,845	4,070,857	1,296,281
	<u>\$ 668,022</u>	<u>\$ 11,909,769</u>	<u>\$ 5,518,198</u>	<u>\$ 7,059,593</u>

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Statistical Section

This part of the Comprehensive Annual Financial Report presents detailed information to aid in understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance has changed over time.

1. Net Assets by Component
2. Changes in Net Assets
3. Fund Balances of Governmental Funds
4. Changes in Fund Balance of Governmental Funds

Revenue Capacity

This schedule gives information on the City's most significant local revenue source, the water user charges:

1. Water Utility System – Ten Largest Customers
2. Water revenues by customer class
3. Water rates

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

1. Ratio of Outstanding Debt by Type
2. Computation of Direct and Overlapping Debt
3. Computation of Legal Bonded Debt Margin
4. Bonded Debt Pledged Revenue Coverage, Wastewater Revenue Bonds
5. Continuing Disclosure Requirements:
 - a. Wastewater Revenue Bonds
 - b. Modesto Public Financing Authority Lease Revenue Bonds, Series 1997
 - c. Water Utility System Refunding Revenue Certificates of Participation, and Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

1. Demographic and Economic Statistics
2. Principal Employers

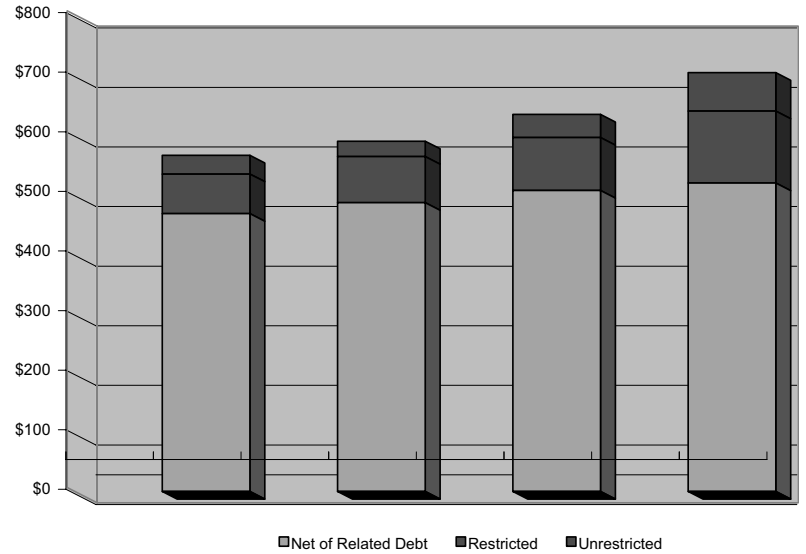
Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

1. Full-Time Equivalent City Government Employees by Function
2. Operating Indicators by Function/Program
3. Capital Asset Statistics by Function/Program

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement No. 34 in 2002; however, for schedules presenting entity-wide information, the City has elected to include information beginning in fiscal year 2003.

**CITY OF MODESTO
NET ASSETS BY COMPONENT
Last Four Fiscal Years
(accrual basis of accounting)**



	2003	2004	2005	2006
Governmental activities				
Invested in capital assets,				
net of related debt	\$259,156,770	\$275,171,096	\$288,391,776	\$296,401,824
Restricted	65,766,576	76,577,126	88,725,341	120,937,678
Unrestricted	2,530,581	(11,382,001)	(6,715,483)	(2,303,306)
Total governmental activities net assets	\$327,453,927	\$340,366,221	\$370,401,634	\$415,036,196
Business-type activities				
Invested in capital assets,				
net of related debt	\$206,792,699	\$209,230,461	\$216,558,150	\$220,881,691
Restricted	756,245	763,190		
Unrestricted	28,786,201	37,266,369	45,548,813	66,550,276
Total business-type activities net assets	\$236,335,145	\$247,260,020	\$262,106,963	\$287,431,967
Primary government				
Invested in capital assets,				
net of related debt	\$465,949,469	\$484,401,557	\$504,949,926	\$517,283,515
Restricted	66,522,821	77,340,316	88,725,341	120,937,678
Unrestricted	31,316,782	25,884,368	38,833,330	64,246,970
Total primary government net assets	\$563,789,072	\$587,626,241	\$632,508,597	\$702,468,163

CITY OF MODESTO
CHANGES IN NET ASSETS
 Last Four Fiscal Years
 (Accrual Basis of Accounting)

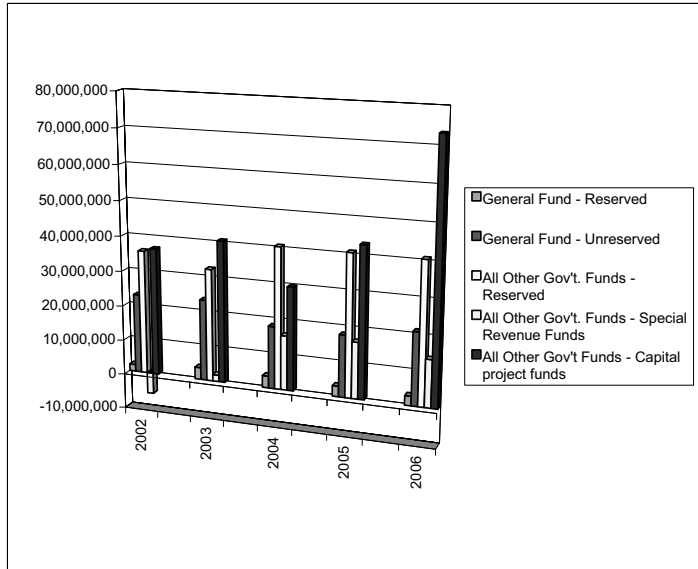
	2003	2004	2005	2006
Expenses				
Governmental Activities:				
General Government	\$12,557,259	\$13,954,909	\$15,273,174	\$15,529,735
Community Development	13,823,955	\$10,517,243	\$14,105,411	\$12,241,213
Highways and streets	19,656,219	23,136,950	23,721,458	26,025,311
Public works	6,843,742	6,458,522	5,263,984	6,491,062
Parks and Recreation	16,723,475	12,682,746	13,334,330	11,733,698
Public safety	64,410,214	68,258,235	71,239,341	74,500,043
Interest on Long Term Debt	4,612,885	4,515,439	4,987,911	5,178,130
Total Governmental Activities Expenses	<u>138,627,749</u>	<u>139,524,044</u>	<u>147,925,609</u>	<u>151,699,192</u>
Business-Type Activities:				
Parking	1,153,145	651,330	1,162,479	1,287,450
Water	30,874,820	27,051,982	30,691,348	29,989,775
Sewer	23,266,170	21,386,084	22,422,268	22,716,100
Storm Drain	5,940,261	5,327,334	6,111,317	5,795,746
Compost				941,919
Airport	971,865	1,120,922	1,131,889	1,342,645
Bus	9,745,477	10,122,176	11,074,907	12,119,311
Golf	2,475,913	2,432,202	2,354,759	2,461,470
Community Center	2,390,517	2,078,752	2,323,169	2,465,644
Total Business-Type Activities Expenses	<u>76,818,168</u>	<u>70,170,782</u>	<u>77,272,136</u>	<u>79,120,060</u>
Total Primary Government Expenses	<u>\$215,445,917</u>	<u>\$209,694,826</u>	<u>\$225,197,745</u>	<u>\$230,819,252</u>
Program Revenues				
Governmental Activities:				
Charges for Services:				
General Government	\$3,453,403	\$3,321,760	\$3,252,732	\$4,179,505
Community Development	11,566,306	9,592,055	11,294,130	9,466,082
Highway and streets	1,303,305	2,005,336	14,081,840	12,104,089
Public Safety	9,173,932	9,267,650	2,024,509	1,986,957
Parks and Recreation	3,835,652	3,992,598	4,821,884	4,928,366
Public Safety	5,925,096	6,794,911	8,011,509	7,124,387
Operating Grants and Contributions	9,413,521	15,975,814	13,736,453	11,892,511
Capital Grants and Contributions	23,297,198	18,368,908	22,799,320	38,484,548
Total Governmental Activities Program Revenues	<u>67,968,413</u>	<u>69,319,032</u>	<u>80,022,377</u>	<u>90,166,445</u>
Business-Type Activities:				
Charges for Services:				
Parking	824,917	890,263	908,920	1,176,061
Water	28,200,885	31,353,046	31,315,920	42,639,348
Sewer	23,556,044	25,292,995	24,419,607	23,083,280
Storm Drain	5,169,831	5,227,844	5,162,217	5,277,304
Compost				1,317,105
Airport	590,960	559,479	559,215	577,688
Bus	2,137,065	2,077,503	2,264,506	2,645,622
Golf	2,120,689	2,160,223	2,115,712	2,222,738
Community Center	467,229	496,680	504,338	543,085
Operating Grants and Contributions	5,119,474	6,217,613	7,525,367	8,317,889
Capital Grants and Contributions	13,603,460	10,145,892	8,498,408	10,467,873
Total Business-Type Activities Program Revenue	<u>81,790,554</u>	<u>84,421,538</u>	<u>83,274,210</u>	<u>98,267,993</u>
Total Primary Government Program Revenues	<u>\$149,758,967</u>	<u>\$153,740,570</u>	<u>\$163,296,587</u>	<u>\$188,434,438</u>
Net (Expense)/Revenue				
Governmental Activities	(\$70,659,336)	(\$70,205,012)	(\$67,903,232)	(\$61,532,747)
Business-Type Activities	4,972,386	14,250,756	6,002,074	19,147,933
Total Primary Government Net Expense	<u>(\$65,686,950)</u>	<u>(\$55,954,256)</u>	<u>(\$61,901,158)</u>	<u>(\$42,384,814)</u>

CITY OF MODESTO
CHANGES IN NET ASSETS
 (continued)
 Last Four Fiscal Years
 (Accrual Basis of Accounting)

	2003	2004	2005	2006
General Revenues and Other Changes in Net Assets				
Governmental Activities:				
Taxes:				
Utility Users Tax	\$13,732,571	\$14,659,986	\$15,621,566	\$17,583,690
Property taxes, levied for general purposes	10,169,004	11,294,599	11,316,694	14,318,747
Tax increments for redevelopment agency	2,631,695	3,183,871	3,909,452	4,450,836
Transient occupancy tax	2,097,901	2,110,909	2,098,303	2,181,467
Franchise tax	3,360,976	3,455,535	3,420,453	3,693,307
Business license tax, levied for general purposes	9,238,797	9,231,136	9,726,816	10,374,157
Business license tax, levied for downtown improvement district	172,847	190,644	201,308	214,022
Grants and contributions not restricted to specific programs:				
Sales tax	25,887,064	27,151,779	26,589,449	29,627,835
Motor vehicle license fee	11,746,283	9,052,449	16,403,864	14,986,883
Other	922,237	1,204,485	1,702,234	4,070,593
Unrestricted investment earnings	3,645,205	1,004,974	4,463,080	3,255,401
Miscellaneous	2,220,976	2,479,871	3,792,340	2,827,161
Transfers	(1,824,890)	(1,902,932)	(1,306,914)	(1,416,790)
Total Government Activities	<u>84,000,666</u>	<u>83,117,306</u>	<u>97,938,645</u>	<u>106,167,309</u>
Business-Type Activities:				
Taxes:				
Property taxes, generated by and allocated to the airport	166,043	204,091	239,518	166,641
Business license tax, generated by and allocated to the airport	21,816	7,870	20,546	41,108
Unrestricted investment earnings	2,003,214	857,751	1,819,870	2,504,291
Miscellaneous			1,306,914	
Transfers	1,824,890	1,902,932	7,396,627	1,416,790
Settlements and Recoveries				3,784,295
Special item	(4,753,884)	(6,298,525)	(1,938,606)	(1,736,054)
Total Business-Type Activities	<u>(737,921)</u>	<u>(3,325,881)</u>	<u>8,844,869</u>	<u>6,177,071</u>
Total Primary Government	<u>\$83,262,745</u>	<u>\$79,791,425</u>	<u>\$106,783,514</u>	<u>\$112,344,380</u>
Change in Net Assets				
Governmental Activities	\$13,341,330	\$12,912,294	\$30,035,413	\$44,634,562
Business-Type Activities	4,234,465	10,924,875	14,846,943	25,325,004
Total Primary Government	<u>\$17,575,795</u>	<u>\$23,837,169</u>	<u>\$44,882,356</u>	<u>\$69,959,566</u>

Note: *the City has elected to show only four years of data for this schedule.

**CITY OF MODESTO
FUND BALANCES OF GOVERNMENTAL FUNDS
Last Five Fiscal Years
(Modified Accrual Basis of Accounting)**



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	2002	2003	2004	2005	2006
General Fund					
Reserved	\$1,961,061	\$3,393,560	\$3,327,569	\$2,955,054	\$2,702,381
Unreserved	22,512,913	23,008,629	17,651,800	17,460,005	20,607,134
Total General Fund	\$24,473,974	\$26,402,189	\$20,979,369	\$20,415,059	\$23,309,515
All Other Governmental Funds					
Reserved	\$35,241,185	\$31,889,387	\$40,013,124	\$40,160,539	\$40,168,886
Unreserved, reported in:					
Special revenue funds	(6,013,102)	1,844,576	15,398,402	15,931,290	13,431,304
Capital project funds	36,152,800	40,102,394	29,172,787	42,534,688	72,752,412
Total all other governmental funds	\$65,380,883	\$73,836,357	\$84,584,313	\$98,626,517	\$126,352,602

(a) The change in total fund balance for the General Fund and other governmental funds is explained in Management's Discussion and Analysis.

Note: The City has elected to show only five years of data for this schedule.

**CITY OF MODESTO
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
Last Five Fiscal Years
(Modified Accrual Basis of Accounting)**

	Fiscal Year Ended June 30,				
	2002	2003	2004	2005	2006
Revenues					
Taxes	\$37,855,427	\$41,405,014	\$44,185,552	\$46,295,678	\$52,816,596
Licenses, permits and fees	173,348	169,108	250,129	128,754	146,854
Intergovernmental	62,726,570	66,228,880	70,583,373	73,889,063	64,759,658
Charges for services	33,633,119	31,789,634	33,203,507	41,660,016	37,802,149
Special assessments levied	823,091	2,015,090	386,368	107,696	65,909
Interest and rent	3,418,440	3,712,219	2,911,392	3,146,452	3,755,169
Net increase in fair value of investments	647,793	(339,331)	(1,458,065)	186,515	103,036
Fines and forfeits	1,055,966	1,030,389	1,294,193	1,646,472	1,675,926
Contribution from property owners					30,473,773
Miscellaneous	1,111,982	2,220,976	2,479,871	2,991,745	2,821,161
Total Revenues	141,445,736	148,231,979	153,836,320	170,052,391	194,420,231
Expenditures					
Current:					
General government	10,168,110	11,352,860	11,878,443	11,819,603	14,111,535
Community development	7,950,839	13,123,011	10,113,628	12,832,640	12,296,072
Highways and streets	7,994,279	8,559,729	11,568,810	12,152,087	14,357,041
Public works	4,622,232	5,420,867	4,876,115	5,053,030	5,647,023
Parks and recreation	13,969,712	14,848,478	11,374,052	12,021,937	11,662,263
Public safety	52,812,553	56,576,055	62,747,623	70,882,176	74,527,875
Capital outlay	23,082,610	19,031,609	33,092,718	24,412,735	21,563,774
Debt service:					
Principal retirement	1,422,501	3,111,203	1,563,472	1,666,764	1,901,827
Interest	4,621,270	4,580,409	4,502,666	4,425,980	4,576,780
Other	29,611	57,038	18,355	553,645	618,742
Total Expenditures	126,673,717	136,661,259	151,735,882	155,820,597	161,262,932
Excess of revenues over (under) expenditures	14,772,019	11,570,720	2,100,438	14,231,794	33,157,299
Other Financing Sources (Uses)					
Transfers in	18,838,748	14,601,556	19,332,436	17,962,442	17,724,718
Transfers out	(21,098,333)	(15,441,935)	(20,819,979)	(19,644,937)	(20,267,476)
Proceeds of capital lease	2,020,418				
Proceeds of loan payable	191,835	192,759	212,241		
Proceeds of notes payable			4,500,000		
Sale of Assets				928,595	6,000
Total other financing sources (uses)	(47,332)	(647,620)	3,224,698	(753,900)	(2,536,758)
Net Change in fund balances	14,724,687	10,923,100	5,325,136	13,477,894	30,620,541
FUND BALANCES, July 1	75,130,170	89,315,446	100,238,546	105,563,682	119,041,576
FUND BALANCES, June 30	\$89,854,857	\$100,238,546	\$105,563,682	\$119,041,576	\$149,662,117
Debt service as a percentage of noncapital expenditures	0.06198	0.07000	0.05389	0.04884	0.04886

Note: The City has elected to show only five years of data for this schedule.

CITY OF MODESTO
REVENUE CAPACITY - MOST SIGNIFICANT LOCAL REVENUE SOURCE
WATER UTILITY CHARGES
(Fiscal Year ended June 30, 2006)

Ten Largest Customers of Water Utility System, Year Ended 6/30/06

Customer	Business Type	Usage (ccf) (1)	% of Total Usage	Water Sales Revenue (\$)	% of Total Water Sales Revenue
1) Signature Foods	Cannery	503,795	1.45%	\$522,634	1.27%
2) Modesto City Schools	Education	413,695	1.19	504,923	1.23
3) Stanislaus Foods	Cannery	416,744	1.20	441,305	1.07
4) Foster Farms	Dairy Processor	320,805	0.82	328,345	0.80
5) Modesto Irrigation District	Power Company	196,337	0.56	219,219	0.53
6) Stanislaus County	Government	158,775	0.46	208,767	0.51
7) E&J Gallo Winery	Winery	147,772	0.43	169,434	0.41
8) Sylvan Union School District	Education	141,167	0.41	163,366	0.40
9) Yosemite Community College	Community College	129,288	0.37	158,762	0.39
10) Del Monte Foods	Cannery	109,911	0.32	117,906	0.29
Total Top Ten		2,538,289	7.30%	\$2,834,661	6.90%

Total Flat/Metered Revenues (Water Sales)

\$41,107,414

(1) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 6/30/06

Residential - flat rates	\$26,590,878
Commercial, industrial and municipal - metered rates	<u>14,516,536</u>
Total Water Sales	<u>\$41,107,414</u>

Current Water Rates and Charges as of 6/30/06

The average monthly flat rate service charge for residential customers is: \$33.37

Commercial Accounts:

Meter Size	Rate
3/4"	\$10.82
1"	15.34
1 1/2"	26.55
2"	40.06
3"	76.12
4"	116.63
6"	229.14
8"	364.19
10"	521.80
12"	971.95

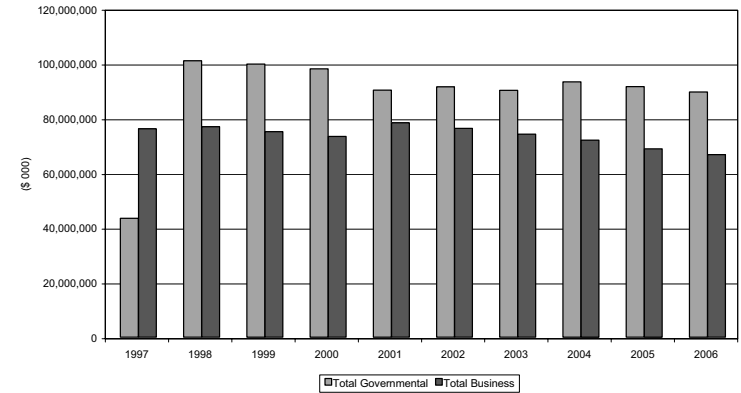
In addition to these minimum charges, commercial accounts are charged \$1.01 per 100 cubic feet of water used.

Water rates for both metered and flat rate services were increased on July 1, 2005.

Source:
City of Modesto-Customer Services

Note: Information about Water Utility Customers was not available for the year ended June 30, 1997

CITY OF MODESTO
RATIO OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years



Legend: Total Governmental (light gray), Total Business (dark gray)

Governmental Activities

Fiscal Year	Loans Payable	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	Total
1997	\$664,187	\$37,970,000	\$3,600,000		\$1,204,153	\$43,438,340
1998	639,725	34,100,000	64,935,000		1,264,963	100,939,688
1999		33,490,000	64,835,000		1,462,933	99,787,933
2000		32,800,000	64,730,000		514,333	98,044,333
2001		25,280,000	64,615,000		329,594	90,224,594
2002	191,835	24,625,000	64,250,000	\$262,807	2,153,350	91,482,992
2003	348,273	23,935,000	63,865,000	241,880	1,753,685	90,143,838
2004	523,363	23,215,000	63,455,000	4,719,663	1,335,182	93,248,208
2005	485,077	22,455,000	63,000,000	4,696,076	896,833	91,532,986
2006	446,634	21,655,000	62,505,000	4,535,034	444,904	89,588,578

Business-Type Activities

Fiscal Year	Loans Payable	Certificates of Participation	Revenue Bonds	Capital Leases	Total	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
1997	\$3,681,208	\$23,785,000	\$48,665,000	\$28,389	\$76,131,208	\$119,569,548	3.26%	665.13
1998	3,532,306	25,585,000	47,740,000	4,201	76,857,306	177,796,994	4.48%	973.38
1999	3,378,635	24,900,000	46,780,000		75,058,635	174,846,568	4.26%	947.16
2000	3,220,042	24,355,000	45,780,000		73,355,042	171,399,375	3.87%	910.31
2001	3,056,210	30,525,000	44,735,000		78,316,210	168,540,804	3.62%	895.13
2002	2,887,342	29,765,000	43,640,000		76,292,342	167,775,334	3.55%	844.79
2003	2,713,065	28,965,000	42,490,000		74,168,066	164,311,904	3.33%	808.22
2004	2,533,380	28,125,000	41,285,000		71,943,380	165,191,588	3.09%	801.12
2005	2,347,602	27,240,000	39,235,000	290,487	68,822,602	160,355,588	2.87%	772.30
2006	2,156,040	26,305,000	38,245,000	222,588	66,708,040	156,294,618	N/A	751.03

Note: debt amounts are gross outstanding at year end without eliminating any premiums, discounts, or other amortization amounts.

Sources: City of Modesto
State of California, Department of Finance (population)
U.S. Department of Commerce, Bureau of the Census (income)

(a) See Demographic Statistics for personal income and population data.

**CITY OF MODESTO
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
June 30, 2006**

<u>Jurisdiction</u>	<u>Net Debt Outstanding (1)</u>	<u>Percentage Applicable to City of Modesto (2)</u>	<u>Amount Applicable to City of Modesto</u>
Direct debt:			
City of Modesto	\$ <u>0</u>	100%	\$ <u>0</u>
Overlapping General Obligation debt - school districts:			
Ceres Unified District	24,379,806	10.0	2,437,981
Modesto Elementary School District	24,328,337	72.5	17,638,044
Modesto High School District	75,789,875	68.5	51,916,064
Sylvan School District	9,110,000	85.0	7,743,500
Salida Union Elementary District	1,650,000	27.0	445,500
Stanislaus Union School District	3,725,000	33.0	1,229,250
Yosemite Community College District	94,445,000	28.2	26,633,490
Total overlapping debt	<u>233,428,018</u>		<u>108,043,829</u>
Total direct and overlapping debt	\$ <u><u>233,428,018</u></u>		\$ <u><u>108,043,829</u></u>

**CITY OF MODESTO
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2006**

Net assessed value (1)	\$ 12,501,638,097
Plus homeowners' exemption (1)	<u>241,045,263</u>
Gross assessed value (1)	\$ 12,742,683,360
Debt limit - 15% of gross assessed value (2)	\$ 1,911,402,504
Amount of debt applicable to debt limit:	
Total general bonded debt, including special assessment debt	\$ <u>0</u>
Less: Assets in debt service funds available for payment of principal	\$ <u>0</u>
Other deductions: Special assessment debt	<u>0</u>
Total deductions	<u>0</u>
Total amount of debt applicable to debt limit	<u>0</u>
Legal debt margin	\$ <u><u>1,911,402,504</u></u>

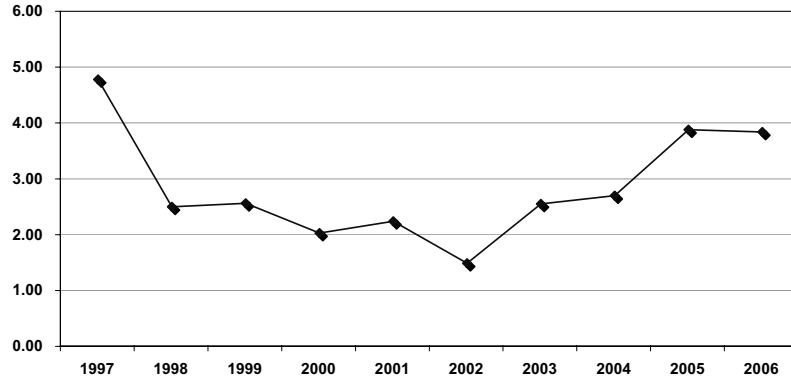
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NOTES: source of data for School Districts: Stanislaus County Auditor.
 (1) Gross debt outstanding less applicable amounts in debt service funds.
 (2) Determined by ratio of assessed valuation of property subject to taxation in overlapping portion to valuation of all property subject to taxation in the jurisdiction.

Notes: (1) Source of Data: Stanislaus County Auditor; Last Equalized Roll (AC2703, including aircraft)
 (2) Section 43605 California Government Code.

Note: The City has elected to show only one year of data for this schedule

**CITY OF MODESTO
REVENUE BOND COVERAGE
WASTEWATER REVENUE BONDS
Last ten fiscal years**



**CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION
Year Ended June 30, 2006**

Wastewater Revenue Refunding Bonds, Series 2005 A and B

Connection charge information: The Sewer Enterprise imposes connection fees on a on-time basis to new users of the sewer system and to users who significantly expand their usage. The fees have three components:

- Connection charge: \$500 per Equivalent Dwelling Unit for residential units and \$2,000 per acre for commercial and industrial property
- Sub-trunk sewer charge: \$645 per acre
- Connection (lateral) charge: \$33 per linear foot of lot frontage adjacent to the sewer line.

Customer Base by Type of Account

Category	Number of Accounts	% of Total Accounts	% of Customer Revenues
Residential	57,301	95.27%	52.6%
Commercial	2,796	4.65%	15.8%
Industrial	51	0.08%	31.6%
Total	60,148	100.00%	100.00%

Ten Largest Users of Sewer Facilities, Year Ended 6/30/06

User	Sewer Fee Revenue	% of Customer Revenues
1) Stanislaus Foods	\$ 1,516,289	6.84%
2) Signature Fruit	1,339,435	6.04%
3) Del Monte Foods	1,242,836	5.60%
4) E & J Gallo Winery	666,441	3.01%
5) Frito-Lay, Inc.	492,188	2.22%
6) City of Ceres	436,985	1.97%
7) Foster Farms	414,412	1.87%
8) Modesto Tallow	396,231	1.79%
9) Nestle Food Company	161,893	0.73%
10) Conagra Foods	114,730	0.52%
Total (Top Ten Customers)	\$ 6,781,440	30.58%
Total (All Customers)	\$ 22,176,107	

The average single-family residence monthly sewer charge is \$14.26.

Commercial Group	Minimum Charge First 1,680 Cubic Feet	Charge Per 1,000 Gallons Additional
Group 1	\$21.95	\$1.73
Group 2	\$25.29	\$2.04
Group 3	\$31.00	\$2.47
Group 4	\$37.19	\$2.98

Industrial users pay a minimum charge of \$10.00, with additional charges of: \$892.23 per million gallons of flow, \$105.52 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$97.14 per 1,000 pounds of excess suspended solids (SS).

The Annual Budget of the City of Modesto is available from the City of Modesto Finance Department.

Updates of other required disclosures may be found elsewhere in this report, as follows:

Statement of Revenues, Expenses and Changes in Fund Net Assets	Page 25	
Principal Amount of Bonds and Other Parity Debt	Page 41	(Note III-C)
Historical Debt Service Coverage	Page 111	

(continued)

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Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements(3)	Coverage
1997	\$19,239,545	\$11,068,264	\$8,171,281	\$1,721,999	4.75
1998	20,191,250	11,192,431	8,998,819	3,637,239	2.47
1999	20,192,478	11,204,247	8,988,231	3,551,320	2.53
2000	19,490,824	12,380,840	7,109,984	3,549,445	2.00
2001	21,102,892	13,244,750	7,858,142	3,549,180	2.21
2002	22,288,061	17,117,917	5,170,144	3,550,017	1.46
2003	24,623,786	15,664,660	8,959,126	3,551,958	2.52
2004	26,123,771	16,687,958	9,435,813	3,550,120	2.67
2005	25,701,300	16,476,917	9,224,383	3,549,633	2.60
2006	24,695,878	16,044,781	8,651,097	2,916,462	2.97

Notes: (1) Consists of all receipts of the Sewer fund, including charges for services, interest and rental income, connection fees, not dedicated to capital spending purposes.

(2) Total Sewer Fund operating expenses exclusive of depreciation. Beginning with 2005, the portion of transfers out to other funds, if any, that would have otherwise been an operating expense of the the Sewer Fund have been included.

(3) Includes total principal and interest of Wastewater Treatment Facility Revenue Bonds, Series 1993 and 1997, and Refunding Revenue Bonds, Series 1987 and 1996, through 2005. During the 2005 fiscal year, these issues were refunded by Wastewater Refunding Revenue Bonds, Series 2005 A and 2005 B. The first debt service payment on the refunding bonds was November 1, 2005.

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)
Year Ended June 30, 2006

Modesto Public Financing Authority Lease Revenue Bonds, Series 1997
John Thurman Field Renovation Project

Update of Stadium and Insurance Information

In 1997, the City of Modesto renovated and improved the John Thurman Field stadium in order to fulfill its agreement obligations with the Modesto A's minor league professional baseball team and for the A's to continue playing baseball in Modesto. This Project was partially funded by the Series 1997 Lease Revenue Bonds. The improvements met or exceeded the requirements of the Professional Baseball Agreement between Major League Baseball and the National Association of Professional Baseball Leagues, which governs minor league baseball. Stadium improvements included expansion of seating from 2,500 to 4,000; expanded parking capacity, with improved lighting and security; renovation to the club house for both the Modesto Nuts (replaced the Modesto A's) and visiting teams; expansion of outfield dimensions; and addition of a state-of-the-art public address and speaker system. The Modesto A's played their home games in the renovated stadium from opening day, May 7, 1997, through the 2004 season.

In September, 2004, the Colorado Rockies signed a two-year player development contract with Modesto's minor league franchise. This contract assured that the City of Modesto would have minor league baseball at John Thurman Field through the 2006 season. In October 2006, the City of Modesto entered into a ten-year license agreement and a field maintenance agreement with the Modesto Nuts Baseball Club. In order to secure a ten-year commitment from the franchise owners, the City of Modesto agreed to stadium improvements that include a new scoreboard, a banquet/entertainment building, new grounds-crew area, improved picnic area, fieldwork and lighting renovation. Funding for these improvements will come from the Parks Capital Projects Fund and the refinancing of the existing John Thurman Field bonds. The refinancing will allow the city to lower the interest rate on the existing debt and will provide an additional \$2.4 million in new bond proceeds to finance these capital projects.

All insurance required by the Lease Revenue Bond legal documents is currently in full effect. Coverage includes public liability, property damage, fire and extended coverage, and rental interruption insurance.

The Annual Budget of the City of Modesto is available from the City of Modesto Finance Department.

(continued)

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)
Year Ended June 30, 2006

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation, and
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D

Reserve Account Requirement as of 6/30/06	\$0 (covered by surety bond, issued by Federal Guaranty Insurance Company)
Balance in Parity Reserve Account as of 6/30/06	\$0
Balance in Rate Stabilization Account as of 6/30/06	\$2,846,800

Ten Largest Customers of Water Utility System, Year Ended 6/30/06

Customer	Business Type	Usage (ccf) (1)	% of Total Usage	Water Sales Revenue (\$)	% of Total Water Sales Revenue
1) Signature Foods	Cannery	503,795	1.45%	\$522,634	1.27%
2) Modesto City Schools	Education	413,695	1.19	504,923	1.23
3) Stanislaus Foods	Cannery	416,744	1.20	441,305	1.07
4) Foster Farms	Dairy Processor	320,805	0.82	328,345	0.80
5) Modesto Irrigation District	Power Company	196,337	0.56	219,219	0.53
6) Stanislaus County	Government	158,775	0.46	208,767	0.51
7) E&J Gallo Winery	Winery	147,772	0.43	169,434	0.41
8) Sylvan Union School District	Education	141,167	0.41	163,366	0.40
9) Yosemite Community College	Community College	129,288	0.37	158,762	0.39
10) Del Monte Foods	Cannery	109,911	0.32	117,906	0.29
Total Top Ten		<u>2,538,289</u>	<u>7.30%</u>	<u>\$2,834,661</u>	<u>6.90%</u>

Total Flat/Metered Revenues (Water Sales) \$41,107,414

(1) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 6/30/06

Residential - flat rates	\$26,590,878
Commercial, industrial and municipal - metered rates	14,516,536
Total Water Sales	<u>\$41,107,414</u>

The average monthly flat rate service charge for residential customers is \$33.37.

Current Water Rates and Charges as of 6/30/06- Commercial Accounts

Meter Size	
3/4"	\$10.82
1"	15.34
1 1/2"	26.55
2"	40.06
3"	76.12
4"	116.63
6"	229.14
8"	364.19
10"	521.80
12"	971.95

In addition to these minimum charges, commercial accounts are charge \$1.01 per 100 cubic feet of water used.

Water rates for both metered and flat rate services were increased on July 1, 2005.

(1) Water Fund parity debt obligation, issued by the Modesto Irrigation District Financing Authority, on behalf of the City, and pursuant to the 1992 Treatment and Delivery Agreement between the District and the City. Balance of these bonds as of 6/30/06 is \$76,170,000.

(continued)

**CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION**

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation, and Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D

**Water Utility System - Debt Service Coverage
Fiscal Year 2006**

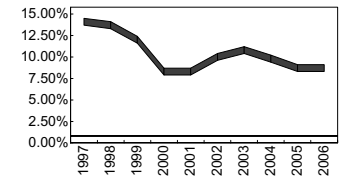
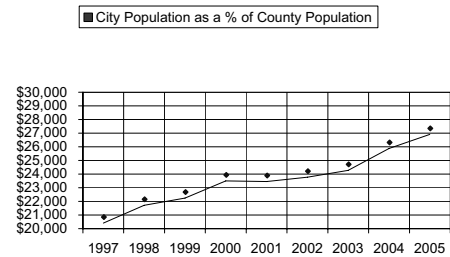
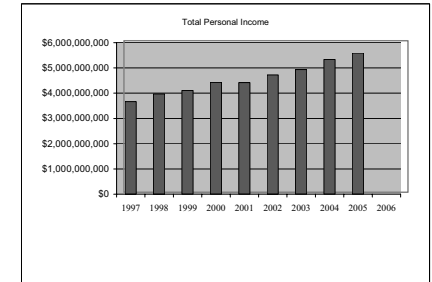
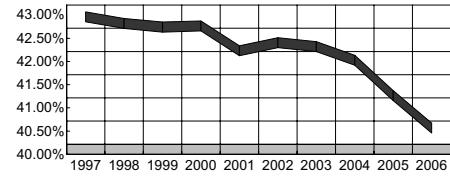
Gross Operating Revenues:	
Charges for services	\$42,639,348
Connection charges	1,728,873
Settlements and recoveries	1,334,259
Interest and rental income	534,234
Deposit to rate stabilization fund	(153,200)
Total Gross Operating Revenues	46,083,514
Operating Expenses:	
Total operating expenses	28,672,955
Less: Depreciation	(2,383,566)
T&DA debt service component paid to MID	(6,690,994)
Plus: Property taxes	84,556
Operating transfers	95,385
Total Operating Expenses	19,778,336
Net Operating Revenues	\$26,305,178
Total Debt Service:	
1997 Refunding Certificates of Participation	1,790,658
Treatment & Delivery Agreement	6,690,994
CDWR Loan	264,654
Total Debt Service	\$8,746,306
Debt Service Coverage (Net Operating Revenues/Total Debt Service)	3.01

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Updates of other required disclosures may be found elsewhere in this report, as follows:

Water Utility System Statement of Net Assets	Page 24	
Water Utility System Revenues and Expenses	Page 25	
Principal Amount of Certificates Outstanding	Page 40	(Note III-C)

**CITY OF MODESTO
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last ten fiscal years**



Fiscal Year	City Population	Total Personal Income	Per Capita Personal Income	Unemployment Rate (%)	Stanislaus County Population	City Population % of County
1997	179,770	\$3,668,027,080	\$20,404	13.7%	419,480	42.86%
1998	182,660	\$3,966,644,560	21,716	13.3%	427,642	42.71%
1999	184,600	\$4,106,242,400	22,244	11.6%	432,990	42.63%
2000	188,286	\$4,425,097,572	23,502	7.9%	441,364	42.66%
2001	188,286	\$4,417,566,132	23,462	7.9%	446,997	42.12%
2002	198,600	\$4,722,310,800	23,778	9.6%	469,512	42.30%
2003	203,300	\$4,935,310,800	24,276	10.4%	481,604	42.21%
2004	206,200	\$5,337,487,000	25,885	9.4%	491,900	41.92%
2005	207,634	\$5,588,469,110	26,915	8.3%	504,482	41.16%
2006	208,107	N/A	N/A	8.3%	514,370	40.46%

Source: California State Department of Finance
N/A denotes information is not available

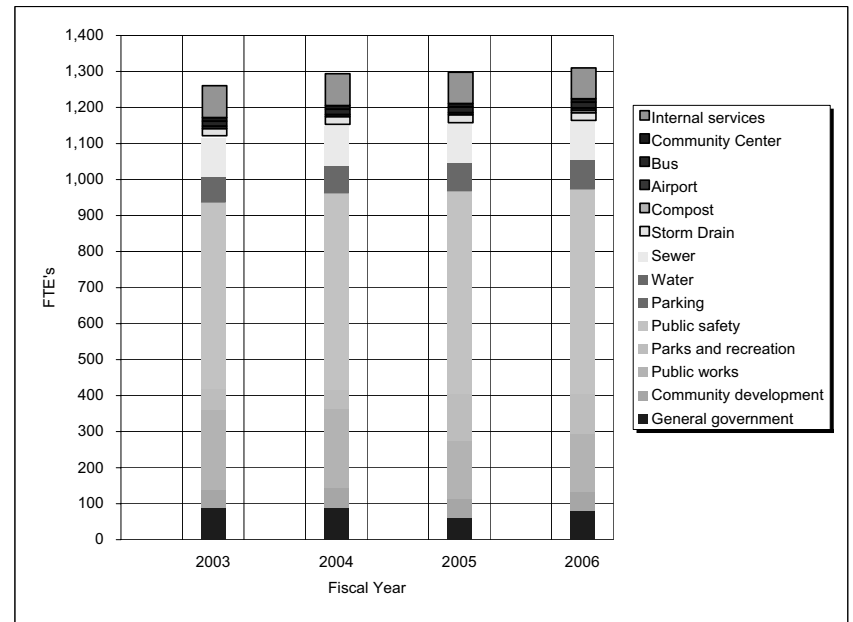
**CITY OF MODESTO
Principal Employers**

Employer	2005-06		
	Number of Employees	Rank	Percentage of Total City Employment
Signature Foods	4,100	1	4.1%
Modesto City Schools	4,000	2	4.0%
E & J Gallo Winery	3,425	3	3.5%
Del Monte Foods	2,600	4	2.6%
Memorial Medical Center	2,600	5	2.6%
Doctors Medical Center	2,300	6	2.3%
Stanislaus Food Products	2,000	7	2.0%
Modesto Junior College	1,866	8	1.9%
City of Modesto	1,691	9	1.7%
ConAgra	1,400	10	1.4%
Subtotal	<u>25,982</u>		26.2%
Total City Employment	99,100		
Total City Population	208,107		

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Source: Stanislaus Economic Development & Workforce Alliance
Note: Information about Principal Employers was not available for the fiscal year 1996-97.

**CITY OF MODESTO
FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION
Last Four Fiscal Years**



Function	2003	2004	2005	2006
General government	88.25	88.25	62.25	79.00
Community development	51.00	56.00	53.00	54.00
Public works	221.80	219.00	159.00	159.50
Parks and recreation	56.25	52.50	130.50	112.50
Public safety	519.00	546.00	563.00	567.75
Parking	2.00	2.00	2.00	2.00
Water	70.00	76.00	76.00	81.00
Sewer	108.00	108.00	107.00	103.00
Storm Drain	20.00	22.00	22.00	22.00
Compost				7.00
Airport	7.00	6.00	6.00	6.00
Bus	14.00	15.00	16.00	16.00
Community Center	9.75	9.25	9.50	9.50
Internal services	88.75	89.00	87.00	86.00
Total	1,255.80	1,289.00	1,206.25	1,305.25

Source: City of Modesto

**CITY OF MODESTO
OPERATING INDICATOR BY FUNCTION**

	<u>2006</u>
Function/Program	
Public safety:	
Fire:	
Fire calls for service	20,200
Primary fire inspections conducted	1,006
Police:	
Police calls for Service	129,225
Law violations:	
Part I and Part II crimes	63,954
Physical arrests (adult and juvenile)	13,054
Traffic violations	23,104
Parking violations	16,874
Public works	
Street resurfacing (miles)	9.98
Potholes repaired (square miles)	30,252
Airport:	
Number of passengers enplaned	23,969
Number of tennant aircraft	201
Number of hangers	109
Number of runways	2
Annual fuel consumption in gallons	998,978
Bus Service:	
Number of buses	43
Number of routes	19
Total route miles	305
Average weekday number of passengers	11,206
Total number of passengers carried	3,629,191
Community Development	
Permits issued in 2005-2006	5,968
Estimated cost of construction	\$298,025,900
Building Inspections made	49,852
Culture and recreation:	
Community Services:	
Recreation class participants	5,291
Solid Waste:	
Recyclables Processed (tons per year)	582

Source: City of Modesto - Various Departments

Note: The City has elected to show only one year of data for this schedule

**CITY OF MODESTO
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**

	<u>2006</u>
Function/Program	
Public safety:	
Fire stations	11
Police stations	1
Police patrol units	98
Public works	
Traffic & Streets	
Miles of streets (1)	672
Street lights	13,358
Traffic Signals	140
Water:	
Miles of water mains	N/A
Fire hydrants	7,060
Storage capacity (thousands of gallons)	N/A
Wastewater:	
Miles of sanitary sewers	480.8
Miles of storm sewers	130.2
Number of treatment plants (2)	2
Treatment capacity (millions of gallons)	70
Community services:	
City parks	75
City parks acreage	1,088
Playgrounds	55
City trails	4
City trails miles	11
Regional park acreage	324
Regional park facilities:	
Golf courses (18 holes)	2
Golf courses (9 holes)	1
Clubhouse and banquet facility	8
Historic house	4
Community gardens	2
Community centers	6
Senior centers	1
Sports centers	1
Performing arts centers	1 (Under construction)
Swimming pools	16
Tennis courts	37
Baseball/softball diamonds	24
Soccer/football fields	22

(1) Information now reported from the City's GIS system and is more accurate.

(2) The City has both a Primary and a Secondary treatment facility.

Source: City of Modesto - Various Departments

Note: N/A denotes information is not available.

Note: The City has elected to show only one year of data for this schedule

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

_____, 2007

Modesto Public Financing Authority
Modesto, California

City of Modesto
Modesto, California

\$ _____
Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Modesto Public Financing Authority (the “Authority”) of its Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the “Bonds”) in the aggregate principal amount of \$_____. The Bonds are issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and an Indenture, dated as of ____ 1, 2007 (the “Indenture”) between the Authority and The Bank of New York Trust Company, N.A., as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

In connection with the issuance of the Bonds, the City of Modesto (the “City”) has leased certain properties to the Authority pursuant to a sublease, dated as of ____ 1, 2007 (the “Sublease”) between the Authority and the City. The Authority has in turn leased such properties to the City pursuant to the terms of a facility lease, dated as of ____ 1, 2007 (the “Facility Lease”) between the City and the Authority. The Bonds are secured as to payment from the Base Rental Payments to be made by the City to the Authority under the Facility Lease and certain other revenues and moneys pledged under the Indenture.

We have examined a certified copy of the record of proceedings relating to the execution and delivery of the Bond and such other documents and records of the Authority and the City as we have deemed necessary for the purpose of this opinion. We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Facility Lease and the Sublease, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

Certain requirements and procedures contained or referred to in the Indenture, the Facility Lease and the Sublease, or other documents pertaining to the Bonds, may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in

such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax exempt obligations. We express no opinion as to the exclusion from gross income for federal income tax purposes of interest on the Bonds on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than ourselves.

Based on the foregoing and our examination of existing constitutional, statutory and decisional law, such legal proceedings and such other documents as we deem necessary to render this opinion, we are of the opinion that:

1. The Bonds have been duly authorized, executed and delivered by the Authority and are legal, valid and special limited obligations of the Authority, payable from Revenues pledged therefore under the Indenture.

2. The Indenture has been duly authorized, executed and delivered by the Authority and constitutes a legal, valid and binding obligation of the Authority.

3. The Facility Lease has been duly authorized, executed and delivered by the City and the Authority and constitutes the legal, valid and binding obligation of the parties thereto.

4. The Sublease has been duly authorized, executed and delivered by the City and the Authority and constitutes the legal, valid and binding obligation of the parties thereto.

5. Based on existing statutes, regulations, rulings and judicial decisions and assuming compliance by the Authority and the City with certain covenants in the Indenture, the Facility Lease and Sublease and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Bond and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds.

6. Interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

7. Interest on the Bonds is exempt from personal income taxes imposed by the State of California.

We express no opinion with respect to any collateral tax consequences resulting from the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

With respect to the opinions expressed herein, the rights and obligations under the Bonds, the Indenture, the Facility Lease and the Sublease are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting the enforcement of creditors' rights generally, to the application of equitable principles (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint exercise of powers authorities or cities in the State of California. In addition, we express no opinion with respect to any

indemnification, contribution, penalty, choice of law, choice of forum, consent to non jury trial or waiver provisions contained in the foregoing documents.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

Respectfully submitted,

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APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is executed and delivered by the CITY OF MODESTO (the “City”) and THE BANK OF NEW YORK TRUST COMPANY, N.A., in its capacity as Dissemination Agent (the “Dissemination Agent”), in connection with the issuance by the Modesto Public Financing Authority (the “Authority”) of its \$ _____ Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the “Bonds”). The City is an “obligated person” with respect to the Bonds within the meaning of the Securities and Exchange Commission’s Rule 15c2-12(b)(5) (the “Rule”). The Bonds are being issued pursuant to an Indenture, dated as of April 1, 2007 (the “Indenture”), by and between the Authority and The Bank of New York Trust Company, N.A., San Francisco, California, as trustee (the “Trustee”). The City and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section 2, the following terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Central Post Office” means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Agreement.

“Disclosure Representative” shall mean the City Manager or Finance Director of the City, or their designee, or such other officer or employee as the City shall designate in writing to the Trustee and the Dissemination Agent from time to time.

“Dissemination Agent” shall mean The Bank of New York Trust Company, N.A., acting in the capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the Trustee a written acceptance of such designation.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve month or fifty-two week period hereafter selected by the City, with notice of such selection or change in fiscal year to be provided as set forth herein.

“Holders” shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The Nationally Recognized Municipal Securities Information Repositories for purposes of the Rule are identified in the Securities and Exchange Commission website located at www.sec.gov/consumer/nrmsir.htm.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City’s Fiscal Year (presently March 31 of the subsequent year following the end of the City’s Fiscal Year), commencing with the report for the end of the 2006-07 Fiscal Year, prepare an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City’s Fiscal Year changes, the City shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the City shall provide the Annual Report to the Dissemination Agent (if other than the City) and the Trustee. If by fifteen (15) Business Days prior to such date, the Dissemination Agent has not received a copy of the Annual Report from the City, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a). The City reserves the right to make this filing through the Central Post Office.

(c) If the Dissemination Agent is unable to verify that an Annual Report of the City has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached hereto as Appendix A.

- (d) The Dissemination Agent shall:
 - (i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and;
 - (ii) to the extent the City has provided the Dissemination Agent with the Annual Report, file a report with the City and (if the Dissemination Agent is not the Trustee, the Trustee) certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided. The Dissemination Agent shall have no responsibility for the content of any Annual Report.

SECTION 4. Content of Annual Reports. The Annual Report of the City shall contain or include by reference the following:

- (i) the Annual Budget of the City;
- (ii) the Comprehensive Annual Financial Report of the City and, to the extent not contained in said Report or if said Report is no longer being prepared, the audited financial statements of the City for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Government Accounting Standards Board. If the audited financial statements of the City are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available; and
- (iii) the principal amount of the Bonds and any other Parity Debt outstanding.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if the City determines that such event is material under federal securities law:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. unscheduled draws on credit enhancements reflecting financial difficulties;

9. unscheduled draws on the insurance policies reflecting financial difficulties;
10. substitution of the provider of any municipal bond insurance, or any failure by any insurer to perform on any municipal bond insurance policy; and
11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (e).

(d) If the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (e).

(e) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board or the Repositories with a copy to the City. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture.

(f) The City reserves the right to make such notice of significant event filings through the Central Post Office.

SECTION 6. Termination of Reporting Obligation. The obligations of the City under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be The Bank of New York Trust Company, N.A. The Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under this Disclosure Agreement in accordance with its written fee schedule provided to the City, as such fee schedule may be amended from time to time in writing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the City that does not adversely

affect the Dissemination Agent's rights and obligations) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

- (i) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds or the type of business conducted;
- (ii) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (iii) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the City shall not have any obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall (to the extent indemnified to its satisfaction)) or any Holder or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this

Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

In accepting the appointment under this Disclosure Agreement, the Dissemination Agent is not acting in a fiduciary capacity to the Holders or Beneficial Owners of the Bonds, the City, the Participating Underwriters or any other party or person.

No provision of this Disclosure Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the right to resign from its duties as Dissemination Agent upon thirty (30) days notice to the City and the Trustee. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City:	City of Modesto 1010 10 th Street, Suite 5200 Modesto, California 95353 Attention: Finance Director Telephone: (209) 577-5371 Facsimile: (209) 571-5880
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To the Dissemination Agent:	The Bank of New York Trust Company, N.A. 550 Kearny Street, Suite 600 San Francisco, California 94108 Attention: Corporate Trust Fax: (415) 399-1647 Telephone: (415) 263-2418
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Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the City and the Dissemination Agent to the undertaking herein provided.

Dated: _____, 2007

CITY OF MODESTO

By: _____
Director of Finance

THE BANK OF NEW YORK TRUST
COMPANY, N.A., Dissemination Agent

By: _____
Authorized Officer

APPENDIX A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: City of Modesto

Name of Issue: Modesto Public Financing Authority, Lease Revenue Refunding and
Capital Improvement Bonds, Series 2007

Date of Delivery: _____, 2007

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated _____ 1, 2007, between the City and The Bank of New York Trust Company, N.A., as Dissemination Agent. The City has informed the undersigned that it anticipates that the Annual Report will be filed by _____.

Dated: _____

The Bank of New York Trust Company, N.A.,
as Dissemination Agent

By: _____
Authorized Officer

cc: City of Modesto

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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CIFG Assurance North America, Inc.
825 Third Avenue, Sixth Floor
New York, NY 10022
For information, contact (212) 909-3939
Toll-free (866) 243-4212

FINANCIAL GUARANTY INSURANCE POLICY

ISSUER: _____

Policy No.: CIFG NA-##

CUSIP: _____

Effective Date: _____, 200_

OBLIGATIONS: _____

CIFG ASSURANCE NORTH AMERICA, INC. ("CIFG NA"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to each Policyholder, subject only to the terms and conditions of this Policy (which includes each endorsement hereto), the full and complete payment by or on behalf of the Issuer of Regular Payments of principal of and interest on the Obligations.

For the further protection of each Policyholder, CIFG NA irrevocably and unconditionally guarantees:

(1) payment of any amount required to be paid under this Policy by CIFG NA following CIFG NA's receipt of notice and instruments of assignment as described in Endorsement No. 1 hereto and

(2) payment of the amount of any distribution of principal of and interest on the Obligations made during the Term of this Policy to such Policyholder that is subsequently avoided in whole or in part as a preference payment under applicable law, all as described in Endorsement No. 1 hereto.

CIFG NA shall be subrogated to the rights of each Policyholder to receive payments under the Obligations to the extent of any payment by CIFG NA hereunder. Upon disbursement in respect of an Obligation, CIFG NA shall become the owner of the Obligation, appurtenant coupon, if any, and all rights to payment of principal thereof or interest thereon.

The following terms shall have the meanings specified below, subject to and including any modifications set forth in any endorsement hereto, for all purposes of this Policy. "Effective Date," "Issuer" and "Obligations" mean, respectively, the Effective Date, Issuer and Obligations referenced above. "Policyholder" means, if the Obligations are in book-entry form, the registered owner of any Obligation as indicated on the registration books maintained by or on behalf of the Issuer for such purpose or, if the Obligations are in bearer form, the holder of any Obligation; provided, however, that any trustee acting on behalf of and for the benefit of such registered owner or holder shall be deemed to be the Policyholder to the extent of such trustee's authority. "Regular Payments" means payments of interest and principal which are agreed to be made during the Term of this Policy in accordance with the original terms of the Obligations when issued and without regard to any amendment or modification of such Obligations thereafter; payments which become due on an accelerated basis as a result of (a) a default by the Issuer or any other person, (b) an election by the Issuer to pay principal or other amounts on an accelerated basis or (c) any other cause, shall not constitute "Regular Payments" unless CIFG NA shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. "Term of this Policy" has the meaning set forth in Endorsement No. 1 hereto.

This Policy sets forth in full the undertaking of CIFG NA, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto or to the Obligations (except a contemporaneous or subsequent agreement or instrument given by CIFG NA or to which CIFG NA has given its written consent) or by the merger, consolidation or dissolution of the Issuer. The premiums paid in respect of this Policy are nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity. This Policy may not be cancelled or revoked during the Term of this Policy, including for nonpayment of premium due to CIFG NA. Payments under this Policy may not be accelerated except at the sole option of CIFG NA.

In witness whereof, CIFG ASSURANCE NORTH AMERICA, INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

CIFG ASSURANCE NORTH AMERICA, INC.

By _____
Authorized Officer

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APPENDIX H

BOOK ENTRY SYSTEM

The information in this Appendix concerning DTC and DTC's book entry only system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and recordkeeping with respect to beneficial ownership in the Bonds, payment of principal, premium, if any, and interest with respect to the Bonds to all DTC Participants or to Beneficial Owners, confirmation and transfers of Beneficial Ownership interests in the Bonds and other related transactions by and between DTC, DTC Participants and Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the 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. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be prepaid.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. 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 Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.



**MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007**

**CERTIFICATE AS TO FINALITY
OF THE PRELIMINARY OFFICIAL STATEMENT**


I, Wayne Padilla, hereby certify that I am the duly appointed, qualified and acting Auditor and Treasurer of the Modesto Public Financing Authority (the "Authority") and as such I am authorized to execute this Certificate on behalf of the Authority.

I hereby further certify that there has been delivered to Banc of America Securities LLC, as the underwriter (the "Underwriter") of the Authority's Lease Revenue Refunding and Capital Improvement Refunding and Capital Improvement Bonds, Series 2007 (the "Bonds"), a preliminary official statement, dated April 5, 2007 (the "Preliminary Official Statement"), which the Authority deems to be final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), except for the information permitted by Rule 15c2-12 to be omitted therefrom with respect to the Bonds.

The Authority hereby approves of the use and distribution by the Underwriter of the Official Statement.

IN WITNESS WHEREOF, I hereunto set my hand this 5th day of April, 2007.

MODESTO PUBLIC FINANCING AUTHORITY

By: 
Wayne Padilla, Auditor and Treasurer



ORRICK, HERRINGTON & SUTCLIFFE LLP
666 FIFTH AVENUE
NEW YORK, NY 10103-0001
tel 212-506-5000
fax 212-506-5151
WWW.ORRICK.COM

**MODESTO PUBLIC FINANCING AUTHORITY
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007**

Blue Sky Memorandum

April 5, 2007

Banc of America Securities LLC
600 Montgomery Street
San Francisco, California 94111

Ladies and Gentlemen:

Based on the latest information available to us, we submit herewith a Blue Sky Memorandum (the "Memorandum") with respect to the offer and sale of the above-mentioned Lease Revenue Refunding and Capital Improvement Bonds Series 2007 (the "Bonds") of the Modesto Public Financing Authority (the "Authority").

The Memorandum relates to the requirements applicable to the offer and sale of the Bonds to the public in the jurisdictions therein referred to by persons registered or licensed as brokers or dealers under the securities laws of such jurisdictions and to selected classes of persons in such jurisdictions by persons not registered therein as brokers or dealers. The Memorandum does not cover the requirements or restrictions, if any, under the laws of any of the jurisdictions covered, with respect to use, distribution or consent of advertising materials.

The Memorandum is based upon our examination of the securities laws of the several jurisdictions and the rules and regulations, where published, of the authorities administering such laws, all as reported in standard unofficial compilations (our most recently reviewed supplement to which is dated March 23, 2007). Special rulings have not been obtained from the authorities administering such laws.

The Memorandum is based upon the fact that the Authority is a public instrumentality the State of California authorized to issue securities, the Bonds are exempt pursuant to Section 3(a)(2) of the Securities Act of 1933, as amended (the "Act") from the registration provisions of the Act and are, therefore, "covered securities" as that term is defined in the Act, and the scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued by CIFG Assurance North America, Inc.

We have prepared this survey as attorneys admitted to practice in New York and California and have not obtained opinions of local counsel in other jurisdictions. The statements made in the Memorandum are



O R R I C K

subject to the qualification that broad discretionary powers exist in the securities commissions (or other administrative agencies or officials) of many jurisdictions, authorizing them, among other things, to withdraw the exempt status accorded by statute to particular transactions and classes of securities, to impose special requirements with respect to any offering of securities, and to prohibit or restrict the distribution of advertising matter.

Any statement herein with respect to sales to banks, savings institutions, trust companies, insurance companies or other institutions refers only to requirements of the securities laws relating to such sales and does not purport to cover the question of whether the Bonds will be legal for investment by such institutions. This information is given as of the date hereof and we disclaim any obligation to update this Memorandum for events occurring or coming to our attention after the date hereof or any changes in law which may hereafter occur. The Memorandum is furnished for general informational purposes only and is not to be relied upon as an opinion of counsel.

ORRICK, HERRINGTON & SUTCLIFFE LLP



MODESTO PUBLIC FINANCING AUTHORITY
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007

Blue Sky Memorandum

April 5, 2007

SECTION I

**SALES TO THE PUBLIC BY PERSONS REGISTERED OR LICENSED
AS BROKERS OR DEALERS**

A.

It is believed that *offers* and *sales* of the Bonds to the public may be made in the following jurisdictions, without registration of the Bonds or any filings being made in such jurisdictions with respect thereto, but only by brokers or dealers registered or licensed in the respective jurisdictions:

Alabama	Idaho	Montana	South Carolina
Alaska	Illinois	Nebraska	South Dakota
Arizona	Indiana	Nevada	Tennessee
Arkansas	Iowa	New Jersey	Texas
California	Kansas	New Mexico	Utah
Colorado	Kentucky	New York ⁽¹⁾	Vermont
Connecticut	Louisiana	North Carolina	Virginia
Delaware	Maine	North Dakota	Washington ⁽³⁾
District of Columbia	Maryland	Ohio ⁽²⁾	West Virginia
Florida	Massachusetts	Oklahoma	Wisconsin
Georgia	Michigan	Oregon	Wyoming
Guam	Minnesota	Pennsylvania	
Hawaii	Mississippi	Puerto Rico	
	Missouri	Rhode Island	

(1) We will make the requisite filing in respect of the Bonds.

(2) Provided at the time of the first sale of the Bonds in this jurisdiction, there is no default in the payment of any of the interest or principal on the Bonds, nor are there any adjudications or pending suits adversely affecting their validity.



(3) Provided the Bonds are rated at least A+ by Standard & Poor's Corporation or the equivalent by Moody's Investors Service, Inc. If not so rated, the Bonds may be offered or sold only to the institutions and other persons described in Section II of the Memorandum for this jurisdiction.

B.

Before the Bonds may be offered or sold to the public by registered or licensed brokers or dealers in the jurisdiction listed below, it is believed that action must be taken to confirm preemption of applicable state securities laws with respect to offers and sales of the Bonds therein. We have not been asked to take such action. Therefore, *offers* and *sales* of the Bonds in this jurisdiction may only be made to the institutional investors described in Section II of the Memorandum for such jurisdiction:

New Hampshire



SECTION II

OFFERS AND SALES BY PERSONS NOT REGISTERED OR LICENSED AS BROKERS OR DEALERS

A. Offers and Sales to Brokers or Dealers

It is believed that *offers* and *sales* of the Bonds to brokers or dealers may be made in the following jurisdictions, without registration of the Bonds or any filings being made in such jurisdictions with respect thereto, and that persons making such *offers* or *sales* need not be registered or licensed as brokers or dealers in the respective jurisdictions, except as indicated by footnote.

Alabama	Idaho(1)	Montana	Rhode Island(11)
Alaska(1)	Illinois	Nebraska	South Carolina(12)
Arizona	Indiana(1)	Nevada(7)	South Dakota(1)
Arkansas(1)	Iowa(1)	New Hampshire(1)	Tennessee(13)
California(2)	Kansas	New Jersey(8)	Texas(14)
Colorado(3)	Kentucky	New Mexico(9)	Utah(1)
Connecticut(1)	Louisiana	New York(10)	Vermont(15)
Delaware(1)	Maine(5)	North Carolina(1)	Virginia
District of Columbia(4)	Maryland(1)	North Dakota	Washington
Florida	Massachusetts(1)	Ohio	West Virginia(1)
Georgia	Michigan(1)	Oklahoma(1)	Wisconsin(16)
Guam(1)	Minnesota(1)	Oregon	Wyoming(1)
Hawaii(1)	Mississippi(1)	Pennsylvania(1)	
	Missouri(6)	Puerto Rico(1)	

-
- (1) Provided the offeror or seller is a registered or licensed broker or dealer in this jurisdiction, or has no place of business in this jurisdiction and effects transactions in this jurisdiction exclusively with or through registered or licensed brokers or dealers or the institutions specified in the next section of the Memorandum.
 - (2) Provided the offeror or seller is a licensed broker-dealer in California, or has no place of business in California and either effects transactions exclusively with a licensed broker-dealer or is registered as a broker-dealer under the Securities Exchange Act of 1934, has not had any certificate denied or revoked under the California Corporate Securities Law of 1968 or any predecessor statute, and directs offers to sell or buy into California exclusively with licensed broker-dealers or the institutions specified in the next section of the Memorandum.
 - (3) Provided offeror or seller is a registered or licensed broker-dealer in Colorado, or has no place of business in Colorado and is registered as a broker-dealer under the Securities Exchange Act of 1934 and transacts business exclusively with (a) other broker-dealers licensed or exempt therefrom in Colorado (except when the broker-dealer is acting as a clearing broker-dealer for such other broker-dealers), (b) individuals who are existing customers of the broker-dealer and whose principal place of residence is



not Colorado, (c) the financial or institutional investors specified in the next section of the Memorandum, and (d) no more than five other persons in any 12 consecutive months.

- (4) Provided the offeror or seller is registered or licensed as a broker-dealer in the District of Columbia.
- (5) Provided that the offeror or seller (a) is registered as a broker-dealer in Maine, (b) is registered as a broker-dealer under the Securities Exchange Act of 1934 and effects transactions in Maine exclusively with the issuer of the securities involved in the transactions, other broker-dealers licensed or exempt in Maine (except when the offeror or seller is acting as a clearing broker-dealer for such other broker-dealers) and financial and institutional investors acting for themselves or in a fiduciary capacity, or (c) is registered as a broker-dealer under the Securities Exchange Act of 1934 and is licensed under the securities act of the state in which the broker-dealer maintains its principal place of business and has no place of business in Maine, if the broker-dealer offers and sells in Maine to persons who are existing customers of the broker-dealer and who represent that they have no principal place of residence in Maine.
- (6) Provided offeror or seller is a licensed dealer or broker in Missouri, or has no place of business in Missouri and effects transactions in Missouri exclusively with broker-dealers registered or not required to be registered in Missouri or the institutions listed below (other than an investment adviser which is not registered under the Investment Advisers Act of 1940, is affiliated with the offeror or seller, or which has investments under management of less than \$100,000,000 acting for the account of others pursuant to discretionary authority in a signed record.)
- (7) Provided the offeror or seller is a licensed broker-dealer in Nevada, or has no place of business in Nevada, is registered as a broker-dealer under the Securities Exchange Act of 1934, or is exempt from such registration, and (a) effects transactions in Nevada exclusively with other broker-dealers licensed or exempt from licensing in Nevada, or the institutions specified in the next section of the Memorandum, or (b) is licensed under the securities laws of the jurisdiction in which it maintains a place of business and (i) offers and sells in Nevada to a person who is an existing customer of the broker-dealer and whose principal place of residence is not in Nevada, or (ii) during any 12 consecutive months does not effect transactions with more than five persons in Nevada in addition to the issuers of securities involved in the transactions, financial or institutional investors or broker-dealers, whether or not the offeror or an offeree is then present in Nevada.
- (8) Provided the offeror or seller is a registered broker-dealer in New Jersey, or effects transactions in New Jersey exclusively with or through registered broker-dealers or the institutions specified in the next section of the Memorandum.
- (9) Provided the offeror or seller is a licensed broker or dealer in New Mexico, or has no place of business in New Mexico and is registered as a broker-dealer under the Securities Exchange Act of 1934 and effects transactions in New Mexico exclusively with other broker-dealers licensed or exempt under the New Mexico Securities Act of 1986 or the institutions specified in the next section of the Memorandum.
- (10) We will make the requisite filing.



- (11) Provided the offeror or seller is a registered broker-dealer in Rhode Island, or has no place of business in Rhode Island, is registered or exempt from registration as a broker-dealer under the Securities Exchange Act of 1934, and (a) effects transactions exclusively with other licensed or exempt broker-dealers or the institutions specified in the next section of the Memorandum, or (b) is a registered broker-dealer in the state where it maintains a place of business and sells to persons in Rhode Island that are existing customers of the broker-dealer and whose principal place of residence is not Rhode Island.
- (12) Provided the offeror or seller is a registered broker-dealer in South Carolina, or has no place of business in South Carolina, or is registered or exempt from registration as a broker-dealer under the Securities Exchange Act of 1934, and effects transactions exclusively with other licensed or exempt broker-dealers or the institutions specified in the next section of the Memorandum.
- (13) Provided the offeror or seller is a registered broker-dealer in Tennessee, or has no place of business in Tennessee, is registered as a broker-dealer with the Securities and Exchange Commission or the National Association of Securities Dealers, Inc., and effects transactions in Tennessee exclusively with or through other broker-dealers or the institutions specified in the next section of the Memorandum.
- (14) Provided the offeree or purchaser is a registered dealer in Texas actually engaged in buying and selling securities.
- (15) Provided the offeror or seller is a registered broker-dealer in Vermont or has no place of business in Vermont and deals exclusively with broker-dealers registered pursuant to Section 15 of the Securities Exchange Act of 1934 that are also registered or exempt from registration in Vermont.
- (16) Provided the offeror or seller is a registered broker-dealer in Wisconsin or effects transactions in Wisconsin exclusively for the account of or exclusively in offers to sell or sales to brokers or dealers or the institutions specified in the next section of the Memorandum.

B. Offers and Sales to Specified Institutions

It is believed that *offers* and *sales* of the Securities to the institutions specified may be made in the following jurisdictions, without registration of the Securities or any filings being made in such jurisdictions with respect thereto, and that persons making such *offers* or *sales* need not be registered or licensed as dealers therein, except as otherwise indicated. However, the Memorandum does not cover the status of the Securities with respect to eligibility for investment by any of such institutions.

- Alabama Any bank, savings institution, credit union, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer; whether the purchaser is acting for itself or in some fiduciary capacity.
- Alaska(1) Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, whether the purchaser is acting for itself or in some fiduciary capacity.



- Arizona Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit sharing trust or other financial institution or institutional buyer, whether the purchaser is acting for itself or in a fiduciary capacity.
- Arkansas(1) Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer; whether the purchaser is acting for itself or in some fiduciary capacity.
- California(2) (a) Any bank, savings and loan association, trust company, insurance company, investment company registered under the Investment Company Act of 1940, or pension or profit-sharing trust (other than a pension or profit-sharing trust of the issuer, a self-employed individual retirement plan or an individual retirement account); (b) any organization described in Section 501(c)(3) of the Internal Revenue Code, as amended to December 29, 1981, which has total assets (including endowment, annuity and life income funds) of not less than \$5,000,000 according to its most recent audited financial statement; (c) any corporation which has a net worth on a consolidated basis of not less than \$14,000,000 according to its most recent audited financial statement; (d) any wholly-owned subsidiary of any of the foregoing institutional investors; or (e) the federal government, any agency or instrumentality of the federal government, any corporation wholly-owned by the federal government, any state, any city, city and county, or county, or any agency or instrumentality of a state, city, city and county, or county, or any state university or state college and any retirement system for the benefit of employees of any of the foregoing; provided that any purchaser listed in (a) through (e) above represents that it is purchasing for its own account (or for such trust account) for investment and not with a view to or for sale in connection with any distribution of the Securities.
- Colorado(3) Any financial or institutional investor, whether the purchaser is acting for itself or in some fiduciary capacity, which includes: (a) a depository institution which is defined as: (i) a person that is organized or chartered, or is doing business or holds an authorization certificate, under the laws of a state or of the United States which authorizes the person to receive deposits, including deposits in savings, share, certificate, or other deposit accounts, and that is supervised and examined for the protection of depositors by an official or agency of a state or the United States, or (ii) a trust company or other institution that is authorized by federal or state law to exercise fiduciary powers of the type a national bank is permitted to exercise under the authority of the comptroller of the currency and is supervised and examined by an official or agency of a state or the United States; (b) an insurance company; (c) a separate account of an insurance company; (d) an investment company registered under the Investment Company Act of 1940; (e) a business development company as defined in the Investment Company Act of 1940; (f) any private business development company as defined in the Investment Advisers Act of 1940; (g) an employee pension, profit-sharing or benefit plan if the plan has total assets in excess of \$5,000,000 or its investment decisions are made by a named fiduciary, as defined in the Employee



Retirement Income Security Act of 1974, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, a depository institution, or an insurance company; (h) an entity, but not an individual, a substantial part of whose business activities consist of investing, purchasing, selling, or trading in securities of more than one issuer and not of its own issue and that has total assets in excess of \$5,000,000 as of the end of its latest fiscal year; (i) a small business investment company licensed by the federal small business administration under the Small Business Investment Act of 1958; and (j) any other institutional buyer.

Connecticut(1)

Any bank and trust company, national banking association, savings bank, savings and loan association, federal savings and loan association, credit union, federal credit union, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer; whether the purchaser is acting for itself or in some fiduciary capacity.

Delaware(4)

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, which includes, but is not limited to, an "accredited investor" as defined in SEC Rule 501(a)(1)-(4), (7) and (8), 17 C.F.R. §230.501(a)(1)-(4), (7), (8), excluding, however, any self-directed employee benefit plan with investment decisions made solely by persons that are "accredited investors" as defined in Rule 501(a)(5)-(6); any "qualified institutional buyer" as that term is defined in SEC Rule 144A(a)(1), 17 C.F.R. §230.144A(a)(1); and a corporation, partnership, trust, estate, or other entity (excluding individuals) having a net worth of not less than \$5 million or a wholly-owned subsidiary of such entity, as long as the entity was not formed for the purpose of acquiring the specific securities; whether the purchaser is acting for itself or in some fiduciary capacity.

District of Columbia(5)

Any financial or institutional investor, whether acting for itself or others in a fiduciary capacity, which means: (a) a depository institution, which means: (i) a person that is organized, chartered or holds an authorization certificate under the laws of a state or of the United States to receive deposits, including a savings, share, certificate or deposit account, and that is supervised and examined for the protection of depositors by an official or agency of a state or the United States, and (ii) a trust company or other institution that is authorized by federal or state law to exercise fiduciary powers of the type that a national bank is permitted to exercise under the authority of the Comptroller of the Currency and is supervised and examined by an official or agency of a state or the United States (except an insurance company or other organization primarily engaged in the insurance business, or a Morris Plan bank, industrial loan company or a similar bank or company unless its deposits are insured by a federal agency); (b) an insurance company or separate account of an insurance company; (c) an investment company registered under the Investment Company Act of 1940; (d) an employee pension, profit-sharing or benefit plan, provided the plan has total assets in excess of \$5,000,000, or the investment decisions are made by a named fiduciary, as defined in



the Employee Retirement Income Security Act of 1974, that is either a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, a depository institution or an insurance company; (e) a business development company as defined by the Investment Company Act of 1940; (f) a “qualified institutional buyer” as defined in SEC Rule 144A, C.F.R. §230.144A; (g) an accredited investor as defined in SEC Rule 501(a), 17 C.F.R. §230.501(a); (h) a limited liability company with net assets of at least \$500,000; or (i) any other financial institution or institutional buyer.

- Florida Any bank or trust company, savings institution, insurance company, investment company as defined by the Investment Company Act of 1940, or pension or profit-sharing trust or qualified institutional buyer as defined in Securities and Exchange Commission Rule 144A as it existed on November 1, 1992, whether any of such entities is acting in its individual or fiduciary capacity; provided that such offer or sale of securities is not for the direct or indirect promotion of any scheme or enterprise with the intent of violating or evading any provision of the Florida Securities Laws.
- Georgia Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, real estate investment trust, small business investment corporation, pension or profit-sharing plan or trust, or other financial institution; whether the purchaser is acting for itself or in some fiduciary capacity.
- Guam(1) Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer; whether the purchaser is acting for itself or in some fiduciary capacity.
- Hawaii(6) Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, which includes any organization within the scope of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, whether the purchaser is acting for itself or in some fiduciary capacity.
- Idaho(1) Any banking institution organized under the laws of the United States, member bank of the Federal Reserve System, or any other banking institution doing business under the laws of a state or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to be exercised by national banks under the authority of the Comptroller of the Currency pursuant to Section 1 of Public Law 87-722, and which is supervised and examined by a state or federal agency having supervision over banks, and which is not operated for the purpose of evading the Idaho Uniform Securities Act of 2004; a receiver, conservator, or other liquidating agent of any of the foregoing; a savings institution, trust company, credit union, or similar institution organized or chartered under the laws of a state or of the United States, authorized to receive deposits, and supervised and examined by an official or agency of a state or the United States



whose deposits or share accounts are insured to the maximum amount authorized by statute by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, or a successor authorized by federal law (other than a Morris Plan bank or an industrial loan company); an international financial institution of which the United States is a member and whose securities are exempt from registration under the Securities Act of 1933; an insurance company or separate account of an insurance company; an investment company; an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the Idaho Uniform Securities Act of 2004, a depository institution, or an insurance company; a plan established and maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees, if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a duly designated public official or by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the Idaho Uniform Securities Act of 2004, a depository institution, or an insurance company; a trust with total assets in excess of \$10,000,000, if its trustee is a depository institution, and its participants are exclusively employee pension, profit-sharing, or benefit or governmental plans described above regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; an organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the Securities, with total assets in excess of \$10,000,000; a small business investment company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958 with total assets in excess of \$10,000,000; a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 with total assets in excess of \$10,000,000; a person registered under the Investment Advisers Act of 1940 acting for its own account; a "qualified institutional buyer" as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(H), adopted under the Securities Act; a "major U.S. institutional investor" as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934; or any other person, other than an individual, of institutional character with total assets in excess of \$10,000,000 not organized for the specific purpose of evading the Idaho Uniform Securities Act of 2004.

Illinois

Any corporation, bank, savings bank, savings institution, trust company, insurance company, building and loan association, pension fund or pension trust, employees' profit-sharing trust, other financial institution (including any manager of investment accounts on behalf of other than natural persons, who, with affiliates, exercises sole investment discretion with respect to such accounts and provided such accounts exceed



ten in number and have a fair market value of not less than \$10,000,000 at the end of the calendar month preceding the month during which the Securities are sold) or institutional investor (including investment companies, universities and other organizations whose primary purpose is to invest its own assets or those held in trust by it for others, trust accounts and individual or group retirement accounts in which a bank, trust company, insurance company or savings and loan institution acts in a fiduciary capacity, and foundations and endowment funds exempt from taxation under the Internal Revenue Code, a principal business function of which is to invest funds to produce income in order to carry out the purpose of the foundation or fund), or any government or political subdivision or instrumentality thereof, whether the purchaser is acting for itself or in some fiduciary capacity; any partnership or other association engaged as a substantial part of its business or operations in purchasing or holding securities; any trust in respect of which a bank or trust company is trustee or co-trustee; any entity in which at least 90% of the equity is owned by: (i) persons described in this paragraph herein, (ii) any natural person who has, or is reasonably believed by the person offering the Securities to have (a) a net worth or joint net worth with the person's spouse, at the time of the offer, sale or issuance of the Securities, in excess of \$1,000,000, or (b) an income or joint income with that person's spouse of \$200,000 in each of the two most recent fiscal years and reasonably expects such an income in the current year, (iii) any person, not a natural person, 90% of the equity interest thereof is owned by persons described in (a) or (b) immediately above, or (iv) any person who is, or is reasonably believed by the person offering the Securities to be, a director, executive officer, or general partner of the issuer of the Securities or any director, executive officer or general partner of a general partner of that issuer (executive officer shall mean the president, any vice president in charge of a principal business unit, division or function such as sales, administration or finance, or any other officer or other person who performs a policy making function for the issuer); any employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974 ("ERISA") if (a) the investment decision is made by a plan fiduciary as defined in Section 3(21) of ERISA and such plan fiduciary is either a bank, savings and loan association, insurance company, registered investment adviser or an investment adviser registered under the Investment Advisers Act of 1940, or (b) the plan has total assets in excess of \$5,000,000, or (c) in the case of a self-directed plan, investment decisions are made solely by persons that are described in this paragraph herein; any plan established and maintained by, and for the benefit of the employees of, any state or political subdivision or agency or instrumentality thereof if such plan has total assets in excess of \$5,000,000; or any organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, any Massachusetts or similar business trust, or any partnership, if such organization, trust, or partnership has total assets in excess of \$5,000,000.

Indiana(7)

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer; or Qualified Institutional Buyer as defined in Rule 144A of the Securities Act of 1933, as amended, whether the purchaser is acting for itself or in some fiduciary capacity.



Iowa(8)

Any banking institution organized under the laws of the United States, member bank of the Federal Reserve System, or any other banking institution doing business under the laws of a state or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to be exercised by national banks under the authority of the Comptroller of the Currency pursuant to Section 1 of Public Law 87-722, and which is supervised and examined by a state or federal agency having supervision over banks, and which is not operated for the purpose of evading the Iowa Uniform Securities Act; a receiver, conservator, or other liquidating agent of any of the foregoing; a savings institution, trust company, credit union, or similar institution organized or chartered under the laws of a state or of the United States, authorized to receive deposits, and supervised and examined by an official or agency of a state or the United States whose deposits or share accounts are insured to the maximum amount authorized by statute by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, or a successor authorized by federal law (other than a Morris Plan bank or an industrial loan company); an international financial institution of which the United States is a member and whose securities are exempt from registration under the Securities Act of 1933; an insurance company or separate account of an insurance company; an investment company; an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of \$5,000,000 or its investment decisions are made by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the Iowa Uniform Securities Act, a depository institution, or an insurance company; a plan established and maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees, if the plan has total assets in excess of \$5,000,000 or its investment decisions are made by a duly designated public official or by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the Iowa Uniform Securities Act, a depository institution, or an insurance company; a trust with total assets in excess of \$5,000,000, if its trustee is a depository institution, and its participants are exclusively employee pension, profit-sharing, or benefit or governmental plans described above regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; an organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the Securities, with total assets in excess of \$5,000,000; a small business investment company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958 with total assets in excess of \$5,000,000; a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 with total assets in excess of \$5,000,000; a person registered under the Investment Advisers Act of 1940 acting for its own account; a "qualified institutional



buyer" as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(H), adopted under the Securities Act; a "major U.S. institutional investor" as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934; or any other person, other than an individual, of institutional character with total assets in excess of \$5,000,000 not organized for the specific purpose of evading the Iowa Uniform Securities Act.

Kansas

Any banking institution organized under the laws of the United States, member bank of the Federal Reserve System, or any other banking institution doing business under the laws of a state or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to be exercised by national banks under the authority of the Comptroller of the Currency pursuant to Section 1 of Public Law 87-722, and which is supervised and examined by a state or federal agency having supervision over banks, and which is not operated for the purpose of evading the Kansas Uniform Securities Act; a receiver, conservator, or other liquidating agent of any of the foregoing; a savings institution, trust company, credit union, or similar institution organized or chartered under the laws of a state or of the United States, authorized to receive deposits, and supervised and examined by an official or agency of a state or the United States whose deposits or share accounts are insured to the maximum amount authorized by statute by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, or a successor authorized by federal law (other than a Morris Plan bank or an industrial loan company); an international financial institution of which the United States is a member and whose securities are exempt from registration under the Securities Act of 1933; an insurance company or separate account of an insurance company; an investment company; an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered in Kansas, a depository institution, or an insurance company; a plan established and maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees, if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a duly designated public official or by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered in Kansas, a depository institution, or an insurance company; a trust (except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans) with total assets in excess of \$10,000,000 if its trustee is a depository institution, and its participants are exclusively employee pension, profit-sharing, or benefit or governmental plans described above regardless of the size of their assets; an organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the



specific purpose of acquiring the Securities, with total assets in excess of \$10,000,000; a small business investment company licensed under Section 301(c) of the Small Business Investment Act of 1958 with total assets in excess of \$10,000,000; a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 with total assets in excess of \$10,000,000; a person registered under the Investment Advisers Act of 1940 acting for its own account; a qualified institutional buyer as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(H), adopted under the Securities Act of 1933; a "major U.S. institutional investor" as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934; or any other person, other than an individual, of institutional character with total assets in excess of \$10,000,000 not organized for the specific purpose of evading the Kansas Uniform Securities Act.

Kentucky Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer (which includes but is not limited to Qualified Institutional Buyers as defined in Rule 144A of the Securities and Exchange Commission); whether the purchaser is acting for itself or in some fiduciary capacity.

Louisiana Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, real estate investment trust, small business investment corporation, pension or profit-sharing plan or trust, or other financial institution; whether the purchaser is acting for itself or in some fiduciary capacity.

Maine(9) Any banking institution organized under the laws of the United States, member bank of the Federal Reserve System, or any other banking institution doing business under the laws of a state or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to be exercised by national banks under the authority of the Comptroller of the Currency pursuant to Section 1 of Public Law 87-722, and which is supervised and examined by a state or federal agency having supervision over banks, and which is not operated for the purpose of evading the Maine Uniform Securities Act; a receiver, conservator, or other liquidating agent of any of the foregoing; a savings institution, trust company, credit union, or similar institution organized or chartered under the laws of a state or of the United States, authorized to receive deposits, and supervised and examined by an official or agency of a state or the United States whose deposits or share accounts are insured to the maximum amount authorized by statute by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, or a successor authorized by federal law (other than a Morris Plan bank or an industrial loan company); an international financial institution of which the United States is a member and whose securities are exempt from registration under the Securities Act of 1933; an insurance company or separate account of an insurance company; an investment company; an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a named fiduciary, as defined in ERISA, that is



a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered in Maine, a depository institution, or an insurance company; a plan established and maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees, if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a duly designated public official or by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered in Maine, a depository institution, or an insurance company; a trust (except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans) with total assets in excess of \$10,000,000 if its trustee is a depository institution, and its participants are exclusively employee pension, profit-sharing, or benefit or governmental plans described above regardless of the size of their assets; an organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the Securities, with total assets in excess of \$10,000,000; a small business investment company licensed under Section 301(c) of the Small Business Investment Act of 1958 with total assets in excess of \$5,000,000; a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 with total assets in excess of \$5,000,000; a person registered under the Investment Advisers Act of 1940 acting for its own account; a qualified institutional buyer as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(H), adopted under the Securities Act of 1933; a "major U.S. institutional investor" as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934; or any other person, other than an individual, of institutional character with total assets in excess of \$10,000,000 not organized for the specific purpose of evading the Maine Uniform Securities Act.

Maryland(10)

Any bank, savings and loan association, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust that is an employee benefit plan with assets of not less than \$1,000,000, broker-dealer, an employee benefit plan with assets of not less than \$1,000,000, a governmental instrumentality or agency, or an investment adviser with assets under management of not less than \$1,000,000; whether acting for itself or as trustee or fiduciary with investment control; or any other institutional investor as designated by rule or order of the commissioner, which includes a Qualified Institutional Buyer as defined in Rule 144A of the Securities and Exchange Commission, and persons defined as "accredited investors" pursuant to Rule 501(a)(1)-(3), (7) and (8) of Federal Regulation D.

Massachusetts(1)

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust which includes: (a) any entity with total assets in excess of \$5 million and which is:



(i) an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended or (ii) a self-directed employee benefit plan within the meaning of ERISA, with investment decisions made by a person that is an accredited investor as defined in s. 501(a) of SEC Regulation D (17 CFR 230.501(a)), or (b) any employee benefit plan within the meaning of ERISA with investment decisions made by a plan fiduciary, as defined in Section 2(21) of ERISA, which is either a bank, savings and loan association, insurance company or registered investment adviser, or (c) an employee benefit plan established and maintained by a state or its political subdivisions, or any agency or instrumentality of a state or its political subdivisions; any other financial institution or institutional buyer, which includes but is not limited to: (a) a Small Business Investment Company licensed by the United States Small Business Administration under the Small Business Investment Act of 1958, as amended; (b) a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940, as amended; (c) a Business Development Company as defined in Section 2(a)(48) of the Investment Company Act of 1940, as amended; (d) an entity with total assets in excess of \$5,000,000 and which is either: (i) a company (whether a corporation, a Massachusetts or similar business trust or a partnership) not formed for the specific purpose of acquiring the securities offered, a substantial part of whose business activities consists of investing, purchasing, selling or trading in securities issued by others and whose investment decisions made by persons who are reasonably believed by the seller to have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of investments or (ii) an organization described in Section 501(c)(3) of the Internal Revenue Code; and (e) a Qualified Institutional Buyer as defined in 17 CFR 230.144A(a); whether the purchaser is acting for itself or in some fiduciary capacity.

Michigan(1)

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust the assets of which are managed by a bank or trust company or other institutional manager, the treasurer of the State of Michigan, the federal national mortgage association, the federal home loan mortgage corporation, the government national mortgage association, broker-dealer or other financial institution (which includes but is, not limited to federal or state savings and loan associations or credit unions), whether any of the above listed purchasers is acting for itself or in some fiduciary capacity, or a lender approved by the federal housing administration and who has satisfied any additional requirements established by the Michigan Securities Administrator by rule or order.

Minnesota(1)

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, which includes but is not limited to a corporation with a class of equity securities registered under Section 12(b) or 12(g) of the Securities Exchange Act of 1934, a "qualified institutional buyer" within the meaning of SEC Rule 144A, as amended, and a person who is an "accredited investor" within the meaning of Rule 501(a) of Regulation D adopted by the Securities and



Exchange Commission; whether the purchaser is acting for itself or in some fiduciary capacity.

Mississippi(1)

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, which includes but is not limited to: (a) any of the following entities, acting for its own account or the accounts of other institutional buyers, that in the aggregate owns and invests on a discretionary basis at least \$100,000,000 in securities of issuers that are not affiliated with the entity: (i) any insurance company as defined in Section 2(13) of the Securities Act of 1933, (ii) any investment company registered under the Investment Company Act of 1940 or any business development company as defined in Section 2(a)(48) of the Investment Company Act of 1940, (iii) any Small Business Investment Company licensed by the United States Small Business Administration under 301(c) or (d) of the Small Business Investment Act of 1958, (iv) any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, (v) any employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974, (vi) any trust fund whose trustee is a bank or trust company and whose participants are exclusively plans of the types identified in (iv) and (v) above, except trust funds that include as participants individual retirement accounts or H.R. 10 plans, (vii) any business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940, (viii) any organization described in Section 501(c)(3) of the Internal Revenue Code, corporation (other than a bank as defined in Section 3(a)(2) of the Securities Act of 1933 or a savings and loan association or other institution referenced in Section 3(a)(5)(A) of the Securities Act of 1933 or a foreign bank or savings and loan association or equivalent institution), partnership, or Massachusetts or similar business trust, and (ix) any investment adviser registered under the Investment Advisers Act of 1940; (b) any dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, acting for its own account or the accounts of other institutional buyers, that in the aggregate owns and invests on a discretionary basis at least \$10,000,000 of securities of issuers that are not affiliated with the dealer, provided that securities constituting the whole or a part of an unsold allotment to or subscription by a dealer as a participant in a public offering shall not be deemed to be owned by such dealer; (c) any dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934 acting in a riskless principal transaction on behalf of an institutional buyer; (d) any investment company registered under the Investment Company Act of 1940, acting for its own account or for the accounts of other institutional buyers, that is part of a family of investment companies which own in the aggregate at least \$100,000,000 in securities of issuers, other than issuers that are affiliated with the investment company or are part of such family of investment companies ("family of investment companies" means any two or more investment companies registered under the Investment Company Act of 1940, except for a unit investment trust whose assets consist solely of shares of one or more registered investment companies, that have the same investment adviser (or, in the case of a unit investment trust, the same depositor), provided that for purposes of this Section: (i) each series of a series company (as



defined in Rule 18f-2 under the Investment Company Act of 1940) shall be deemed to be a separate investment company and (ii) investment companies shall be deemed to have the same adviser (or depositor) if their advisers (or depositors) are majority-owned subsidiaries of the same parent, or if one investment company's adviser (or depositor) is a majority-owned subsidiary of the other investment company's adviser (or depositor)); (e) any entity, all of the equity owners of which are institutional buyers, acting for its own account or the accounts of other institutional buyers; or (f) any bank as defined in Section 3(a)(2) of the Securities Act of 1933, any savings and loan association or other institution as referenced in Section 3(a)(5)(A) of the Securities Act of 1933, or any foreign bank or savings and loan association or equivalent institution, acting for its own account or the accounts of other institutional buyers, that in the aggregate owns and invests on a discretionary basis at least \$100,000,000 in securities of issuers that are not affiliated with it and that has an audited net worth of at least \$25,000,000 as demonstrated in its latest annual financial statements, as of a date not more than 16 months preceding the date of sale of the securities offered in the case of a United States bank or savings and loan association, and not more than 18 months preceding such date of sale for a foreign bank or savings and loan association or equivalent institution; whether the purchaser is acting for itself or as a trustee.

Missouri(11)

Any banking institution organized under the laws of the United States, member bank of the Federal Reserve System, or any other banking institution doing business under the laws of a state or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to be exercised by national banks under the authority of the Comptroller of the Currency pursuant to Section 1 of Public Law 87-722, and which is supervised and examined by a state or federal agency having supervision over banks, and which is not operated for the purpose of evading the Missouri Securities Act of 2003; a receiver, conservator, or other liquidating agent of any of the foregoing; a savings institution, trust company, credit union, or similar institution organized or chartered under the laws of a state or of the United States, authorized to receive deposits, and supervised and examined by an official or agency of a state or the United States whose deposits or share accounts are insured to the maximum amount authorized by statute by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, or a successor authorized by federal law (other than a Morris Plan bank or an industrial loan company); a trust company organized or chartered under the laws of Missouri; an international financial institution of which the United States is a member and whose securities are exempt from registration under the Securities Act of 1933; an insurance company or separate account of an insurance company; an investment company; an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the Missouri Securities Act of 2003, a depository institution, or an insurance company; a plan established and maintained by a state, a



political subdivision of a state, or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees, if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a duly designated public official or by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the Missouri Securities Act of 2003, a depository institution, or an insurance company; a trust with total assets in excess of \$10,000,000, if its trustee is a depository institution, and its participants are exclusively employee pension, profit-sharing, or benefit or governmental plans described above regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; an organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the Securities, with total assets in excess of \$10,000,000; a small business investment company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958 with total assets in excess of \$10,000,000; a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 with total assets in excess of \$10,000,000; a person registered under the Investment Advisers Act of 1940 acting for its own account; a "qualified institutional buyer" as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(H), adopted under the Securities Act; a "major U.S. institutional investor" as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934; or any other person, other than an individual, of institutional character with total assets in excess of \$10,000,000 not organized for the specific purpose of evading the Missouri Securities Act of 2003.

Montana Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, which includes, but is not limited to, a Qualified Institutional Buyer as defined in Rule 144A of the Securities and Exchange Commission; whether the purchaser is acting for itself or in some fiduciary capacity.

Nebraska(12) Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer or an individual accredited investor, whether the purchaser is acting for itself or in some fiduciary capacity. The term "individual accredited investor" means (a) any director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer, (b) any manager of a limited liability company that is the issuer of the securities being offered or sold, (c) any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of his or her purchase, exceeds one million dollars, or (d) any natural person who had an individual income in excess of two hundred thousand dollars in each of the two most recent years or joint income with that person's spouse in



excess of three hundred thousand dollars in each of those years and has a reasonable expectation of reaching the same income level in the current year. In addition to the foregoing, a "financial institution or institutional investor" includes, but is not limited to, any (i) bank as defined in Section 3(a)(2) of the Securities Act of 1933, whether acting in its individual or fiduciary capacity; (ii) insurance company as defined in Section 2(13) of the Securities Act of 1933; (iii) business development company as defined in Section 2(a)(48) of the Investment Company Act of 1940; (iv) or small business investment company licensed by the Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958. As used above, "pension or profit-sharing trust" is defined as an employee benefit plan, as defined in Title I of the Employee Retirement Income Security Act of 1974 ("ERISA"), if the investment decisions are made by a "plan fiduciary" (as defined in ERISA) which is either a bank, insurance company or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000.

Nevada(13)

Any financial or institutional investor, including but not limited to: (a) a depository institution, which means: (i) a person that is organized, chartered or holding an authorization certificate under the laws of a state or of the United States which authorizes the person to receive deposits, including a savings, share, certificate or deposit account, and that is supervised and examined for the protection of depositors by an official or agency of a state of the United States, or (ii) a trust company or other institution that is authorized by federal or state law to exercise fiduciary powers of the type a national bank is permitted to exercise under the authority of the Comptroller of the Currency and is supervised and examined by an official or agency of a state or the United States (except a Morris Plan bank, industrial loan company, or a similar bank or company unless its deposits are insured by a federal agency); (b) an insurance company or separate account of an insurance company; (c) an investment company as defined in the Investment Company Act of 1940; (d) an employee pension, profit-sharing or benefit plan if the plan has total assets in excess of \$5,000,000 or its investment decisions are made by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is either a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, a depository institution, or an insurance company; or (e) any other institutional buyer; whether the purchaser is acting for itself or in some fiduciary capacity other than as an agent.

New Hampshire(14)

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, a venture capital company which operates a small business investment company under the Small Business Investment Act of 1958, as amended, or other financial institution or institutional buyer; whether the purchaser is acting for itself or in some fiduciary capacity.

New Jersey(15)

Any bank, savings and loan association or building and loan association operating pursuant to the Savings and Loan Act of New Jersey, federal savings and loan association or an association or credit union organized under the laws of the United



States or any state, territory, or possession of the United States, the District of Columbia or Puerto Rico whose accounts are insured by a federal corporation or agency, any trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, which includes, but is not limited to, a "qualified institutional buyer" as defined in SEC Rule 144A; whether the purchaser is acting for itself or in some fiduciary capacity.

New Mexico(16)

Any financial or institutional investor, which means: (a) a depository institution, which includes: (i) a person which is organized, chartered or holding an authorization certificate under the laws of a state or of the United States which authorizes the person to receive deposits, including a savings, share, certificate or deposit account, and which is regulated, supervised and examined for the protection of depositors by an official or agency of a state or the United States and is insured by the federal depository insurance corporation, the federal savings and loan insurance corporation, or the national credit union share insurance fund, or (ii) a trust company or other institution that is authorized by federal or state law to exercise fiduciary powers of the type a national bank is permitted to exercise under the authority of the Comptroller of the Currency and is regulated, supervised and examined by an official or agency of a state or the United States (except a Morris Plan bank, industrial loan company or a similar bank or company); (b) an insurance company or separate account of an insurance company; (c) an investment company as defined in the Investment Company Act of 1940; (d) an employee pension, profit-sharing or benefit plan, provided the plan has total assets in excess of \$5,000,000, or the investment decisions are made by one or more plan fiduciaries, as defined in the Employee Retirement Income Security Act of 1974, so long as at least one of such plan fiduciaries is either a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, a depository institution or an insurance company; (e) a business development company as defined by the Investment Company Act of 1940; (f) a small business investment company licensed by the Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958; (g) an entity, other than a natural person, which is directly engaged in the business of, and derives at least eighty percent of its annual gross income from, investing, purchasing, selling or trading in securities of more than one issuer and not of its own issue, and that has gross assets in excess of \$5,000,000 at the end of its latest fiscal year; (h) an entity organized and operated not for private profit as described in Section 501(c)(3) of the Internal Revenue Code with total assets in excess of \$5,000,000; or (i) a state, a political subdivision of a state, or an agency or corporate or other instrumentality of a state or a political subdivision of a state; whether the purchaser is acting for itself or in some fiduciary capacity other than as an agent.

New York(17)

Any state or national bank, trust company or savings institution incorporated under the laws and subject to the examination, supervision and control of any state or of the United States or of any insular possession thereof, or any syndicate, corporation or group formed for the specific purpose of acquiring the Securities for resale to the public directly or through other syndicates or groups.



- North Carolina(18) Any corporation which has a net worth in excess of one million dollars as determined by generally accepted accounting principles, bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, other financial institution or institutional buyer, whether the purchaser is acting for itself or in some fiduciary capacity.
- North Dakota Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or similar benefit plan, or other financial institution or qualified institutional buyer, or any government or political subdivision or instrumentality thereof, whether the purchaser is acting for itself or in a fiduciary capacity.
- Ohio(19) Any corporation, bank, trust company, building and loan association, savings association incorporated or organized under the laws of the United States or of any state thereof, or of Canada or any province thereof, and subject to regulation or supervision by such country, state or province, any insurance company, pension fund or trust, employees' profit-sharing fund or trust, any association engaged, as a substantial part of its business or operations, in purchasing or holding securities, any trust in respect of which a bank is trustee or co-trustee, or any Qualified Institutional Buyer as defined in Rule 144A of the Securities and Exchange Commission.
- Oklahoma(1) Any banking institution organized under the laws of the United States, member bank of the Federal Reserve System, or any other banking institution doing business under the laws of a state or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to be exercised by national banks under the authority of the Comptroller of the Currency pursuant to Section 1 of Public Law 87-722, and which is supervised and examined by a state or federal agency having supervision over banks, and which is not operated for the purpose of evading the Oklahoma Uniform Securities Act of 2004; a receiver, conservator, or other liquidating agent of any of the foregoing; a savings institution, trust company, credit union, or similar institution organized or chartered under the laws of a state or of the United States, authorized to receive deposits, and supervised and examined by an official or agency of a state or the United States whose deposits or share accounts are insured to the maximum amount authorized by statute by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, or a successor authorized by federal law (other than a Morris Plan bank or an industrial loan company); an international financial institution of which the United States is a member and whose securities are exempt from registration under the Securities Act of 1933; an insurance company or separate account of an insurance company; an investment company; an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the Oklahoma Uniform Securities Act of 2004, a depository institution, or an insurance company; a plan established and



maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees, if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a duly designated public official or by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the Oklahoma Uniform Securities Act of 2004, a depository institution, or an insurance company; a trust with total assets in excess of \$10,000,000, if its trustee is a depository institution, and its participants are exclusively employee pension, profit-sharing, or benefit or governmental plans described above regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; an organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the Securities, with total assets in excess of \$10,000,000; a small business investment company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958 with total assets in excess of \$10,000,000; a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 with total assets in excess of \$10,000,000; a person registered under the Investment Advisers Act of 1940 acting for its own account; a "qualified institutional buyer" as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(H), adopted under the Securities Act; a "major U.S. institutional investor" as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934; or any other person, other than an individual, of institutional character with total assets in excess of \$10,000,000 not organized for the specific purpose of evading the Oklahoma Uniform Securities Act of 2004.

Oregon

Any bank, savings institution, trust company, insurance company, investment company, pension or profit-sharing trust, mortgage broker or mortgage banker, or other financial institution or institutional buyer, including but not limited to, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Housing Administration, the United States Veterans Administration and the Government National Mortgage Association, and Qualified Institutional Buyer as defined in Rule 144A of the Securities and Exchange Commission; whether the purchaser is acting for itself or in some fiduciary capacity when the purchaser has discretionary authority to make investment decisions.

Pennsylvania(1)

Any institutional investor (which means a bank, savings bank, savings institution, savings and loan association, thrift institution, trust company or similar organization which is organized or chartered under the laws of a state or of the United States, is authorized to and receives deposits and is supervised and examined by an official or agency of a state or of the United States if its deposits are insured by the Federal Deposit Insurance Corporation or a successor authorized by Federal law), an insurance company, pension or profit-sharing plan or trust (provided that for a Keogh, IRA or SEP, plan or trust assets must be \$5,000,000 or more, or, the plan or trust must have



retained, on an on-going basis, the services of a person knowledgeable and experienced in financial and business matters to render professional investment management advice and the plan or trust must have investments of \$500,000 or more in securities), or investment company as defined in the Investment Company Act of 1940, or other financial institution; (b) any person, other than an individual, who controls any of the foregoing; (c) any corporation or business trust or wholly-owned subsidiary of such person which has been in existence for 18 months and which has a tangible net worth on a consolidated basis, as reflected in its most recent audited financial statements of \$10,000,000 or more; (d) any college, university or other public or private institution which has received exempt status under Section 501(c)(3) of the Internal Revenue Code and which has total endowment or trust funds (including annuity and life income funds) of \$5,000,000 or more according to its most recent audited financial statements, provided that the aggregate dollar amount of securities sold to such person shall not exceed five percent of such endowment or trust funds; (e) any wholly-owned subsidiary of a bank as defined in the Pennsylvania Securities Act of 1972 and applicable regulations thereunder; (f) any person, except an individual or an entity whose securityholders consist entirely of one individual or group of individuals who are related, which is organized primarily for the purpose of purchasing, in non-public offerings, securities of corporations or issuers engaged in research and development activities in conjunction with a corporation and which complies with certain investor suitability requirements, beneficial ownership restrictions, and capitalization requirements as set forth in the Regulations of the Pennsylvania Securities Commission; (g) any small business investment company as defined in Section 103 of the Small Business Investment Act of 1958 which either has a total capital of \$1,000,000 or more, or is controlled by institutional investors as defined in the Pennsylvania Securities Act of 1972 and applicable regulations thereunder; (h) any seed capital fund (as defined in Section 2 and authorized in Section 6 of the Pennsylvania Small Business Incubators Act); (i) any business development credit corporation (as authorized by the Pennsylvania Business Development Credit Corporation Law); (j) any person whose securityholders consist solely of institutional investors or broker-dealers; (k) a person as to which the issuer reasonably believed qualified as an institutional investor as herein described at the time of the offer or sale of the Securities on the basis of written representations made to the issuer by the purchaser; (l) a qualified institutional buyer as that term is defined 17 CFR 230.144A; or (m) the federal government, any state, territory, or possession of the United States, the District of Columbia or Puerto Rico, or any agency or political subdivision thereof, except public school districts of the state of Pennsylvania; whether the buyer is acting for itself or in some fiduciary capacity.

Puerto Rico(7)

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Companies Act of Puerto Rico, pension or profit-sharing trust, Qualified Institutional Buyer as defined in Rule 144A of the Securities and Exchange Commission, or other financial institution or institutional buyer; whether the purchaser is acting for itself or in some fiduciary capacity.



Rhode Island(20)

Any financial or institutional investor, which includes: (a) a "depository institution", which means: (i) a person which is organized, chartered, or holding an authorization certificate under the laws of a state or of the United States which authorizes the person to receive deposits, including a savings, share, certificate or deposit account, and which is supervised and examined for the protection of depositors by an official or agency of a state or the United States, or (ii) a trust company or other institution that is authorized by federal or state law to exercise fiduciary powers of the type a national bank is permitted to exercise under the authority of the comptroller of the currency and is supervised and examined by an official or agency of a state or the United States; (b) an insurance company; (c) a separate account of an insurance company; (d) an investment company as defined in the Investment Company Act of 1940; (e) an employee pension, profit-sharing or benefit plan if the plan has total assets in excess of five million dollars (\$5,000,000), or if investment decisions are made by a plan fiduciary, as defined in the Employee Retirement Income Security Act of 1974, which is either a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, a depository institution, or an insurance company; (f) any other institutional buyer; and a Qualified Institutional Buyer as defined under Rule 144A; whether the purchaser is acting for itself or in some fiduciary capacity.

South Carolina(1)

Any banking institution organized under the laws of the United States, member bank of the Federal Reserve System, or any other banking institution doing business under the laws of a state or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to be exercised by national banks under the authority of the Comptroller of the Currency pursuant to Section 1 of Public Law 87-722, and which is supervised and examined by a state or federal agency having supervision over banks, and which is not operated for the purpose of evading the South Carolina Uniform Securities Act of 2005; a receiver, conservator, or other liquidating agent of any of the foregoing; a savings institution, trust company, credit union, or similar institution organized or chartered under the laws of a state or of the United States, authorized to receive deposits, and supervised and examined by an official or agency of a state or the United States whose deposits or share accounts are insured to the maximum amount authorized by statute by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, or a successor authorized by federal law (other than a Morris Plan bank or an industrial loan company); an international financial institution of which the United States is a member and whose securities are exempt from registration under the Securities Act of 1933; an insurance company or separate account of an insurance company; an investment company; an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the South Carolina Uniform Securities Act of 2005, a depository institution, or an insurance company; a plan established and maintained by a state, a political subdivision of a state, or an agency or



instrumentality of a state or a political subdivision of a state for the benefit of its employees, if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a duly designated public official or by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the South Carolina Uniform Securities Act of 2005, a depository institution, or an insurance company; a trust with total assets in excess of \$10,000,000, if its trustee is a depository institution, and its participants are exclusively employee pension, profit-sharing, or benefit or governmental plans described above regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; an organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the Securities, with total assets in excess of \$10,000,000; a small business investment company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958 with total assets in excess of \$10,000,000; a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 with total assets in excess of \$10,000,000; a person registered under the Investment Advisers Act of 1940 acting for its own account; a "qualified institutional buyer" as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(H), adopted under the Securities Act; a "major U.S. institutional investor" as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934; or any other person, other than an individual, of institutional character with total assets in excess of \$10,000,000 not organized for the specific purpose of evading the South Carolina Uniform Securities Act of 2005.

South Dakota(1)

Any banking institution organized under the laws of the United States, member bank of the Federal Reserve System, or any other banking institution doing business under the laws of a state or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to be exercised by national banks under the authority of the Comptroller of the Currency pursuant to Section 1 of Public Law 87-722, and which is supervised and examined by a state or federal agency having supervision over banks, and which is not operated for the purpose of evading the South Dakota Uniform Securities Act of 2002; a receiver, conservator, or other liquidating agent of any of the foregoing; a savings institution, trust company, credit union, or similar institution organized or chartered under the laws of a state or of the United States, authorized to receive deposits, and supervised and examined by an official or agency of a state or the United States whose deposits or share accounts are insured to the maximum amount authorized by statute by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, or a successor authorized by federal law (other than a Morris Plan bank or an industrial loan company); an international financial institution of which the United States is a member and whose securities are exempt from registration under the Securities Act of 1933; an insurance company or separate account of an insurance company; an investment company; an employee pension,



profit-sharing, or benefit plan if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the South Dakota Uniform Securities Act of 2002, a depository institution, or an insurance company; a plan established and maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees, if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a duly designated public official or by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the South Dakota Uniform Securities Act of 2002, a depository institution, or an insurance company; a trust with total assets in excess of \$10,000,000, if its trustee is a depository institution, and its participants are exclusively employee pension, profit-sharing, or benefit or governmental plans described above regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; an organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the Securities, with total assets in excess of \$10,000,000; a small business investment company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958 with total assets in excess of \$10,000,000; a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 with total assets in excess of \$10,000,000; a person registered under the Investment Advisers Act of 1940 acting for its own account; a "qualified institutional buyer" as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(H), adopted under the Securities Act; a "major U.S. institutional investor" as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934; or any other person, other than an individual, of institutional character with total assets in excess of \$10,000,000 not organized for the specific purpose of evading the South Dakota Uniform Securities Act of 2002.

Tennessee(21)

Any bank, trust company, insurance company, investment company registered under the Investment Company Act of 1940, a holding company which controls any of the foregoing, a trust or fund over which any of the foregoing has or shares investment discretion, a pension or profit sharing plan, an institutional buyer (as defined by the Tennessee Commissioner of Insurance by rule), or any other person engaged as a substantial part of its business in investing securities (unless such other person is a broker-dealer), provided that each such institutional purchaser has a net worth in excess of \$1,000,000.

Texas

Any bank, trust company, building and loan association, insurance company, surety or guaranty company, savings institution, state or federally chartered credit union or savings and loan association, federal savings bank, investment company as defined in



the Investment Company Act of 1940, small business investment company as defined in the Small Business Investment Act of 1958, as amended, registered dealer actually engaged in buying and selling securities, an “accredited investor” (as that term is defined in Rule 501(a)(1)-(4), (7) and (8) promulgated by the SEC under the Securities Act of 1933, as amended (“1933 Act”), as made effective in SEC Release Number 33-6389, as amended in Release Numbers 33-6437, 33-6663, 33-6758, and 33-6825), excluding, however, any self-directed employee benefit plan with investment decisions made solely by persons that are “accredited investors” as defined in Rule 501(a)(5)-(6), any “qualified institutional buyer” (as that term is defined in Rule 144(A)(1) promulgated by the SEC under the 1933 Act, as made effective in SEC Release Number 33-6862 and amended in SEC Release Number 33-6963), or a corporation, partnership, trust, estate, or other entity (excluding individuals) having net worth of not less than \$5 million or a wholly-owned subsidiary of such entity (as long as the entity was not formed for the purpose of acquiring the Securities), provided in all the above instances that such institution is acting for its own account or as a bona fide trustee of a trust organized and existing other than for the purpose of acquiring the Securities.

Utah(1)

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer; whether the purchaser is acting for itself or in some fiduciary capacity.

Vermont(22)

Any banking institution organized under the laws of the United States, member bank of the Federal Reserve System, or any other banking institution doing business under the laws of a state or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to be exercised by national banks under the authority of the Comptroller of the Currency pursuant to Section 1 of Public Law 87-722, and which is supervised and examined by a state or federal agency having supervision over banks, and which is not operated for the purpose of evading the Vermont Uniform Securities Act (2002); a receiver, conservator, or other liquidating agent of any of the foregoing; a savings institution, trust company, credit union, or similar institution organized or chartered under the laws of a state or of the United States, authorized to receive deposits, and supervised and examined by an official or agency of a state or the United States whose deposits or share accounts are insured to the maximum amount authorized by statute by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, or a successor authorized by federal law (other than a Morris Plan bank or an industrial loan company); an international financial institution of which the United States is a member and whose securities are exempt from registration under the Securities Act of 1933; an insurance company or separate account of an insurance company; an investment company; an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the Vermont Uniform Securities Act



(2002), a depository institution, or an insurance company; a plan established and maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees, if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a duly designated public official or by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the Vermont Uniform Securities Act (2002), a depository institution, or an insurance company; a trust (except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans) with total assets in excess of \$10,000,000 if its trustee is a depository institution, and its participants are exclusively employee pension, profit-sharing, or benefit or governmental plans described above regardless of the size of their assets; an organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the Securities, with total assets in excess of \$10,000,000; a small business investment company licensed under Section 301(c) of the Small Business Investment Act of 1958 with total assets in excess of \$10,000,000; a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 with total assets in excess of \$10,000,000; a person registered under the Investment Advisers Act of 1940 acting for its own account; a qualified institutional buyer as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(H), adopted under the Securities Act of 1933; a "major U.S. institutional investor" as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934; or any other person, other than an individual, of institutional character with total assets in excess of \$10,000,000 not organized for the specific purpose of evading the Vermont Uniform Securities Act (2002).

Virginia

Any corporation, investment company, or pension or profit-sharing trust.

Washington(1)

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, which includes: (a) a corporation, business trust, or partnership, or a wholly-owned subsidiary of such an entity, which has been operating for at least 12 months and which has a net worth on a consolidated basis of at least \$10,000,000 as determined by the entity's most recent audited financial statements, such statements to be dated within 16 months of the transaction in the securities offered; (b) any entity which has been granted exempt status under Section 501(c)(3) of the Internal Revenue Code of 1986 and which has a total endowment or trust funds of \$5,000,000 or more according to its most recent audited financial statements, such statements to be dated within 16 months of the transaction in the securities offered; (c) any wholly-owned subsidiary of a bank, savings institution, insurance company, or investment company as defined in the Investment Company Act of 1940; or (d) any Qualified Institutional Buyer as defined in, and pursuant to, Rule



144A of the Securities and Exchange Commission; excluding, however, in each of the above cases, a natural person, individual retirement account (IRA), Keogh account, or other self-directed pension plan; whether the purchaser is acting for itself or in some fiduciary capacity.

West Virginia(1)

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer; whether the purchaser is acting for itself or in some fiduciary capacity.

Wisconsin(23)

Any bank, savings bank, savings institution, credit union, trust company, insurer, investment adviser, or savings and loan association (if the purchaser is acting for itself or as trustee with investment control), an investment company as defined under 15 USC 80a-3 or a pension or profit-sharing trust (provided the trust is administered by any of the above institutions that have investment control), the State of Wisconsin or any agency or political subdivision thereof, the federal government or any agency or instrumentality thereof, or other financial institution or institutional investor designated by rule or order of the Commissioner, including any endowment or trust fund of a charitable organization specified in Section 170(b)(1)(A) of the Internal Revenue Code, any issuer which has any class of securities registered under Section 12 of the Securities Exchange Act of 1934, and any wholly-owned subsidiary thereof, any venture capital company which either: (i) operates a small business investment company licensed under the Small Business Investment Act of 1958, as amended 15 USC sec. 631, or (ii) is a corporation, partnership or association whose net assets exceed \$1,000,000 and either: (a) whose principal purpose as stated in its articles, by-laws or other organizational instruments is investing in securities or (b) whose primary business is investing in developmental stage companies or "eligible small business companies" as defined in the regulations of the Small Business Administration at 13 CFR 108.2., any "Qualified Institutional Buyer" as defined and listed in 230.144A under the Securities Act of 1933, as amended inclusive to October 22, 1992, whether acting for its own account or the accounts of other qualified institutional buyers that in the aggregate owns and invests on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with the Qualified Institutional Buyer, any entity, all of the equity owners of which are institutional investors as described herein, acting for its own account or the accounts of other institutional investors, or any "accredited investor" as defined and listed in Sec. 230.501(a)(1), (2), (3) or (7) of Regulation D under Sections 4(2) and 3(b) of the Securities Act of 1933.

Wyoming(7)

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer; whether the purchaser is acting for itself or in some fiduciary capacity.



ORRICK

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- (1) Provided the offeror or seller is a registered or licensed broker or dealer in this jurisdiction, or has no place of business in this jurisdiction and effects transactions in this jurisdiction exclusively with or through registered or licensed brokers or dealers or these specified institutions.
 - (2) Provided the offeror or seller is a licensed broker-dealer in California, or has no place of business in California and is registered as a broker-dealer under the Securities Exchange Act of 1934, has not had any certificate denied or revoked under the California Corporate Securities Law of 1968 or any predecessor statute, and directs offers to sell or buy into California exclusively with licensed broker-dealers or these specified institutions.
 - (3) Provided offeror or seller is a registered or licensed broker-dealer in Colorado, or has no place of business in Colorado and is registered as a broker-dealer under the Securities Exchange Act of 1934 and transacts business exclusively with (a) other broker-dealers licensed or exempt therefrom in Colorado (except when the broker-dealer is acting as a clearing broker-dealer for such other broker-dealers), (b) individuals who are existing customers of the broker-dealer and whose principal place of residence is not Colorado, (c) these specified financial or institutional investors, and (d) no more than five other persons in any 12 consecutive months.
 - (4) Provided the offeror or seller is a registered or licensed broker or dealer in Delaware, or has no place of business in Delaware and effects transactions in Delaware exclusively with or through registered or licensed brokers or dealers or these specified institutions. If the offeror or seller is a registered broker-dealer in Delaware, offers or sales of the Securities may also be made to an “accredited investor” as defined in SEC Rule 501(a)(1)-(4), (7) and (8), excluding, however, any self-directed employee benefit plan with investment decisions made solely by persons that are “accredited investors” as defined in SEC Rule 501(a)(5)-(6).
 - (5) Provided the offeror or seller is a registered or licensed broker-dealer in the District of Columbia, or has no place of business in the District of Columbia and effects transactions in the District of Columbia exclusively with or through registered or licensed broker-dealers or these specified institutions. In addition, if the offeror or seller is a registered or licensed broker-dealer in the District of Columbia, offers and sales of the Securities may also be made to the following financial or institutional investors:
 - (a) and employee pension, profit-sharing or benefit plan, provided the plan has total assets in excess of \$5,000,000, or the investment decisions are made by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is either a broker dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, a depository institution or an insurance company;
 - (b) a business development company as defined by the Investment Company Act of 1940;
 - (c) a “Qualified institutional buyer” as defined in SEC Rule 144A, 17 C.F.R. §230.144A;
 - (d) an accredited investor as defined in SEC Rule 501(a), 17 C.F.R. §230.501(a); and



(e) a limited liability company with net assets of at least \$500,000. Qualified Institutional Buyers as defined in Rule 144A of the Securities and Exchange Commission.

- (6) Provided the offeror or seller is a registered broker-dealer in Hawaii, or has no place of business in Hawaii and effects transactions in Hawaii exclusively with or through registered broker-dealers or these specified institutions. In addition, if the offeror or seller is a registered broker-dealer in Hawaii, offers or sales of the Securities may also be made to any organization within the scope of Section 501(c)(3) of the Internal Revenue Code of 1956, as amended.
- (7) Provided the offeror or seller is a registered broker-dealer in this jurisdiction, or has no place of business in this jurisdiction and effects transactions in this jurisdiction exclusively with or through registered broker-dealers or these specified institutions. In addition, if the offeror or seller is a registered broker-dealer, offers or sales of the Securities may also be made to Qualified Institutional Buyers as defined in Rule 144A of the Securities and Exchange Commission.
- (8) Provided the offeror or seller is a registered or licensed broker or dealer in Iowa, or has no place of business in Iowa and effects transactions in Iowa exclusively with or through registered broker-dealers or these specified institutions. If the offeror or seller is a registered broker-dealer in Iowa, offers and sales of the Securities may also be made to:

(a) any bank or any savings and loan association or other institution as defined in section 3(a)(5)(A) of the Securities Act of 1933, whether acting in its individual or fiduciary capacity; any broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934; any insurance company as defined in section 2(13) of the Securities Act of 1933; any investment company registered under the Investment Company Act of 1940 or a business development company as defined in section 2(a)(48) of that Act; any Small Business Investment Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000; any employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 ("ERISA") if the investment decision is made by a plan fiduciary, as defined in section 3(21) of ERISA, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are institutional buyers;

(b) any private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940;

(c) any organization described in section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the Securities, with total assets in excess of \$5,000,000;

(d) any director, executive officer, or general partner of the issuer of the Securities, or any director, executive officer, or general partner of a general partner of that issuer;



(e) any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of the purchase exceeds \$1,000,000;

(f) any natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;

(g) any trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the Securities, whose investment decisions are directed by a person who has such knowledge and experience in financial and business matters that the person is capable of evaluating the merits and risks of the prospective investment;

(h) any entity in which all of the equity owners are institutional buyers;

(i) any venture or seed capital company which is a corporation, partnership or association that has been in existence for five (5) years or whose net assets exceed \$250,000 and: (1) whose principal purpose as stated in its articles, by-laws or other organizational instruments is investing in securities, or (2) whose primary business is investing in developmental stage companies or "eligible small business companies" as that term is defined in the regulations of the Small Business Administration; and

(j) any Qualified Institutional Buyer as defined in Rule 144A of the Securities and Exchange Commission.

- (9) Provided that the offeror or seller (a) is registered as a broker-dealer in Maine, (b) is registered as a broker-dealer under the Securities Exchange Act of 1934 and effects transactions in Maine exclusively with the issuer of the securities involved in the transactions, other broker-dealers licensed or exempt in Maine (except when the offeror or seller is acting as a clearing broker-dealer for such other broker-dealers) and financial and institutional investors acting for themselves or in a fiduciary capacity, or (c) is registered as a broker-dealer under the Securities Exchange Act of 1934 and is licensed under the securities act of the state in which the broker-dealer maintains its principal place of business and has no place of business in Maine, if the broker-dealer offers and sells in Maine to persons who are existing customers of the broker-dealer and who represent that they have no principal place of residence in Maine.
- (10) Provided the offeror or seller is a registered or licensed broker-dealer in Maryland, or has no place of business in Maryland and effects transactions in Maryland exclusively with or through registered or licensed broker-dealers or these specified institutions. If the offeror or seller is a Maryland registered broker-dealer, offers and sales may also be made to an employee benefit plan with assets of not less than \$1,000,000, a governmental instrumentality or agency, and to an investment adviser with assets under management of not less than \$1,000,000, whether acting for itself or as a trustee or a fiduciary with investment control, a Qualified Institutional Buyer as defined in Rule 144A of the Securities and Exchange Commission, and persons defined as "accredited investors" pursuant to Rule 501(a)(1)-(3), (7) and (8) of Federal Regulation D.
- (11) Provided the offeror or seller is registered as a broker-dealer in Missouri, or has no place of business in Missouri and effects transactions in Missouri exclusively with or through other registered broker-dealers



or these specified institutions. If the offeror or seller is a Missouri registered broker-dealer, offers and sales of the Securities may also be made to (a) an endowment or trust fund of a charitable organization specified in section 170(b)(1)(A) of the Internal Revenue Code; (b) an issuer which has any class of securities registered under Section 12 of the Securities Exchange Act of 1934, and any wholly-owned subsidiary thereof; (c) any other corporation, partnership or association which has been in existence for 10 years or whose net assets exceed \$500,000 and whose principal purpose as stated in its articles, bylaws or other organizational instrument is investing in securities; and (d) any Qualified Institutional Buyer as defined in Rule 144A of the Securities and Exchange Commission.

- (12) Provided the person has no place of business in this state and effects transaction in this state exclusively with or through the issuers of the securities, other broker-dealers or banks, savings institutions, trust companies, insurance companies, investment companies as defined in the Investment Company Act of 1940, pension or profit-sharing trusts, or other financial institutions or institutional buyers as defined in this state.
- (13) Provided the offeror or seller is a licensed broker-dealer in Nevada, or has no place of business in Nevada, is registered as a broker-dealer under the Securities Exchange Act of 1934, or is exempt from such registration, and (a) effects transactions in Nevada exclusively with other broker-dealers licensed or exempt from licensing in Nevada, or these specified institutions, or (b) is licensed under the securities laws of the jurisdiction in which it maintains a place of business and (i) offers and sells in Nevada to a person who is an existing customer of the broker-dealer and whose principal place of residence is not in Nevada, or (ii) during any 12 consecutive months does not effect transactions with more than five persons in Nevada in addition to the issuers of securities involved in the transactions, financial or institutional investors or broker-dealers, whether or not the offeror or an offeree is then present in Nevada.
- (14) Provided the offeror or seller is a registered or licensed broker or dealer in New Hampshire, or has no place of business in New Hampshire and effects transactions in New Hampshire exclusively with other brokers or dealers licensed or these specified institutions.
- (15) Provided the offeror or seller is a registered or licensed broker or dealer in New Jersey or effects transactions in New Jersey exclusively with or through registered or licensed brokers or dealers or these specified institutions.
- (16) Provided the offeror or seller is a licensed broker-dealer in New Mexico, or has no place of business in New Mexico, is registered as a broker-dealer under the Securities Exchange Act of 1934 and effects transactions in New Mexico exclusively with other broker-dealers licensed or exempt under the New Mexico Securities Act of 1986 or these specified institutions.
- (17) We will make the requisite filing.
- (18) Provided the offeror or seller is registered as a dealer in North Carolina, or has no place of business in North Carolina and effects transactions in North Carolina exclusively with or through other registered dealers or these specified institutions. If the offeror or seller is a North Carolina registered dealer, offers and sales of the Securities may also be made to any corporation which has a net worth in excess of



\$1,000,000 as determined by generally accepted accounting principles, in addition to the specified persons and institutions.

- (19) Provided the offeror or seller is a registered or licensed broker or dealer in Ohio.
- (20) Provided the offeror or seller is a registered broker-dealer in Rhode Island, or has no place of business in Rhode Island, is registered or exempt from registration as a broker-dealer under the Securities Exchange Act of 1934, and (a) effects transactions exclusively with other licensed or exempt broker-dealers or these specified institutions, or (b) is a registered broker-dealer in the state where it maintains a place of business and sells to persons in Rhode Island that are existing customers of the broker-dealer and whose principal place of residence is not Rhode Island. In addition, if the offeror or seller is a registered broker-dealer, offers and sales may also be made to Qualified Institutional Buyers as defined in Rule 144A of the Securities and Exchange Commission.
- (21) Provided the offeror or seller is a registered broker-dealer in Tennessee, or has no place of business in Tennessee, is registered as a broker-dealer with the Securities and Exchange Commission or the National Association of Securities Dealers, Inc. and effects transactions in Tennessee exclusively with or through other brokers-dealers or these specified institutions.
- (22) Provided the offeror or seller is a registered broker-dealer in Vermont.
- (23) Provided the offeror or seller is a registered broker-dealer in Wisconsin or effects transactions in Wisconsin exclusively for the account of or exclusively in offers to sell or sales to brokers or dealers or these specified institutions.

In the opinion of Sidley Austin LLP, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

\$62,275,000

**MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007**

Dated: Date of Delivery**Price: 100%****Due: September 1, 2033**

The Lease Revenue Refunding and Capital Improvement Refunding and Capital Improvement Bonds, Series 2007 are being issued pursuant to an Indenture, dated as of April 1, 2007, by and between the Modesto Public Financing Authority and The Bank of New York Trust Company, N.A., as Trustee, in order to provide funds to (i) refund certain bonds previously issued by the Authority, (ii) finance the costs of certain public facilities located in the City of Modesto, (iii) fund the Reserve Fund for the Bonds and (iv) pay the costs of issuance of the Bonds, as more fully described herein.

The Bonds are being initially issued as Auction Rate Securities in denominations of \$25,000 or any integral multiple thereof and will initially bear interest at ARS Rates for the Initial Period and thereafter for generally successive 7-day Auction Periods. Each ARS Rate will, except in certain cases, be equal to the annual interest rate that results from the implementation of the ARS provisions described in Appendix B hereto. At the election of the City, the Auction Period for the Bonds may be changed or the Bonds may be converted to a Mode other than the ARS Mode as described herein. While the Bonds are in the ARS Mode, a Beneficial Owner may sell, transfer or dispose of a Bond only in accordance with the ARS Provisions. *This Official Statement describes the Bonds only while they are in the ARS Mode.*

The Bonds are being issued in book-entry form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers of interests in the Bonds will not receive certificates representing their beneficial ownership of the Bonds. Principal of, redemption premium, if any, and interest on the Bonds are payable directly by the Trustee to DTC, which is obligated in turn to remit such principal, redemption premium, if any, and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as described herein.

The Bonds are subject to optional redemption, mandatory sinking fund redemption and extraordinary redemption prior to their maturity as described herein. The Bonds will not be subject to optional tender, nor will they be purchased in the event sufficient clearing bids do not exist in any Auction, although they will be subject to mandatory purchase upon conversion to another Mode.

The Bonds are special obligations of the Authority, payable solely from and secured solely by a pledge of Revenues that consist primarily of: (i) Base Rental Payments to be received by the Authority from the City pursuant to a Facility Lease, dated as of April 1, 2007, by and between the Authority and the City and (ii) Swap Revenues received by the Authority. As described herein, the Revenues are also pledged, on a parity with the pledge thereof to secure payment of the Bonds and to secure the payment of Regular Swap Payments.

The Base Rental Payments are calculated to be sufficient to pay the principal of and interest on the Bonds when due as well as any Regular Swap Payments required to be made by the Authority. The obligation of the City to make Base Rental Payments is a general fund obligation of the City, subject to abatement and to certain other conditions of the Facility Lease.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by CIFG Assurance North America, Inc.



The Bonds are special limited obligations of the Authority payable solely from and secured solely by the Revenues pledged in the Indenture. The Bonds are not a debt of the Authority, the City, the State of California or any of its political subdivisions except the Authority to the extent described herein. Neither the Authority, the City, the State nor any of its political subdivisions, except the Authority to the extent described herein, is liable thereon. In no event shall the Bonds or any interest or redemption premium thereon be payable out of any funds or properties other than those of the Authority as set forth in the Indenture. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limit or restriction. Neither the members of the Authority, the City Council of the City or any members executing the Bonds are personally liable on the Bonds by reason of their issuance.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT INTENDED TO BE A SUMMARY OF THE SECURITY FOR OR THE TERMS OF THE BONDS. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION. CAPITALIZED TERMS USED ON THIS COVER PAGE NOT OTHERWISE DEFINED SHALL HAVE THE MEANINGS SET FORTH HEREIN.

The Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval of validity by Sidley Austin LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by Orrick Herrington & Sutcliffe LLP; for the Authority and the City by the City Attorney and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel; for the Trustee by its General Counsel; and for the Bond Insurer by its General Counsel. It is anticipated that the Bonds, in book-entry form will be available for delivery to DTC or its agent on or about April 18, 2007.

Banc of America Securities LLC

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

<i>Length of Initial Auction Rate Period</i>	<i>Initial Auction Date</i>	<i>Initial Interest Payment Date</i>	<i>Auction Day Generally</i>	<i>Auction Period Generally</i>	<i>Interest Payment Day Generally</i>	<i>CUSIP[†]</i>
504 days	September 2, 2008	September 1, 2007	Tuesday	7-Day	Wednesday	607796AX7

The Bonds will bear interest from the date of original delivery through the Initial Auction Date set forth above at the rate established by Banc of America Securities LLC, Underwriter for the Bonds, prior to the date of delivery. Thereafter, the Bonds will bear interest for generally successive 7-day Auction Periods, until the Auction Period is changed or the Bonds are converted to a different Mode, as described herein. Interest will be payable on the Initial Interest Payment Date set forth above and thereafter on the day following the end of each Auction Period for the Bonds unless the Auction Period is changed to a daily Auction Period or a Special Auction Period of more than 182 days or unless a different Mode is applicable to the Bonds.

Deutsche Bank Trust Company Americas will act as the Auction Agent and Banc of America Securities LLC will act as the Broker-Dealer for the Bonds.

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MODESTO PUBLIC FINANCING AUTHORITY

1010 10th Street
P.O. Box 642
Modesto, California 95353
(209) 577-5369
TDD (209) 526-9211 Hearing and Speech Impaired Only

CITY COUNCIL

Jim Ridenour, Mayor
Brad Hawn, Vice Mayor
Bob Dunbar
Janice Keating
Garrad Marsh
Will O'Bryant
Kristin Olsen

CITY OFFICIALS

George W. Britton, City Manager
Susana Alcala Wood, City Attorney
Wayne Padilla, Finance Director/Treasurer
Gregory M. Baird, Deputy Director of Finance

SPECIAL SERVICES

Bond Counsel

Sidley Austin LLP
San Francisco, California

Financial Advisor

Public Financial Management, Inc.
San Francisco, California

Auction Agent

Deutsche Bank Trust Company Americas
New York, New York

Trustee

The Bank of New York Trust Company, N.A.
San Francisco, California

Verification Agent

The Arbitrage Group
Sugar Land, Texas

Disclosure Counsel

Stradling Yocca Carlson & Rauth,
a Professional Corporation
Newport Beach, California

All the information which the Modesto Public Financing Authority and the City of Modesto intend to present investors regarding the City and the Bonds is contained in this Official Statement. While the City maintains an internet website for various purposes, none of the information on that website is intended to assist investors in making any investment decision, or to provide any continuing information, with respect to the Bonds or any other obligations of the City. Moreover, none of the information on the website is incorporated herein by reference. No dealer, broker, salesperson or other person has been authorized by the Authority, the City, the Bond Insurer or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, the City, the Bond Insurer or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Bond Insurer since the date hereof. All summaries of documents contained herein are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "Forward-Looking Statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" and other similar words and include, but are not limited to, statements that describe possible future revenues and expenses of the City.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. While the City has agreed to provide certain on-going financial and operating data (see "CONTINUING DISCLOSURE" and Appendix F hereto), it does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which statements are based change.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information concerning the offering by the Modesto Public Financing Authority (the “Authority”) of its Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the “Bonds”). This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Descriptions and summaries of various documents set forth herein do not purport to be comprehensive or definitive, and references made to each such document for complete details of all terms and conditions thereof. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. See Appendix A — “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS — Definitions” and Appendix B — “ARS PROVISIONS.”

General

The Bonds are being issued by the Authority in order to provide funds to (i) refund certain bonds previously issued by the Authority, (ii) finance the costs of certain public facilities located in the City of Modesto (the “City”), (iii) fund the Reserve Fund for the Bonds and (iv) pay the costs of issuance of the Bonds, as more fully described herein. See “THE REFUNDING PLAN,” “THE PROJECT” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The Authority issued its Lease Revenue Bonds Series 1997 (John Thurman Field Renovation Project) in 1997 in an aggregate principal amount of \$3,600,000 (the “Series 1997 Bonds”) for the primary purpose of financing the rehabilitation and construction of the John Thurman Field baseball stadium. In 1998 the Authority issued its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refunding Project) (the “Series 1998 Bonds”) in an aggregate principal amount of \$61,430,000 for the primary purposes of providing funds to finance a portion of the 1998 Leased Property (as hereinafter defined) and refunding the City’s outstanding 1986 Certificates of Participation. A portion of the proceeds derived from the sale of the Bonds will be applied to the refunding of all of the Series 1997 Bonds and a portion of the Series 1998 Bonds. See “THE REFUNDING PLAN.”

In connection with the issuance of the Series 1998 Bonds, each of (i) the City, (ii) the Redevelopment Agency of the City of Modesto (the “Redevelopment Agency”) and (iii) the City-County Capital Improvements and Financing Agency (the “City-County JPA”) leased its respective interest in certain real property, facilities and/or improvements to the Authority pursuant to separate leases (collectively, the “1998 Site Leases”), each dated as of March 1, 1998. The Authority in turn leased such real property, facilities and/or improvements, together with the improvements that were to be constructed thereon, as applicable (collectively, the “1998 Leased Property”), to the City pursuant to the terms of the Lease/Purchase Agreement, dated as of March 1, 1998, as amended by and between the Authority and the City (the “1998 Lease”). The City is required pursuant to the 1998 Lease to make payments in consideration of the use and possession of

the 1998 Leased Property (the “1998 Lease Payments”). 1998 Lease Payments were designed to be sufficient in both time and amount to pay, when due, the principal of and interest on the Series 1998 Bonds. Thus, as a result of the refunding of a portion of the Series 1998 Bonds with the proceeds of the Bonds, the amount of the 1998 Lease Payments will be reduced.

In connection with the issuance of the Bonds, the City will sublease substantially all of the 1998 Leased Property to the Authority pursuant to the terms of a Sublease dated as of April 1, 2007 by and between the Authority and the City; and the Authority will in turn sublease that property, together with any improvements to be constructed thereon, as applicable (collectively, the “Leased Property”), back to the City pursuant to the terms of the Facility Lease, dated as of April 1, 2007 by and between the Authority and the City (the “Facility Lease”). The City is required pursuant to the Facility Lease to make payments in consideration of the use and possession of the Leased Property (the “Base Rental Payments”).

The Facility Lease is subordinate to the 1998 Facility Lease. Thus, if the City defaults on its payment obligations under the 1998 Lease, thereby causing a default under the Facility Lease, the Owners of the 1998 Bonds would be entitled to receive the benefit of any available City funds payable as 1998 Lease Payments before the owners of the Bonds would be entitled to receive such funds in connection with the City’s payment of the Base Rental Payments securing the Bonds. Moreover, if an event should occur that results in an abatement of the City’s obligation to make payments under the 1998 Lease and the Facility Lease (see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Abatement” and “RISK FACTORS — Abatement Risk”) any available insurance or condemnation proceeds would be applied first to make payments to the owners of the 1998 Bonds.

Authority for Issuance

The Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985 (Article 4, commencing with Section 6584, of Chapter 5, Division 7, Title 1 of the California Government Code), as amended from time to time (the “Bond Law”), resolutions adopted by the governing board of the Authority and the City Council of the City, and an Indenture, dated as of April 1, 2007 (the “Indenture”), by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the “Trustee”).

The Bonds

The Bonds will be dated as of the date on which they are issued and will mature on September 1, 2033 (the “Maturity Date”). The Bonds will be initially issued in denominations of \$25,000 and any integral multiple thereof as Auction Rate Securities (“ARS”) and will initially bear interest at ARS Rates determined in accordance with the ARS Provisions set forth in the Indenture. When they bear interest at ARS Rates, the Bonds are referred to “ARS Bonds.” See Appendix B — “ARS PROVISIONS.” The Bonds are subject to mandatory tender for purchase upon conversion to a Mode other than the ARS Mode; and they are also subject to optional redemption, mandatory sinking fund redemption and special mandatory redemption prior to the Maturity Date as described herein. See “THE BONDS.”

Security and Sources of Payment for the Bonds

The Bonds are special limited obligations of the Authority payable solely from and secured solely by the Revenues (as hereinafter defined) pledged therefor in the Indenture. The Revenues consist primarily of: (i) Base Rental Payments payable by the City, as sublessee, to the Authority, as sublessor, for the use and possession of the Leased Property and (iii) the Swap Revenues (as hereinafter defined).

The Leased Property consists of: (i) the Redevelopment Agency's parking garage (the "Parking Garage"), which is located at the corner of 11th and K Streets and which contains approximately 700 parking spaces in a five story structure, (ii) the City's one-half interest in the City-County JPA's administration building (the "City-County Administration Building"), which is located on 10th Street and which consists of a seven story structure a portion of which is owned by the Redevelopment Agency and the remainder of which is owned by the City-County JPA, (iii) the City's police headquarters building (the "Police Headquarters") an approximately 40,000 square foot structure which is occupied by the City's Police Department, (iv) five public parks – Riverside Neighborhood Park, Sipherd Neighborhood Park, Floyd Neighborhood Park, Wesson Ranch Neighborhood Park and Graceada Park, and certain other miscellaneous City properties (collectively, the "Miscellaneous Properties") and (v) the City's Communication Dispatch Center (the "Communication Dispatch Center"), which is located on Oakdale Road in the City. The Facility Lease permits real property to be added or substituted in place of any of the foregoing under the circumstances described therein. See APPENDIX A — "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS — THE FACILITY LEASE – Removal or Substitution of Leased Property."

Pursuant to the terms of the Facility Lease, the City is required to make the Base Rental Payments from any source of legally available funds in each year in which the City has use and possession of the Leased Property. The Base Rental Payments are designed to be sufficient in both time and amount to pay, when due, (i) the principal of and interest on the Bonds and (ii) the Regular Swap Payments (as hereinafter defined). The City has covenanted in the Facility Lease to take such action as may be necessary to include the Base Rental Payments in its annual budget and has further covenanted to make the necessary appropriations for all such Base Rental Payments.

The amount of Base Rental Payments which the City is obligated to pay under the Facility Lease is subject to abatement during any period in which, by reason of failure to complete construction, damage or destruction (other than by condemnation), there is substantial interference with the City's use and possession of the Leased Property or any component thereof. Such adjustment or abatement will end with the construction, substantial replacement, or reconstruction of the Leased Property or the affected portion thereof. The Base Rental Payments will not be abated to the extent that Net Proceeds of and moneys held by the Trustee under the Indenture that are to be credited toward the payment of the Base Rental Payments are available, the City having determined that such moneys constitute special funds for payment of the Base Rental Payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Abatement."

The obligation of the City to pay the Base Rental Payments does not constitute either (a) an obligation for which the City is obligated to pledge any form of taxation or for which the City has pledged any form of taxation or (b) indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

The City has assumed responsibility under the Facility Lease for the operation, maintenance and repair of the Leased Property; and it is required to maintain, or cause to be maintained, insurance against loss or damage to any structures constituting any part of the Leased Property by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance and sprinkler system leakage insurance, all subject to exceptions, exclusions and deductibles as set forth in the Facility Lease. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Property Insurance.” Information with respect to the City is included in Appendix C — “CERTAIN INFORMATION REGARDING THE CITY” and Appendix D — “EXCERPTS FROM THE CITY’S AUDITED FINANCIAL STATEMENTS.”

Swap Agreement

In connection with the execution and delivery of the Bonds, the Authority has entered, or concurrently with the issuance of the Bonds will enter, into an interest rate swap agreement in the form of an ISDA Master Agreement (Local Currency – Single Jurisdiction), the U.S. Municipal Counterparty Schedule thereto, a Credit Support Annex and a Confirmation, each dated as of and entered into on April 11, 2007 (collectively, the “Swap Agreement”), with Bank of America, N.A. (the “Swap Provider”). The Swap Agreement will become effective on September 3, 2008 and is scheduled to expire on the Maturity Date of the Bonds. Pursuant to the Swap Agreement, the Authority will be required to make periodic payments to the Swap Provider calculated on the basis of a fixed rate of interest on an initial notional amount equal to the original principal amount of the Bonds. The notional amount of the Swap Agreement is scheduled to be reduced on the same dates and in the same amounts as the principal amount of the Bonds is scheduled to be reduced. The Swap Provider will be required to make periodic payments to the Authority calculated on the basis of a variable rate of interest equal to a percentage of LIBOR plus a fixed spread on the same initial notional amount. The amounts payable by each party pursuant to the Swap Agreement are netted against the payments to be received by such party thereunder. Certain of the amounts that may be payable by the Authority to the Swap Provider will be insured pursuant to a policy of interest rate swap insurance to be issued by the Bond Insurer (defined below) (the “Swap Policy”). The Authority’s obligation under the Swap Agreement to make scheduled payments is a Parity Obligation. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Swap Agreement.”

The Swap Provider and Banc of America Securities LLC, the Underwriter and Broker-Dealer, are affiliates, both being subsidiaries of the Bank of America Corporation. See “CERTAIN RELATIONSHIPS.”

Bond Insurance

Concurrently with the issuance of the Bonds, CIFG Assurance North America, Inc. (the “Bond Insurer” or “CIFG”) will issue its financial guaranty insurance policy for the Bonds (the “Bond Insurance Policy”). See “THE BOND INSURER” and Appendix G — “SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY.”

The City

The City, which has an estimated population of approximately 208,107 as of January 1, 2006, is the county seat of Stanislaus County and was incorporated in 1884. It covers approximately 36 square miles. The City operates under a council-manager form of government pursuant to a

charter adopted in 1963. The City is located in central California, approximately 93 miles east of San Francisco. See Appendix C — “CERTAIN INFORMATION REGARDING THE CITY.”

The Authority

The Authority was established pursuant to the provisions of Sections 6500 *et seq.* of the California Government Code and a Joint Exercise of Powers Agreement, dated as of December 1, 1989, by and between the City and the Industrial Development Authority of the City of Modesto. The Authority was established for the purpose of financing the acquisition, construction, improvement and equipping of public capital improvements. The governing board of the Authority consists of the City Council of the City.

Tax Matters

For a description of the tax treatment of interest on the Bonds, see “TAX MATTERS” and the proposed form of the opinion of Sidley Austin LLP, Bond Counsel, set forth in Appendix E.

Continuing Disclosure

The City has covenanted for the benefit of the Owners and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the City by not later than 270 days following the end of the City’s Fiscal Year (presently June 30), commencing with the report for the 2006-07 Fiscal Year, and to provide notices of occurrence of certain enumerated events, if material. See “CONTINUING DISCLOSURE” herein and Appendix F — “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

Other Matters

This Official Statement speaks only as of its date, and the information and expressions of opinion contained herein are subject to change without notice. Neither delivery of this Official Statement nor any sale of Bonds made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

THE REFUNDING PLAN

As noted above under “INTRODUCTION,” the Authority has heretofore issued its Series 1997 Bonds to provide financing for the rehabilitation and construction of the John Thurman Field baseball stadium and its Series 1998 Bonds to provide funds to finance a portion of the 1998 Leased Property and refunding the City’s outstanding 1986 Certificates of Participation. The Authority plans to apply a portion of the proceeds derived from the sale of the Bonds to the refunding of (i) all of the outstanding Series 1997 Bonds on May 23, 2007 at a redemption price equal to 102% of the principal amount thereof plus interest accrued to the date of redemption and (ii) a portion of the Series 1998 Bonds in the aggregate principal amount of \$55,460,000 on September 1, 2008 at a redemption price equal to 101% of the principal amount thereof plus interest accrued to the date of redemption. The Series 1997 Bonds and the Series 1998 Bonds to be refunded are collectively referred to herein as the “Refunded Bonds.”

Bond proceeds, together with certain funds made available through the defeasance of the Series 1997 Bonds, will be deposited in trust with U.S. Bank National Association (the “1997 Escrow Agent”) pursuant to the 1997 Escrow Agreement, dated as of April 1, 2007, by and between the Authority and the 1997 Escrow Agent (the “1997 Escrow Agreement”). The funds so deposited with the 1997 Escrow Agent will be applied to the purchase of Federal Securities (as defined in the 1997 Escrow Agreement) (the “1997 Escrow Securities”) or held in cash, as provided in the 1997 Escrow Agreement. The 1997 Escrow Securities, together with interest thereon, and such cash are calculated to be sufficient to pay interest on the Series 1997 Bonds coming due through May 23, 2007 and to pay the redemption price of the Series 1997 Bonds on said date. Other Bond proceeds, together with certain funds made available through the defeasance of the Series 1998 Bonds, will be deposited in trust with The Bank of New York Trust Company, N.A. (the “1998 Escrow Agent”) pursuant to the 1998 Escrow Agreement, dated as of April 1, 2007, by and between the Authority and the 1998 Escrow Agent (the “1998 Escrow Agreement”). The funds so deposited with the 1998 Escrow Agent will be applied to the purchase of Federal Securities (as defined in the 1998 Escrow Agreement) (the “1998 Escrow Securities”) or held in cash, as provided in the 1998 Escrow Agreement. The 1998 Escrow Securities, together with interest thereon, and such cash are calculated to be sufficient to pay the principal of and interest on the Series 1998 Bonds coming due through September 1, 2008 and to pay the redemption price of the Series 1998 Bonds on said date. The accuracy of the aforesaid calculations will be verified by The Arbitrage Group. See “VERIFICATION OF MATHEMATICAL ACCURACY.” The aforesaid deposits with the 1997 Escrow Agent and the 1998 Escrow Agent will result in the defeasance of the Refunded Bonds.

Series 1998 Bonds in an aggregate amount of \$4,165,000 will not be defeased but will remain outstanding. Those Series 1998 Bonds will continue to be secured by the 1998 Lease Payments (although the amount of the 1998 Lease Payments will be reduced as a result of the partial refunding of the Series 1998 Bonds). The City’s obligation to pay the 1998 Lease Payments is an obligation of its general fund, as is the City’s obligation to pay the Base Rental Payments.

The 1997 Escrow Securities, the 1998 Escrow Securities and the other moneys held by the 1997 Escrow Agent and the 1998 Escrow Agent pursuant to the respective Escrow Agreements are pledged to the payment of the Refunded Bonds and will not be not available for the payment of debt service on the Bonds.

THE PROJECT

In addition to defeasing the Refunded Bonds (see “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS”), the primary purpose for the issuance of the Bonds is to provide funds for the acquisition, construction and improvement of the Project. The Project consists primarily of improvements to John Thurman Field (the “Stadium”), the baseball stadium used by the Modesto Nuts (the “Baseball Team”), a minor league team which is part of the Colorado Rockies organization. The City has owned the land upon which the Stadium located since 1905, and the Stadium opened in 1955. The additional improvements that comprise the Project are proposed to be installed pursuant to the terms of a ten-year license agreement between the City and the Baseball Team that was approved by the City Council in September of 2006.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds with respect to the Bonds.

Sources of Funds

Principal Amount of the Bonds	\$ 62,275,000.00
Amounts Held for Refunded Bonds	4,958,266.37
Less: Underwriter's Discount	(207,482.63)
Total Sources	<u>\$ 67,025,783.74</u>

Uses of Funds

Reserve Fund ⁽¹⁾	\$ 4,318,051.92
Costs of Issuance Fund ⁽²⁾	574,381.92
To Escrow Agent for Defeasance of Refunded Bonds	59,733,349.90
Project Fund	<u>2,400,000.00</u>
Total Uses	<u>\$ 67,025,783.74</u>

⁽¹⁾ Equal to the Reserve Fund Requirement.

⁽²⁾ Includes legal and advisory fees, printing costs, rating agency fees, bond insurance premium and other miscellaneous expenses.

THE BONDS

General

The Bonds will be initially issued as Auction Rate Securities in the principal amount set forth on the cover page to this Official Statement. The Bonds will be dated the date of their initial execution and delivery and will mature on the Maturity Date, subject to earlier redemption. While they are in the ARS Mode, the Bonds will be issuable in fully registered form without coupons in denominations of \$25,000 or any integral multiple thereof. Upon their initial delivery, the Bonds 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 for the Bonds. Ownership interests in the Bonds may be purchased in book entry form only. See "Book-Entry-Only System" below.

Book-Entry-Only System

The Bonds will be executed and delivered in book-entry form only. Purchasers of the Bonds will not receive certificates representing their ownership interests in the Bonds purchased. All payments with respect to the Bonds are to be made by the Trustee directly to DTC. DTC is expected to credit such payments to the respective accounts of its Direct Participants which, in turn, are expected to make payment thereof to the purchasers of the Bonds.

As long as Cede & Co. is the registered owner of the Bonds, references herein to the Owners of the Bonds shall refer to Cede & Co. and not to the beneficial owners of the Bonds (the "Beneficial Owners"). *Neither the Authority nor the City gives any assurance that DTC, its Direct Participants or others will distribute payments with respect to the Bonds or notices concerning the Bonds to the Beneficial Owners thereof or that DTC will otherwise serve and act in the manner described in this Official Statement.* See Appendix H — "BOOK-ENTRY SYSTEM" for a further description of

DTC and its book-entry system. The information presented therein is based solely on information provided by DTC.

The Authority may decide to discontinue the use of book-entry transfers through DTC (or a successor Securities Depository). In that event, the Bonds will be printed and delivered to the Beneficial Owners and will be governed by the provisions of the Indenture with respect to the payment of principal and interest and rights of exchange and transfer.

Interest Rate Provisions

Initially, the ARS Rate for the Bonds will be determined in most cases (other than the Initial Period) for generally successive 7-day Auction Periods through the implementation of the ARS Provisions summarized in Appendix B — “ARS PROVISIONS.” Interest with respect to the Bonds while they are in the ARS Mode will be payable on the date specified for such payment on the inside front cover hereof and on the Business Day immediately following each Auction Period (generally a Friday) unless the Auction Period is a daily Auction Period or a Special Auction Period of longer than 182 days. The Auction Period for the Bonds may be changed in accordance with the procedures set forth in the ARS Provisions; and, at the election of the Authority, the Mode may be changed to a Mode other than the ARS Mode.

This Official Statement in general describes the Bonds only while the Bonds are in the ARS Mode. In the event the Bonds are converted to another Mode, the Authority will deliver a new offering document. Investors should not rely upon the information in this Official Statement in the event the Bonds are converted to a Mode than the ARS Mode.

ARS Provisions

While the Bonds are in the ARS Mode, except as specifically otherwise provided in the Indenture, the provisions of the Indenture summarized in Appendix A — “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS” and the ARS Provisions summarized in Appendix B — “ARS PROVISIONS” will govern the interest rates per annum and the payment terms of the Bonds. Banc of America Securities LLC will act as the initial broker-dealer with respect to the Bonds (in that capacity, the “Broker-Dealer”), and Deutsche Bank Trust Company Americas (the “Auction Agent”) will act as the initial Auction Agent.

ARS Rate

While the Bonds are in the ARS Mode, interest with respect to them will be payable at rates established pursuant to the Auction Procedures described in Appendix B — “ARS PROVISIONS.” In general, for each Auction Period (i) if Sufficient Clearing Bids exists, the rate applicable to the Bonds shall be the Winning Bid Rate, provided that if all of the ARS Bonds are the subject of Submitted Hold Orders, such rate shall be the All Hold Rate and (ii) if Sufficient Clearing Bids do not exist, such rate shall be the Maximum Interest Rate. In no case may the ARS Rate exceed the Maximum Interest Rate.

The Initial Period will commence on the date on which the Bonds are executed and delivered and will end on and include September 2, 2008. Thereafter, each Auction Period shall be established pursuant to the ARS Provisions.

For the initial Auction Period, interest on the Bonds will be payable on September 1, 2007, March 1, 2008 and September 3, 2008. Thereafter, “Interest Payment Date” with respect to the Bonds while they are in the ARS Mode means (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Special Auction Period of (i) 7 or more but fewer than 183 days, the Business Day immediately following such Special Auction Period or (ii) more than 182 days, each March 1 and September 1 and the Business Day immediately following such Special Auction Period.

Interest with respect to the Bonds accruing at an ARS Rate shall be computed on the basis of a 360-day year for the actual number of days elapsed if the Auction Period is less than 180 days and on the basis of a 360-day year composed of 12 30-day months if the Auction Period is 180 days or more.

Mandatory Tender for Purchase upon Conversion

The interest rate applicable to the Bonds may be converted from the ARS Rate to another rate at the election of the Authority upon the satisfaction of certain conditions as set forth in the Indenture. In the event of such a conversion, the Bonds will be subject to mandatory tender for purchase on the first day of a new Interest Period at a Purchase Price equal to the principal amount thereof; and the Trustee is required to give notice of such mandatory tender in the manner set forth in the Indenture.

Redemption

The Bonds are subject to mandatory tender for purchase in the event they are converted from the ARS Mode to another Mode. See “THE BONDS — Mandatory Tender for Purchase upon Conversion.” The Bonds are also subject to redemption as described under this caption. However, except in the case of mandatory sinking fund redemptions, no amount of Bonds may be redeemed unless a proportionate amount of the Swap is terminated or reduced, so that following such redemption the remaining notional amount of the Swap is not greater than the remaining principal amount of the Bonds, unless the Bond Insurer waives the requirement for such reduction of the Swap.

Optional Redemption. While the Bonds are in the ARS Mode, each Bond is subject to redemption prior to the Maturity Date, at the option of the Authority, which option shall be exercised at least 20 days prior to the date fixed for redemption, in whole or in part, on any Interest Payment Date immediately following the end of an Auction Period, at a Redemption Price equal to 100% of the principal amount of Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds are subject to mandatory redemption from Sinking Fund Installments prior to the Maturity Date, in part by lot, on September 1 of each year on and after September 1, 2007, in accordance with the schedule set forth below from and in the amount of the Sinking Fund Installments due and payable on such dates, at a redemption price equal to the sum of the principal amount thereof plus accrued and unpaid interest thereon to the Redemption Date, without a redemption premium; provided that, during the ARS Mode, if such September 1 is not an Interest Payment Date, the Redemption Date relating to such mandatory

sinking fund payment shall occur on the ARS Interest Payment Date immediately preceding such September 1. In addition, if any Bonds have been optionally redeemed, the amounts of such Sinking Fund Installments shall be reduced as directed by the Authority, or if not so directed, proportionality in increments of Authorized Denominations, by the principal amount of all such Bonds so optionally prepaid.

<i>Mandatory Sinking Fund Payment Date (September 1)</i>	<i>Sinking Fund Payment</i>	<i>Mandatory Sinking Fund Payment Date (September 1)</i>	<i>Sinking Fund Payment</i>
2007	\$ 825,000	2021	\$2,275,000
2008	250,000	2022	2,450,000
2009	925,000	2023	2,625,000
2010	1,050,000	2024	2,800,000
2011	1,150,000	2025	3,025,000
2012	1,275,000	2026	3,225,000
2013	1,400,000	2027	3,450,000
2014	1,500,000	2028	3,500,000
2015	1,650,000	2029	3,625,000
2016	1,800,000	2030	3,775,000
2017	1,650,000	2031	3,925,000
2018	1,800,000	2032	4,075,000
2019	1,925,000	2033	4,250,000
2020	2,075,000		

Extraordinary Redemption from Insurance or Condemnation Proceeds. The Bonds are subject to extraordinary redemption prior to the Maturity Date, at the option of the Authority, which option must be exercised at least 45 days prior to the date fixed for redemption, in whole or in part, in such amounts as selected by the Authority, on any date, from hazard insurance or condemnation proceeds or other insurance received with respect to the Leased Property and deposited in the Special Redemption Account, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium. See APPENDIX A — “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS — THE INDENTURE – Application of Insurance Proceeds.”

Notice of Redemption. When the redemption of Bonds is authorized as described above, the Trustee is required to give notice thereof. Such notice must state the date of such notice, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP numbers (if any) of the Bonds to be redeemed, and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that, subject to prior rescission, on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue; and such notice shall require that said Bonds be then surrendered.

Such notice must be mailed by the Trustee, at least 30 but not more 60 days before the date fixed for redemption to the respective Owners of the Bonds designated for redemption at their

addresses appearing on the registration books of the Trustee. Such notice is also required to be provided to Securities Depositories and Information Services. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such redemption.

Any notice of redemption may be rescinded by written notice given to the Trustee by the City no later than the date specified for redemption. The Trustee shall give notice of such rescission as soon thereafter as possible cancelled in the same manner as the notice of redemption, and to the same persons, as notice of such redemption was given.

If any Series of Bonds are to be redeemed in part and such Bonds are held by a Securities Depository, the Authority shall include in the notice of the call for redemption delivered to the Securities Depository (i) a date placed under an item entitled "Publication Date for Securities Depository Purposes" and such date shall be three Business Days after the Auction Date immediately preceding such redemption date (in the case of a daily Auction Period, such date shall be three Business Days immediately preceding the date of redemption) and (ii) an instruction to the Securities Depository to (x) determine on such Publication Date after the Auction held on the immediately preceding Auction Date has settled, the Securities Depository Participants whose Securities Depository positions shall be redeemed and the principal amount of such ARS Bonds to be redeemed from each such position (the "Securities Depository Redemption Information"), and (y) notify the Trustee immediately after such determination of (1) the positions of the Securities Depository Participants in such Bonds immediately prior to such Auction settlement, (2) the position of the Securities Depository Participants in such ARS Bonds immediately following such Auction settlement, and (3) the Securities Depository Redemption Information. Immediately upon receipt of the notice referred to in (y) of the preceding sentence, the Trustee shall send a copy of such notice to the Auction Agent.

Effect of Redemption. If notice of redemption has been duly given as described above and money for the payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for is held by the Trustee, then on the redemption date designated in such notice, the Bonds so called for redemption will become due and payable on the date fixed for redemption at the Redemption Price specified in such notice; and from and after the date so designated, interest on the Bonds so called for redemption (or portions thereof) shall cease to accrue, such Bonds (or portions thereof) shall cease to be entitled to any lien, benefit or security under the Indenture, and the Holders of such Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price thereof and accrued interest to the date fixed for redemption from funds held by the Trustee for such payment.

Purchase in Lieu of Redemption

Subject to the provisions of the Indenture, the Authority has the option to purchase any Bond on any date on which it would be subject to optional redemption at a purchase price equal to the then applicable Redemption Price plus accrued interest thereon to the date of purchase.

Parity Obligations

The Authority's obligation to make the scheduled payments required pursuant to the Swap Agreement, and its obligations under the Insurance and Reimbursement Agreement are secured by a pledge of the Revenues on a parity with the pledge thereof securing the Bonds; and the Authority may issue or incur additional in the future that will also be secured on a Parity with the Bonds. See

“SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Additional Bonds and Parity Debt.”

The Facility Lease does not limit the power of the City to enter into other leases or contracts or to incur other liabilities payable from its general revenues.

CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE SECURITIES

Role of Broker-Dealer

Banc of America Securities LLC (the “Broker-Dealer”) has been appointed by the issuers or obligors of various auction rate securities to serve as a dealer in the auctions for those securities and is paid by the issuers or obligors for its services. The Broker-Dealer receives broker-dealer fees from such issuers or obligors at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through the Broker-Dealer in such auctions.

The Broker-Dealer is designated in the Broker-Dealer Agreement as the Broker-Dealer to contact Existing Owners and Potential Owners and solicit Bids for the Bonds. The Broker-Dealer will receive Broker-Dealer Fees from the Authority with respect to the Bonds sold or successfully placed through it in Auctions for the Bonds. The Broker-Dealer may share a portion of such fees with other dealers that submit Orders through it that are filled in the Auction for the Bonds.

Bidding by Broker-Dealer

The Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for the Bonds for its own account either as a buyer or seller and routinely does so in the auction rate securities market in its sole discretion. If the Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because the Broker-Dealer would have knowledge of the other Orders placed through it in that Auction for the Bonds and thus, could determine the rate and size of its Order so as to increase the likelihood that (i) its Order will be accepted in the Auction for the Bonds and (ii) the Auction for the Bonds will clear at a particular rate. For this reason, and because the Broker-Dealer is appointed and paid by the Authority to serve as a Broker-Dealer in the Auctions for the Bonds, the Broker-Dealer’s interests in serving as Broker-Dealer in an Auction for the Bonds may differ from those of Existing Owners and Potential Owners who participate in Auctions for the Bonds. See “CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE SECURITIES — Role of Broker-Dealer.” The Broker-Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a Broker-Dealer Agreement.

The Broker-Dealer is the only Broker-Dealer appointed by the Authority to serve as Broker-Dealer in the Auctions for the Bonds, and as long as that remains the case it will be the only Broker-Dealer that submits Orders to the Auction Agent in the Auctions for the Bonds. As a result, in such circumstances, the Broker-Dealer may discern the clearing rate before the Orders are submitted to the Auction Agent and set the clearing rate with its Order.

The Broker-Dealer routinely places bids in auctions generally for its own account to acquire securities for its inventory, to prevent an “Auction Failure” (which occurs if there are insufficient clearing bids and results in the auction rate being set at the maximum rate) or to prevent an auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for such securities.

The Broker-Dealer may place one or more Bids in an Auction for the Bonds for its own account to acquire the Bonds for its inventory, to prevent an Auction Failure or to prevent Auctions for the Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Bonds. The Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When Bidding in an Auction for the Bonds for its own account, the Broker-Dealer also may Bid inside or outside the range of rates that it posts in its Price Talk. See “CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE SECURITIES — Price Talk.”

The Broker-Dealer may encourage bidding by others in auctions generally for which it serves as broker-dealer. The Broker-Dealer also may encourage bidding by others in Auctions for the Bonds, including to prevent an Auction Failure or to prevent an Auction for the Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Bonds. The Broker-Dealer may encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by the Broker-Dealer or by those it may encourage to place Bids are likely to affect (i) the Auction Rate — including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a lower rate than they might have received had the Broker-Dealer not bid or not encouraged others to bid and (ii) the allocation of the Bonds being auctioned — including displacing some Bidders who may have their Bids rejected or receive fewer Bonds than they would have received if the Broker-Dealer had not bid or encouraged others to bid. Because of these practices, the fact that an Auction for the Bonds clears successfully does not mean that an investment in the Bonds involves no significant liquidity or credit risk. The Broker-Dealer is not obligated to continue to place such Bids or to continue to encourage other Bidders to do so in any particular Auction for the Bonds to prevent an Auction Failure or an Auction for the Bonds from clearing at a rate the Broker-Dealer believes does not reflect the market for the Bonds. Investors should not assume that the Broker-Dealer will place Bids or encourage others to do so or that Auction Failures will not occur. Investors should also be aware that Bids by the Broker-Dealer or by those it may encourage to place Bids may cause lower Auction Rates to occur.

The statements herein regarding Bidding by a Broker-Dealer apply only to a Broker-Dealer’s auction desk and any other business units of the Broker-Dealer that are not separated from the auction desk by an information barrier designed to limit inappropriate dissemination of bidding information.

In any particular Auction for the Bonds, if all Outstanding Bonds are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an “All Hold Auction”). If the Broker-Dealer holds any Bonds for its own account on an Auction Date, it is the Broker-Dealer’s practice to submit a Sell Order into the Auction for the Bonds with respect to such Bonds, which would prevent that Auction for the Bonds from being an All Hold Auction. The Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction for the Bonds, as set forth above.

Price Talk

Before the start of an Auction for the Bonds, the Broker-Dealer, in its discretion, may make available to its customers who are Existing Owners and Potential Owners the Broker-Dealer’s good faith judgment of the range of likely clearing rates for the Auction for the Bonds based on market and other information. This is known as “Price Talk.” Price Talk is not a guaranty that the Auction Rate

established through the Auction for the Bonds will be within the Price Talk, and Existing Owners and Potential Owners are free to use it or ignore it.

“All-or-Nothing” Bids

The Broker-Dealer will not accept “all-or-nothing” Bids (*i.e.*, Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the Bidder to avoid Auction Procedures that require the pro rata allocation of Bonds where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

No Assurances Regarding Auction Outcomes

The Broker-Dealer provides no assurance as to the outcome of any Auction. The Broker-Dealer also does not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction for the Bonds will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Rate on any Bonds purchased or retained in the Auction for the Bonds may be lower than the market rate for similar investments.

The Broker-Dealer will not agree before an Auction to buy Bonds from or sell Bonds to a customer after the Auction.

Deadlines

Each particular Auction for the Bonds has a formal deadline by which all Bids must be submitted by the Broker-Dealer to the Auction Agent. This deadline is called the “Submission Deadline.” To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealer imposes an earlier deadline for all customers—called the “Broker-Dealer Deadline” — by which Bidders must submit Bids to the Broker-Dealer. The Broker-Dealer Deadline is subject to change by the Broker-Dealer. Potential Owners should consult with the Broker-Dealer as to its Broker-Dealer Deadline. The Broker-Dealer may allow for correction of clerical errors after the Broker-Dealer Deadline and prior to the Submission Deadline. The Broker-Dealer may submit Bids for its own account at any time until the Submission Deadline and may change Bids it has submitted for its own account at any time until the Submission Deadline. The Auction Procedures provide that until one hour after the Auction Agent completes the dissemination of the results of an Auction, new Orders can be submitted to the Auction Agent if such Orders were received by the Broker-Dealer or generated by the Broker-Dealer for its own account prior to the Submission Deadline and the failure to submit such Orders prior to the Submission Deadline was the result of force majeure, a technological failure or a clerical error. In addition until one hour after the Auction Agent completes the dissemination of the results of an Auction, a Broker-Dealer may modify or withdraw an Order submitted to the Auction Agent prior to the Submission Deadline if the Broker-Dealer determines that such Order contained a clerical error. In the event of such a submission, modification or withdrawal the Auction Agent will rerun the Auction, if necessary, taking into account such submission, modification or withdrawal.

Existing Owner’s Ability to Resell Auction Rate Securities May Be Limited

An Existing Owner may sell, transfer or dispose of a Bond (i) in an Auction for the Bonds, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction for the Bonds, only to or through a Broker-Dealer.

Existing Owners will be able to sell all of the Bonds that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Bonds in the Auction for the Bonds. If Sufficient Clearing Bids have not been made, Existing Owners that have submitted Sell Orders will not be able to sell in the Auction for the Bonds all, and may not be able to sell any, of the Bonds subject to such Submitted Sell Orders. As discussed above (see “Bidding by Broker-Dealer”), the Broker-Dealer may submit a Bid in an Auction for the Bonds to avoid an Auction Failure, but it is not obligated to do so. There may not always be enough Bidders to prevent an Auction Failure in the absence of the Broker-Dealer Bidding in the Auction for the Bonds for its own account or encouraging others to Bid. Therefore, Auction Failures are possible, especially if the Bond Insurer’s credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealer were unable or unwilling to Bid.

Between Auctions for the Bonds, there can be no assurance that a secondary market for the Bonds will develop or, if it does develop, that it will provide Existing Owners the ability to resell the Bonds on the terms or at the times desired by an Existing Owner. The Broker-Dealer, in its own discretion, may decide to buy or sell the Bonds in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the Bonds. However, the Broker-Dealer is not obligated to make a market in the Bonds and may discontinue trading in the Bonds without notice for any reason at any time. Existing Owners who resell between Auctions for the Bonds may receive an amount less than par, depending on market conditions.

If an Existing Owner purchased a Bond through a dealer which is not the Broker-Dealer for the Bonds, such Existing Owner’s ability to sell its Bonds may be affected by the continued ability of its dealer to transact trades for the Bonds through the Broker-Dealer.

The ability to resell the Bonds will depend on various factors affecting the market for the Bonds, including news relating to the Bond Insurer, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the Bonds (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in “Securities and Exchange Commission Settlements” below) or press reports, financial reporting cycles and market conditions generally. Demand for the Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent or the Broker-Dealer Could Impact the Ability to Hold Auctions

The Auction Agent Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days’ notice to the Authority, the Bond Insurer and the Trustee and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon 5 Business Days’ notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold Auctions for the Bonds, with the result that the interest rate on the Bonds will be determined as described in the Indenture.

Securities and Exchange Commission Settlements

On May 31, 2006, the U.S. Securities and Exchange Commission (the “SEC”) announced that it had settled its investigation of fifteen firms, including the Broker-Dealer, that participate in the auction rate securities market regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, the Broker-Dealer agreed to pay a civil penalty. Information concerning the proceedings and the alleged conduct is set forth in the SEC’s Press Release No. 2006-83. In addition, the Broker-Dealer, without admitting or denying the SEC’s allegations, agreed to provide to customers written descriptions of its material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by the Broker-Dealer to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the Bonds.

In addition on January 9, 2007, the SEC announced that it had settled its investigation of three banks, including Deutsche Bank Trust Company Americas (the “Settling Auction Agents”), that participate as auction agents in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the Settling Auction Agents allowed broker-dealers in auctions to submit bids or revise bids after the submission deadlines and allowed broker-dealers to intervene in auctions in ways that affected the rates paid on the auction rate securities. As part of the settlement, the Settling Auction Agents agreed to pay civil penalties. In addition, each Settling Auction Agent, without admitting or denying the SEC’s allegations, agreed to provide to broker-dealers and issuers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Auction Agent to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are special limited obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor in the Indenture, together with amounts on deposit from time to time in certain funds and accounts held by the Trustee under the Indenture. The term “Revenues” is defined in the Indenture to include: (i) all Base Rental Payments and other payments paid by the City and received by the Authority pursuant to the Facility Lease (but not Additional Payments), (ii) all interest or other income from any investment of any money in any fund or account (other than the Rebate Fund) established pursuant to the Indenture or the Facility Lease, (iii) Swap Revenues, if any, and (iv) any additional security provided for a Series of Bonds in a Supplemental Indenture.

Pursuant to the Indenture, the Authority has assigned to the Trustee, for the benefit of the Holders from time to time of the Bonds and any Providers, all of the rights of the Authority under the Facility Lease to receive and collect Base Rental Payments and other amounts (except for the right to receive any Additional Payments to the extent payable to the Authority and any rights of the Authority to indemnification), and the right to enforce all provisions, covenants and agreements of

the Facility Lease with respect to the payment of Base Rental Payments, provided that these rights shall not extend to any right to terminate the Facility Lease or re-enter or re-let the Leased Property or any other possessory right to the Leased Property.

THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY. THE BONDS ARE NOT A DEBT OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS EXCEPT THE AUTHORITY TO THE EXTENT DESCRIBED HEREIN. NEITHER THE AUTHORITY, THE CITY, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS, EXCEPT THE AUTHORITY TO THE EXTENT DESCRIBED HEREIN, IS LIABLE THEREON. IN NO EVENT SHALL THE BONDS OR ANY INTEREST OR REDEMPTION PREMIUM THEREON BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE OF THE AUTHORITY AS SET FORTH IN THE INDENTURE. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION. NEITHER THE MEMBERS OF THE AUTHORITY, THE CITY COUNCIL OF THE CITY OR ANY MEMBERS EXECUTING THE BONDS ARE PERSONALLY LIABLE ON THE BONDS BY REASON OF THEIR ISSUANCE.

Base Rental Payments

Under the Facility Lease, the City agrees to pay to the Authority, as Base Rental Payments for the use and occupancy of the Leased Property, annual rental payments in accordance with the Base Rental Payment Schedule attached as Exhibit B to the Facility Lease. The Facility Lease requires that the Base Rental Payments be made in 12 monthly installments, payable on the 15th day of each calendar month in the amount (which will vary from time to time) required by the Authority to pay the principal of and interest on the Bonds and any Related Obligations estimated to become due on before the 15th day of the following month. Base Rental Payments for each annual period will be based upon the Estimated Based Rental Payments as set forth in the Base Rental Payment Schedule in Exhibit B to the Facility Lease provided that in the event that the amount required by the Authority to pay the principal of and interest on the Bonds and any Related Obligations varies from such Base Rental Payment Schedule, the City may increase the payment in any Rental Payment Period to an amount equal to the Maximum Annual Base Rental Payment payable in such period as set forth in Exhibit B to the Facility Lease, plus any Deferred Rental as described in the Facility Lease. The City is to receive credits towards such Base Rental Payments as provided for in the Facility Lease; and the obligation of the City to pay the Base Rental Payments is subject to abatement as provided in the Facility Lease and described below under the caption "Abatement." The Base Rental Payments are designed to be sufficient in both time and amount to pay, when due, the principal of and interest on the Bonds and Related Obligations.

The Facility Lease also requires the City to pay certain additional amounts (the "Additional Payments") as shall be required by the Authority for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Facility Lease or any pledge of Base Rental Payments payable thereunder, the Indenture, the Reserve Facility, its interest and the lease of the Leased Property to the City, including but not limited to the payment of all fees, costs and expenses and all administrative costs of the Authority related to the Bonds, the Related Obligations, the Leased Property and the Project. Such Additional Payments are to be billed to the City by the Authority or the Trustee from time to time and are to be paid by the City within 30 days.

The Facility Lease provides that the payment of Base Rental Payments and Additional Payments for each rental period during the term of the Facility Lease shall constitute the total rental for said rental period and shall be paid by the City in each rental payment period for and in consideration of the right of use and occupancy of, and continued quiet use and enjoyment of, the Leased Property during each such period for which said rental is to be paid. The City and the Authority have agreed and determined that such total rental payable represents the fair rental value of the Leased Property for each such period. In making such determination, consideration was given to the appraised value of the Leased Property, costs of acquisition, demolition, site preparation, design, construction and financing of the Leased Property, other obligations of the parties under the Facility Lease, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public.

The City is required under the Facility Lease to make the Base Rental Payments from any source of legally available funds in each year in which the City has use and possession of the Leased Property. The City covenants in the Facility Lease to take such action as may be necessary to include all Base Rental Payments and Additional Payments due under the Facility Lease in its annual budgets and to make necessary annual appropriations for all such Base Rental Payments and Additional Payments as shall be required in order to provide funds therefor. The City is required to deliver to the Authority and the Trustee within 90 days of adoption of its budget portions of such budget relating to the payment of Estimated Base Rental Payments and Additional Payments. Within any fiscal year, if the amount initially budgeted is insufficient to pay actual debt service on the Bonds and Related Obligations, the City is required by supplemental budget in such fiscal year to appropriate and pay such additional amounts until the total amount appropriated for Base Rental Payments equals the Maximum Annual Base Rental Payment. The aforesaid covenants on the part of the City are deemed under the Facility Lease to be, and required to be construed to be, duties imposed by law; and the Facility Lease provides that it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the aforesaid covenants and agreements.

Notwithstanding the foregoing, the obligation of the City to make Base Rental Payments under the Facility Lease does not constitute an obligation for which the City is obligated to pledge any form of taxation or for which it has pledged any form of taxation. Neither the full faith and credit nor the taxing power of the City or the State or any of its political subdivisions is pledged to make Base Rental Payments under the Facility Lease.

Abatement

The Facility Lease provides that the Base Rental Payments and Additional Payments shall be abated proportionately during any period in which, by reason of any damage or destruction (other than by condemnation, which is discussed below, or planned demolition as part of the Project) there is substantial interference with the use and occupancy of the Leased Property by the City, in proportion in which the initial cost of that portion of the Leased Property rendered unusable bears to the initial cost of the whole of the Leased Property. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. Notwithstanding the foregoing, such abatement shall not result to the extent of any moneys held by the Trustee under the Indenture (including, particularly, without limitation, the Reserve Fund, the Principal Account and the Interest Account), or to the extent such Base Rental Payments are made from proceeds of insurance and rental interruption insurance. The Facility Lease also provides that it will continue in full force and effect in the event of any such

damage or destruction; and, in connection therewith, the City waives the benefits of California Civil Code Section 1932(2) and 1933(4) and of Title 11 of the United States Code, Section 365(h) and any and all rights to terminate the Facility Lease by virtue of any such damage or destruction.

In connection with eminent domain, the Facility Lease provides that if the whole of the Leased Property or so much thereof as to render the remainder unusable for the purposes for which it was used by the City shall be taken under the power of eminent domain, the term of the Facility Lease shall cease as of the date that possession shall be so taken. However, if less than the whole of the Leased Property is taken under the power of eminent domain and the remainder is usable for the purposes for which it was used by the City at the time of such taking, then the Facility Lease shall continue in full force and effect as to such remainder, and there shall be a partial abatement of the rental due under the Facility Lease in an amount equivalent to the amount by which the annual payments of principal and interest on the Outstanding Bonds will be reduced by the application of the award in eminent domain to the redemption of Bonds. The Facility Lease further provides that, as long as any of the Bonds remain outstanding, any award made in eminent domain proceedings for taking the Leased Property or any portion thereof shall be paid to the Trustee and applied to the prepayment of Base Rental Payments.

Reserve Fund

The Trustee is required by the Indenture to establish and maintain and hold in trust, so long as Bonds or Parity Debt to be secured thereby remain outstanding, a special fund designated as the “Reserve Fund.” Upon the delivery of the Bonds, there will be deposited in the Reserve Fund an amount equal to the Reserve Fund Requirement.

“Reserve Fund Requirement” means with respect to all Outstanding Bonds an amount equal to the lesser of (a) the maximum annual Debt Service attributable to the Outstanding Bonds and (b) one hundred twenty-five percent (125%) of the average annual Debt Service attributable to the Outstanding Bonds; provided that with respect to the calculation of the Reserve Fund Requirement upon the issuance of an Additional Series of Bonds the amount calculated shall be the least of (a) or (b) above, or the amount derived by the addition of ten percent (10%) of the proceeds from the sale of such Series of Additional Bonds to the Reserve Fund and provided further, that the Reserve Fund Requirement shall be reduced to the extent necessary so that all amounts therein may be deposited from Bond Proceeds without requiring a portion thereof to be yield restricted in accordance with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”). The Reserve Fund Requirement shall be determined upon the issuance of a Series of Bonds, the defeasance or optional redemption of Bonds and the retirement of a Series of Bonds. See Appendix A — “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS — THE INDENTURE – Reserve Fund.”

All money in the Reserve Fund is to be used and withdrawn by the Trustee solely for the purpose of funding the Interest Account or the Principal Account, in that order, in the event of any deficiency in either of such accounts on a Principal Payment Date or Interest Payment Date. Money on deposit in the Interest Account is available to be used and withdrawn by the Trustee for the purpose of paying both interest on the Bonds and any Regular Swap Payments as they become due and payable. Notwithstanding the foregoing, as long as the Authority is not in default under the Indenture, any cash amounts in the Reserve Fund in excess of the Reserve Fund Requirement are to be withdrawn from the Reserve Fund and transferred to the Revenue Fund or, if so directed by the Authority, deposited into a Project Fund during the construction of any Project on each July 1

following the payment of any amounts due on such date and on each date Bonds are redeemed or defeased.

The Indenture permits the Authority to satisfy the Reserve Fund Requirement, in whole or in part, at any time by depositing with the Trustee for the credit of the Reserve Fund a Reserve Facility. If the Reserve Fund Requirement is satisfied by a Reserve Facility, the Trustee is to draw on such Reserve Facility in accordance with its terms and the terms of the Indenture, in a timely manner, to the extent necessary to fund any deficiency in the Interest Account or the Principal Account. The Authority shall repay any draws under a Reserve Facility and any Reserve Facility Costs related thereto solely from Revenues.

In the event the Authority causes a cash-funded reserve to be replaced with a Reserve Facility, amounts on deposit in the Reserve Fund shall, upon Written Request of the Authority to the Trustee, be transferred to the City and applied for any lawful purpose, subject, in the case of a transfer of moneys which are proceeds of Bonds, to the receipt by the Authority of an Opinion of Counsel that such transfer will not cause the interest on the Bonds to be included in gross income for purposes of federal income taxation.

Property Insurance

The Facility Lease requires the City to maintain throughout the term thereof insurance against loss of or damage to any structures constituting any part of the Leased Property, fire and lightening, with extended coverage insurance, vandalism and malicious insurance and sprinkler system leakage insurance, if available on the open market from reputable insurance companies at a reasonable cost, as determined by the City. Such insurance must be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Leased Property, exclude the cost of excavations, of grading and filling, and of land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$500,000 or a comparable amount adjusted for inflation, or, in the alterative, shall be in an amount and in a form sufficient (together with moneys held under the Indenture), in the event of a total or partial loss, to enable all outstanding Bonds to be redeemed.

Except as hereinafter described, in the event of any damage to or destruction of any part of the Leased Property which is caused by any of the perils covered by such insurance the Authority shall cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Property; and the Trustee shall hold said proceeds separate and apart from all other funds in a special fund to be designated the “Insurance and Condemnation Fund,” to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as they were in prior to the damage or destruction, insofar as the same may be accomplished by the use of such proceeds. Any balance of such proceeds not required for such repair, reconstruction or replacement shall be treated by the Trustee as Base Rental Payments.

As an alternative to providing the insurance described above or any portion thereof, the City may provide a self-insurance method or plan of protection if and to the extent such self-insurance method or plan of protection shall afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the City.

Substitution and Release of Property

The Indenture and the Facilities Lease allow the City to remove or substitute real property as part of the Leased Property, but only after satisfying certain conditions, including filing with the Authority and the Trustee (with copies to each rating agency then providing a rating for the Bonds) a Certificate of the City evidencing that the annual fair rental value of the Leased Property which will constitute the Leased Property after such removal or substitution will be at least equal to 100% of the maximum amount of Base Rental Payments for all Series of Bonds becoming due in the then-current year ending August 14 through and including each year during which any Series of Bonds would be Outstanding or in any subsequent year ending August 15 through and including each year during which any Series of Bonds would be Outstanding.

Swap Agreement

The Swap Agreement between the Authority and Bank of America, N.A. (the “Swap Provider”) will become effective on September 3, 2008 and is scheduled to expire on the Maturity Date of the Bonds. Pursuant to the Swap Agreement, the Authority will be required to make periodic payments to the Swap Provider calculated on the basis of a fixed rate of interest on an initial notional amount equal to the principal amount of the Bonds; and the notional amount of the Swap Agreement is scheduled to be reduced on the same dates and in the same amounts as the principal amount of the Bonds is scheduled to be reduced. The Swap Provider will be required to make periodic payments to the Authority calculated on the basis of a variable rate of interest equal to a percentage of LIBOR, plus a fixed spread on the same notional amount. The amounts payable by each party pursuant to the Swap Agreement are netted against the payments to be received by such party thereunder.

Certain of the amounts that may be payable by the Authority to the Swap Provider will be insured pursuant to a policy of interest rate swap insurance to be issued by the Bond Insurer (the “Swap Policy”).

The Authority’s obligation under the Swap Agreement to make scheduled payments is a Parity Obligation. No arrangements made in respect of the Swap Agreement will alter the Authority’s obligation to pay the principal of and interest on the Bonds.

Both the Authority and the Swap Provider have the right to terminate the Swap Agreement prior to its stated termination date under certain conditions. Any such termination could result in an obligation on the part of the Authority or the Swap Provider to make termination payments to the other party, and the amount of such termination payments could be substantial. Any obligation on the part of the Authority to make such a termination payment (other than a termination payment that is insured under the terms of the Swap Policy) will not be a Parity Obligation and will be subordinate to the Authority’s liabilities with respect to Parity Obligations.

Neither the Trustee nor the Owners will have any rights under the Swap Agreement or against the Swap Provider.

The Swap Provider and Banc of America Securities LLC, the Underwriter and Broker-Dealer, are affiliates, both being subsidiaries of the Bank of America Corporation.

Additional Bonds and Parity Debt

The Indenture permits the Authority to issue Additional Bonds and to enter into any Related Obligations with respect thereto payable, in each case, from and secured by a pledge of and lien and charge upon the Revenues equal to the pledge, charge and liens securing the Outstanding Bonds theretofore issued under the Indenture upon the satisfaction of certain specific conditions. Included among these conditions is a requirement that the Facility Lease shall have been amended, if necessary, so that the Base Rental Payments payable by the City thereunder in each Fiscal Year shall at least equal projected Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year.

Nothing in the Indenture prevents the Authority from issuing Bonds or incurring other obligations which are secured by a pledge of and lien on the Revenues subordinate to the lien established under the Indenture.

THE BOND INSURER

CIFG Assurance North America, Inc.

The information set forth in the following paragraphs has been provided by CIFG Assurance North America, Inc. (“CIFG” or the “Bond Insurer”) for inclusion in this Official Statement. CIFG does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding CIFG set forth under the heading “THE BOND INSURER.” CIFG makes no representation regarding the Bonds or the advisability of investing in the Bonds.

General

CIFG is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The address of the principal executive offices of the Bond Insurer is 825 Third Avenue, Sixth Floor, New York, New York 10022; its toll-free telephone number is (866) CIFG-212 and its general telephone number is (212) 909-3939; and its website is located at www.cifg.com.

The Bond Insurer is a member of the CIFG Group of financial guaranty companies, which also includes CIFG Europe, a French insurance company licensed to do business in the European Union, and CIFG Guaranty, a dedicated French reinsurance corporation. In addition to its capital and surplus as set forth below, the Bond Insurer is supported by a net worth maintenance agreement from CIFG Guaranty, which provides that CIFG Guaranty will maintain the Insurer’s New York statutory capital and surplus at no less than \$80 million. The Bond Insurer also may cede a substantial portion (not to exceed 90%) of its exposure on each transaction to CIFG Guaranty through a facultative reinsurance agreement.

Each of the Bond Insurer, CIFG Europe and CIFG Guaranty has received an insurer financial strength rating of “AAA” from Fitch, an insurer financial strength rating of “Aaa” from Moody’s, and an insurer financial enhancement rating of “AAA” from Standard and Poor’s, the highest rating assigned by each rating agency. Each such rating should be evaluated independently. The ratings reflect the respective rating agency’s current assessment of each company’s capacity to pay claims on a timely basis and are not recommendations to buy, sell or hold the Bonds. Such ratings may be subject to revision or withdrawal at any time.

The Bond Insurer is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York, its state of domicile, and is licensed to do business in 48 jurisdictions. The Bond Insurer is subject to Article 69 of the New York Insurance Law which, among other things, limits the business of such insurers to financial guaranty insurance and related lines, requires that such insurers maintain a minimum surplus to policyholders, establishes contingency, loss and unearned premium reserve requirements for such insurers, and limits the size of individual transactions and the volume of transactions that may be underwritten by such insurers. Other provisions of the New York Insurance Law applicable to non-life insurance companies such as the Insurer regulate, among other things, permitted investments, payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

Capitalization. The following tables set forth the capitalization of the Insurer on the basis of accounting principles generally accepted in the United States (“US GAAP”) and statutory accounting practices prescribed or permitted by the New York State Insurance Department, respectively.

	<i>US GAAP September 30, 2006 (in thousands of US dollars)</i>	<i>US GAAP December 31, 2005 (in thousands of US dollars)</i>
Total Assets	\$ 369,050	\$ 324,134
Total Liabilities	\$ 248,239	\$ 202,042
Shareholder’s Equity	\$ 120,811	\$ 122,092

	<i>Statutory Accounting Practices September 30, 2006 in thousands of US dollars)</i>	<i>Statutory Accounting Practices December 31, 2005 in thousands of US dollars)</i>
Admitted Assets.....	\$ 183,468	\$ 175,333
Liabilities.....	\$ 78,045	\$ 66,758
Capital and Surplus.....	\$ 105,423	\$ 108,575

For further information concerning the Bond Insurer, see the audited financial statements of the Bond Insurer, including the notes thereto, prepared in accordance with US GAAP as of December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006, which are available on the CIFG Group’s website at www.cifg.com. Copies of the most recent audited annual and unaudited interim financial statements of the Insurer prepared in accordance with accounting principles prescribed or permitted by the New York State Insurance Department, are also available on the website and may be obtained, without charge, upon request to the Insurer at its address above, Attention: Finance Department.

RISK FACTORS

The following section describes certain risk factors affecting the payment of and security for the Bonds. It is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various issues. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating the Bonds. There can be no assurance that other risk factors will not become material in the future.

General

The Bonds are payable solely from, and are secured solely by, a pledge of Revenues and certain amounts on deposit from time to time in various funds and accounts. The Revenues consist primarily of: (i) the Base Rental Payments and (ii) the Swap Revenues. If for any of the reasons described herein, or for any other reason, the Authority does not collect sufficient Revenues to pay debt service on the Bonds, and the Related Obligations neither the Authority nor the City will be obligated to utilize any other of its resources, other than moneys on deposit in the Reserve Funds and in certain other funds and accounts, to pay debt service on the Bonds and the Related Obligations.

Although the Base Rental Payments are payable from all funds lawfully available to the City, the Base Rental Payments are not secured by any pledge of or lien or taxes or other revenue of the City. Subsequent to the defeasance of the Refunded Bonds, the City will remain liable on other obligations that are payable from its general revenues, including: its 1993 Refunding Certificates of Participation (Community Center Project) in a principal amount of \$20,820,000 with a final maturity of November 1, 2023; its 1993 Refunding Certificates of Participation (Golf Course Project) in a principal amount of \$5,650,000 with a final maturity of November 1, 2023 and its obligations to make payments to the Authority in connection with the Authority's Series 1998 Bonds of which a principal amount of \$4,165,000 will remain outstanding and which have a final maturity of September 1, 2033. In addition, the City will retain the ability to enter into other obligations which may constitute additional charges against its revenues. In the event the City's revenue sources are less than its total obligations, the City could choose or could be required to pay those other obligations or to make expenditures necessary to preserve the health and welfare of the residents of the City before making the Base Rental Payments. The same results could occur if, because of State constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. See "Constitutional Limitations on Taxes and Expenditures."

Subordinate Obligation

The Facility Lease is subordinate to the 1998 Lease. If the City defaulted on its payment obligations under the 1998 Lease, resulting in a default under the Facility Lease, the Owners of the 1998 Bonds would be entitled to receive payments prior to the owners of the Bonds. Moreover, if an event should occur that results in an abatement of the City's obligation to make payments under the 1998 Lease and the Facility Lease (see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Abatement" and "— Abatement Risk" below) any available insurance or condemnation proceeds would be applied first to make payments to the owners of the 1998 Bonds.

Abatement Risk

During any period in which, by reason of material damage or destruction, there is substantial interference with the use and possession by the City of any portion of the Lease Property, Base Rental Payments due under the Facility Lease will be abated proportionately. Notwithstanding the foregoing, such abatement shall not result to the extent of any moneys held by the Trustee under the Indenture (including, particularly, without limitation, the Reserve Fund, the Principal Account and the Interest Account), or to the extent such Base Rental Payments are made from proceeds of insurance and rental interruption insurance. However, as noted above under the caption "Subordinate Obligation," insurance proceeds would be applied first to pay the obligations of the City under the 1998 Lease and would therefor inure to the benefit of the owners of the 1998 Bonds before being made available to pay Base Rental Payments. The City waives any and all right to terminate the

Facility Lease by virtue of any such interference and the Facility Lease will continue in full force and effect.

Earthquakes, Floods and Other Natural Disasters

Earthquakes, floods or other natural disasters could damage or destroy portions or all of the Leased Property and thereby result in an abatement of the City's obligation to pay the Base Rental Payments as discussed above under the caption "Abatement Risk." The City is not required to insure the Leased Property against damage caused by earthquakes. Natural disasters could also adversely affect economic activity in the City thereby negatively impacting the City's finances. Property within the City has been damaged by floods from time to time, most recently in January, 1997; and there are several geological faults in the greater San Francisco Bay area that have the potential to cause serious earthquakes which could result in damage to buildings, roads, bridges and other property within the City.

State Budgets Concerns

General. Since 2001, the State has faced a series of severe financial challenges; and those challenges, or others similar to them in terms of their implications for revenues available to local agencies, may occur in the future. In response to those challenges, in a number of recent years, the State has shifted property taxes from cities, counties and special districts to the Educational Revenue Augmentation Fund ("ERAF"). While no ERAF shift was required with respect to the State budget for Fiscal Year 2006-07, there can be no assurance that such shifts, or other similar transfers of revenues from local agencies, will not be required in future years in order to deal with State budget deficits.

On November 2, 2004, California voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature, or (iv) decrease vehicle license fees revenues without providing local governments with equal replacement funding. Beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Future State Budgets. Based on the Legislative Analyst's current projections of revenues and expenditures, presuming a continuation of the policies set forth under the 2006-07 Budget Act, the State could continue to face operating shortfalls in the range of \$4.5 billion to \$5 billion in each of Fiscal Years 2007-08 and 2008-09. Any carryover reserve from Fiscal Year 2006-07 would be available to offset a portion of the projected shortfall in Fiscal Year 2007-08. Notwithstanding the foregoing, no prediction can be made by the Authority or the City as to whether the State will continue to encounter budgetary problems in this or in any future Fiscal Years. If the State were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by

law. In addition, neither the Authority nor the City can predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the Authority and the City have no control.

Constitutional Limitations on Taxes and Expenditures

Article XIII A of the California Constitution. Section 1(a) of Article XIII A of the California Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by each county and apportioned among the county and other public agencies and funds according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (a) indebtedness approved by the voters prior to July 1, 1978 or (b) 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 2% per year or to reflect a reduction in the consumer price index or comparable data for the area under the taxing jurisdiction, or reduced in the event of declining property values caused by substantial damage, destruction, or other factors. Legislation enacted by the State 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.

On June 18, 1992, following a number of challenges to the provisions of Article XIII A, the United States Supreme Court upheld the decision in *Nordlinger v. Hahn*, a case involving residential property taxation decided by the State Court of Appeals. The 8 to 1 majority held that the Article XIII A assessment method serves a rational state interest by providing certainty regarding property taxes to homeowners and therefore does not violate provisions of the Equal Protection Clause codified in the 14th Amendment of the U.S. Constitution.

The effect of Article XIII A on the City’s finances, then, has been to restrict ad valorem tax revenues for general purposes to the statutory allocation of the 1% levy while leaving intact the power to levy ad valorem taxes in whatever rate or amount may be required to pay debt service on its general obligation bonds. The City cannot predict whether any further challenges to the State’s present system of property tax assessment will be made, or what the outcome of impact on any of the City of any such challenge might be.

Article XIII B of the California Constitution. An initiative amendment to the California Constitution (Article XIII B) was approved by the California electorate on November 6, 1979. This amendment establishes limits on certain annual appropriations of state and local government entities. Initially, the limits are based generally on appropriations for the Fiscal Year 1978-79 with future adjustments permitted for changes in the cost of living, population and certain other factors. The definition of appropriations subject to limitation is stated so as to exclude, among other things, (1) appropriations of proceeds received by a government entity from user fees to the extent such proceeds do not exceed the costs reasonably borne by such entity in providing the product or service,

(2) the appropriations of any special district “which did not as of the 1977-78 fiscal year levy an ad valorem tax on property in excess of 12½ cents per \$100 of assessed value”, and (3) ”appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund required in connection therewith, on indebtedness existing or legally authorized as of January 1, 1979, or a bonded indebtedness thereafter approved . . .” by vote of the electors of the issuing entity. In addition, the amendment provides that nothing in it “will be construed to impair the ability of the State or any local government to meet its obligations with respect to existing or future bonded indebtedness.”

Articles XIIC and XIID of the California Constitution. An initiative measure entitled the “Right to Vote on Taxes Act” (the “Initiative”) was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIIC and Article XIID to the California Constitution. According to the “Title and Summary” of the Initiative prepared by the California Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.”

Article XIIC prohibits local governments from imposing, extending or increasing: (i) any general tax unless and until that tax is submitted to the electorate and approved by a majority vote or (ii) any special tax unless and until that tax is submitted to the electorate and approved by a two thirds vote. In addition, Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments.

Article XIID defines the terms “fee” and “charge” to mean “any levy other than an *ad valorem* tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service.” A “property-related service” is defined as “a public service having a direct relationship to property ownership.” Article XIID further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it.

In addition, Article XIID includes a number of limitations applicable to pre-existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service, (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed, (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

No assurance may be given that Articles XIIC and XIID will not have a material adverse impact on the City's revenues.

Other Initiative Measures

Articles XIIA, XIIB, XIIC and XIID were adopted pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted by California voters, placing additional limitations on the ability of the City to increase revenues.

Limited Recourse on Default

If an event of default occurs and is continuing under the Facility Lease, there is no remedy of acceleration with respect to any Base Rental Payments which have not come due and payable in accordance with the Facility Lease. The City will continue to be liable for Base Rental Payments as they become due and payable in accordance with the Facility Lease, and the Trustee will be required to seek a separate judgment each year for that year's defaulted Base Rental Payments. Any such suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds or property needed to serve the public welfare and interest.

Bankruptcy

In addition to the limitations on remedies contained in the Indenture and the Facility Lease, the rights and remedies provided in those documents may be limited by, and are subject to, provisions of federal bankruptcy laws as the same currently exist or may be hereafter amended, as well as other laws and equitable principles that may affect creditors' rights. In the event of the bankruptcy of the City, its obligations under the Facility Lease could be set aside.

TAX MATTERS

In the opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the Indenture and the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or

Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents pertaining to the Bonds may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Bond Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of interest on the Bonds on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Bond Counsel.

Legislation affecting municipal obligations is continually being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status of the Bonds. Legislation or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the Bonds.

The Tax Increase Prevention and Reconciliation Act of 2005, enacted on May 17, 2006, contains a provision under which interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although the new reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the 2007 Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the Internal Revenue Service (the "IRS") as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's federal income tax liability provided the required information is furnished to the IRS.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix E.

ABSENCE OF LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the Authority or the City, threatened against the Authority or the City, affecting the existence of the Authority or the City, or the titles of their respective officers to their respective offices or seeking to restrain or enjoin the sale or issuance of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or effecting the validity of the Bonds, the Indenture, the Facility Lease or the Site Lease, or any action of the Authority or the City contemplated by any of said

documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement hereto, or contesting the powers of the Authority or the City or their respective authority with respect to the Bonds, nor to the knowledge to the Authority and the City is there any basis therefor.

INDEPENDENT AUDITORS

The basic financial statements of the City as of June 30, 2006, portions of which are included in Appendix D to this Official Statement, have been audited by Maze & Associates (the “Auditor”), independent certified public accountants, as set forth in their report. The Auditor’s consent is not required for the inclusion of the City’s financial statements in this Official Statement, and no such consent has been requested or obtained.

RATINGS

Fitch Ratings (“Fitch”) and Standard & Poor’s Ratings Services (“S&P”) are expected to assign their ratings of “AAA” and “AAA”, respectively, to the Bonds with the understanding that upon delivery of the Bonds, the Bond Insurance Policy will be issued by the Insurer. In addition, Fitch has assigned an underlying rating of “A+” to the Bonds and S&P has assigned an underlying rating of “A” to the Bonds. Generally, rating agencies base their ratings on information and material furnished directly to them and on investigations, studies and assumptions made by them. The ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from Fitch Ratings, One State Street Plaza, New York, New York 10004 and Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such 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 Bonds.

UNDERWRITING

The Bonds are being purchased by Banc of America Securities LLC (the “Underwriter”), under a Purchase Contract pursuant to which the Underwriter has agreed to purchase all, but not less than all, of the Bonds for an aggregate purchase price of \$62,067,517.37 (representing the principal amount of the Bonds, less Underwriter’s discount of \$207,482.63).

FINANCIAL ADVISOR

The City has retained Public Financial Management, Inc., San Francisco, California, as financial advisor with respect to the issuance of the Bonds. Public Financial Management, Inc. is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel. A copy of the proposed form of the

opinion of Bond Counsel is attached as Appendix E hereto. Bond Counsel has undertaken no responsibility for the accuracy, completeness and fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by Orrick, Herrington & Sutcliffe LLP, for the Authority and the City by the City Attorney and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel; for the Trustee by its General Counsel; and for the Bond Insurer by its General Counsel.

VERIFICATION OF MATHEMATICAL ACCURACY

Concurrently with the issuance of the Bonds, The Arbitrage Group, independent accountants, will deliver a report with respect to the mathematical accuracy of certain computations, contained in schedules provided to them, which were prepared by the Underwriter, relative to the sufficiency of moneys and securities deposited into the escrow funds established pursuant to the 1997 Escrow Agreement and the 1998 Escrow Agreement to pay, when due the principal, whether at maturity or upon prior redemption, interest and redemption premium requirements of the Series 1997 Bonds and the Series 1998 Bonds. The report of The Arbitrage Group will include the statement that the scope of its engagement is limited to verifying the mathematical accuracy of the aforesaid computations and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of the report.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the owners of the Bonds to provide certain financial information and operating data and the City by not later than 270 days after the end of the City's Fiscal Year (presently June 30) commencing with the report for the City's 2006-07 Fiscal Year (the "Annual Reports") and to provide notices of the occurrence of certain enumerated events, if deemed by the City to be material. The Annual Reports will be filed by the Trustee, as Dissemination Agent on behalf of the City, with each Nationally Recognized Municipal Securities Information Repository and with any State Repository which may be designated by the State of California (collectively, the "Repositories") and with the Underwriter. The notices of material events will be filed by the Trustee, as Dissemination Agent on behalf of the City, with the Repositories with copies to the City and the Underwriter. The specific nature of the information to be contained in the Annual Reports or the notices of material events is set forth in Appendix F — "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriter in complying with Rule 15c2 12(b)(5) of the Securities and Exchange Commission (the "Rule").

The City believes that it has never failed in any material respect to comply with an undertaking pursuant to the Rule. However, in October 2006, the City caused to be filed supplements to each of the five most recent annual reports that had been filed for it pursuant to the Continuing Disclosure Agreement executed by the City in connection with its Refunding Revenue Certificates of Participation (1997), Water Utility System Refinancing Project. The five annual reports in question had not included certain data which the City believes (a) was not literally required to be included therein by the terms of the applicable Continuing Disclosure Agreement, (b) was not material or (c) could be calculated from data the City had included in such annual reports. Notwithstanding the City's beliefs in this regard, it included the data in question in the aforesaid supplements. Moreover, in rechecking its data in connection with the filing of the supplements, the City made certain additional revisions to the original information included in its original annual reports. In addition to the foregoing, the City has determined that its annual report with respect to its

The City believes that it has never failed in any material respect to comply with an undertaking pursuant to the Rule. However, in October 2006, the City caused to be filed supplements to each of the five most recent annual reports that had been filed for it pursuant to the Continuing Disclosure Agreement executed by the City in connection with its Refunding Revenue Certificates of Participation (1997), Water Utility System Refinancing Project. The five annual reports in question had not included certain data which the City believes (a) was not literally required to be included therein by the terms of the applicable Continuing Disclosure Agreement, (b) was not material or (c) could be calculated from data the City had included in such annual reports. Notwithstanding the City's beliefs in this regard, it included the data in question in the aforesaid supplements. Moreover, in rechecking its data in connection with the filing of the supplements, the City made certain additional revisions to the original information included in its original annual reports. In addition to the foregoing, the City has determined that its annual report with respect to its Wastewater Collection and Treatment System for the Fiscal Year ended June 30, 2005 erroneously included payments received in settlement of certain litigation in "Gross Revenues" for purposes of calculating debt service coverage. The City has since filed with the dissemination agent an amended annual report correcting that mistake.

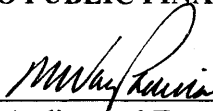
MISCELLANEOUS

Reference is made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive, and reference is made to such documents and complete statement of the contents thereof.

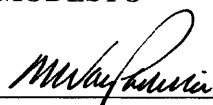
Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or holder of any Bonds.

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

MODESTO PUBLIC FINANCING AUTHORITY

By: 
Auditor and Treasurer

CITY OF MODESTO

By: 
Finance Director/Treasurer

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture, the Facility Lease and the Sublease which are not described elsewhere in this Official Statement. These summaries do not purport to be to be complete or definitive and reference should be made to such documents for a full and complete statement of their provisions. See “THE BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” for further descriptions of certain terms and provisions of the Bonds. All capitalized terms not defined in this Official Statement have the meanings set forth in the Indenture.

DEFINITIONS

“Act” means the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the Government Code of the State), as the same is now in effect and as from time to time amended or supplemented.

“Additional Bonds” means any bonds issued under the Indenture pursuant to the provisions thereof and a Supplemental Indenture.

“Additional Payments” means the payments so designated and required to be made by the City pursuant to the Facility Lease.

“ARS” means Auction Rate Securities.

“ARS Mode” means the Mode during which the Bonds evidence interest at the ARS Rate.

“ARS Rate” shall have the meaning specified in Appendix B to this Official Statement.

“ARS Rate Conversion Date” shall have the meaning specified in Appendix B to this Official Statement.

“Authority Account” means the account by that name in the Bond Purchase Fund established pursuant to the Indenture.

“Authorized Denominations” means, with respect to the Bonds in the ARS Mode, \$25,000 and any integral multiple thereof.

“Authorized Officer” or “Authorized Representative” means, with respect to the Authority, any of its Chairperson, Vice Chairperson, Executive Director, Auditor and Treasurer or any other person designated as an Authorized Representative and, with respect to the City means the Mayor, City Manager, Finance Director or any other officer of the City designated by any such office as an Authorized Representative.

“Base Rental Payments” means all amounts payable to the Authority from the City as Base Rental Payments pursuant to the Facility Lease.

“Base Rental Payment Schedule” means the schedule of Base Rental Payments payable to the Authority from the City pursuant to the Facility Lease and attached thereto as Exhibit B, as it may from time to time be supplemented, modified or amended.

“Bond Insurance Policy” means the financial guaranty insurance policy insuring the payment when due of principal of and interest on the Bonds.

“Bond Insurer” means CIFG Assurance North America, Inc., a financial guaranty insurance company incorporated under the laws of the State of New York, the Bond Insurer with respect to the Bonds.

“Bond Purchase Fund” means the fund by that name established pursuant to the Indenture.

“Business Day” means any day on which banks located in New York, New York, San Francisco, California and the city in which the Principal Office of the Trustee is located are not required or authorized to be closed and on which The New York Stock Exchange is open.

“Certificate,” “Statement,” “Request” and “Requisition” of the Authority or the City means, respectively, a written certificate, statement, request or requisition signed in the name of the Authority by its Authorized Officer or such other person as may be designated and authorized to sign for the Authority and signed in the name of the City by its Authorized Officer or such other person as may be designated and authorized to sign for the City in writing to the Trustee. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

“Code” means the Internal Revenue Code of 1986, or any successor statute thereto and any regulations promulgated thereunder.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the City and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee, initial and ongoing fees and charges of the Authority, legal fees and charges, fees and disbursements of consultants and professionals, title insurance fees, Rating Agency fees, fees and charges for preparation, execution, transportation and safekeeping of the Bonds, and any other cost, charge or fee in connection with the original issuance of the Bonds.

“Costs of Issuance Fund” means the fund by that name established pursuant to the Indenture.

“Daily Mode” means the Mode during which the Bonds evidence interest at the Daily Rate.

“Daily Rate” means the per annum interest rate with the Bonds in the Daily Mode determined pursuant to the Indenture.

“Daily Rate Period” means the period during which the Bonds in the Daily Mode evidences interest at a Daily Rate, which shall be from the Business Day upon which a Daily Rate is set to but not including the next succeeding Business Day.

“Date of Issuance,” with respect to the Bonds, means April 18, 2007.

“Debt Service” means, for any Fiscal Year or other period, the sum of (a) the interest accruing during such Fiscal Year or other period on all Outstanding Bonds and Swaps assuming that all Outstanding Serial Bonds are retired as scheduled and that all Outstanding Term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds so long as such funded interest is in an amount equal to the gross amount necessary to pay such interest on the Bonds and is invested in United States Government Obligations which mature no later than the related Interest Payment Date), (b) the principal amount of all Outstanding Serial Bonds maturing during such Fiscal Year or other period, and (c) the principal amount of all Outstanding Term Bonds required to be redeemed or paid (together with the premiums, if any, thereon) during such Fiscal Year or other period; provided, that the foregoing shall be subject to adjustment and recalculation as follows:

(1) with respect to Capital Appreciation Bonds, the Accreted Value payment shall be deemed a principal payment; and

(2) with respect to Swaps and Swapped Bonds, the interest payments shall be adjusted to give effect to the Swap in such manner and to such extent (1) as may be required under generally accepted accounting principles, consistently applied or (2) as shall be stated in a Certificate of the Authority (which Certificate shall be delivered to the Trustee concurrently with the later of the issuance of the Swapped Bonds or the execution of the Swap) in such manner as shall present fairly the reasonably expected Debt Service on the Swap and Swapped Bonds after the execution of the Swap; and

(3) with respect to Variable Rate Bonds, the interest payments shall be calculated at a rate equal to 150% of the highest rate borne by such Bonds in the last 12 months or with respect to the initial issuance of such Variable Rate Bonds at 150% of the highest rate borne by a comparable issue of bonds as certified to by the Remarketing Agent or Broker-Dealer.

“Depository” means DTC or another recognized securities depository selected by the Authority which maintains a book-entry system for the Bonds.

“Electronic” means telecopy, facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including a telephonic communication confirmed by any other method set forth in this definition.

“Eligible Bonds” means any Bonds other than Liquidity Facility Bonds or Bonds owned by, for the account of, or on behalf of, the Authority or the City.

“Expiration Date” means (i) the date upon which a Liquidity Facility is scheduled to expire (taking into account any extensions of such Expiration Date by virtue of extensions of a particular Liquidity Facility, from time to time) in accordance with its terms, including without limitation termination upon delivery of an Alternate Liquidity Facility and (ii) the date upon which a Liquidity Facility terminates following voluntary termination by the Authority.

“Extraordinary Swap Payment” means any termination payment or any payment other than a Regular Swap Payment due under or pursuant to a Swap.

“Favorable Opinion of Bond Counsel” means an opinion of Bond Counsel addressed to the Authority and the Trustee to the effect that the action proposed to be taken is authorized or permitted by the laws of the State of California and the Indenture and will not result in the inclusion of interest on the Bonds in gross income for federal income tax purposes.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other annual accounting period selected and designated by the Authority as its Fiscal Year.

“Fixed Rate” means the per annum interest rate or interest rates evidenced by Fixed Rate Bonds determined pursuant to the Indenture.

“Fixed Rate Bonds” means the Bonds in a Fixed Rate Mode that are not Swapped Bonds.

“Fixed Rate Mode” means the Mode during which Fixed Rate Bonds evidence interest at a Fixed Rate.

“Fixed Rate Period” means, with respect to Fixed Rate Bonds converted to the Fixed Rate Mode, the period from the Mode Change Date upon which such Fixed Rate Bonds were converted to a Fixed Rate Mode to but not including the Maturity Date.

“Flexible Mode” means the Mode during which the Bonds evidence interest at Flexible Rates.

“Flexible Rate” means the per annum interest rate determined for the Flexible Rate Bonds pursuant to the Indenture.

“Flexible Rate Period” means, with respect to the Flexible Rate Bond, the period of from one (1) to three hundred ninety-seven (397) calendar days (which Flexible Rate Period must end on a day preceding a Business Day) during which a Flexible Rate Bond shall evidence interest at a Flexible Rate, as established by the Remarketing Agent pursuant to the Indenture.

“Holder,” “Bondholder” or “Owner,” with respect to a Bond, means the Person in whose name such Bond is registered.

“Interest Account” means the account by that name in the Revenue Fund established pursuant to the Indenture.

“Interest Accrual Period” means the period during which Bonds accrue interest payable on the next Interest Payment Date applicable thereto. Each Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid, from the date of original authentication and delivery of the Bonds) to, but not including, the Interest Payment Date on which interest is to be paid. If, at the time of authentication of any Bond, interest is in default or overdue with respect to the Bonds, such Bond shall evidence interest from the date to which interest has previously been paid in full or made available for payment in full with respect to the Bonds.

“Interest Payment Date” means each date on which interest is to be paid and is each date defined as an Interest Payment Date in the ARS Provisions set forth in Appendix B of this Official Statement, and any date that is an ARS Rate Conversion Date.

“Interest Period” means, for the Bonds in a particular Mode, the period of time that the Bonds evidence interest at the rate (per annum) which becomes effective at the beginning of such period, and shall include an ARS Rate Period, a Daily Rate Period, a Weekly Rate Period, a Flexible Rate Period, a Term Rate Period, and a Fixed Rate Period.

“Joint Powers Agreement” means the Joint Exercise of Powers Agreement by and between the City and the Industrial Development Authority of the City of Modesto, dated as of December 1, 1989 as originally executed and as it may from time to time be amended or supplemented.

“Lease Default Event” means any Event of Default occurring under the Facility Lease.

“Leased Property” means the real property described in the Facility Lease, together with all property subsequently added thereto, or any property substituted for all or any portion of the Leased Property in accordance with the Indenture or the Facility Lease.

“Liquidity Agreement” means any reimbursement agreement, credit agreement, line of credit agreement, standby purchase agreement or other agreement, between a Bond Insurer or a Liquidity Facility Provider, as applicable, and the Authority and/or the City, as the same may be amended from time to time pursuant to its terms.

“Liquidity Facility” means a line of credit, letter of credit, standby purchase agreement or similar liquidity facility issued by a commercial bank or other financial institution or, in the event of the delivery or availability of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

“Liquidity Facility Account” means the account by that name in the Bond Purchase Fund established pursuant to the Indenture.

“Liquidity Facility Bonds” means Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility, but excluding Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the applicable Liquidity Facility.

“Liquidity Facility Provider” means the commercial bank, insurance company, pension fund or other financial institution issuing (or having primary obligation, or acting as agent for the financial institutions obligated, under) a Liquidity Facility then in effect.

“Long-Term Interest Period” means a Term Rate Period or a Fixed Rate Period.

“Long-Term Mode” means a Term Rate Mode or a Fixed Rate Mode.

“Mandatory Purchase Date” means any Mode Change Date (except a change in Mode between the Daily Mode and the Weekly Mode) and any date on which the Bonds may be prepaid by the Authority in a notice delivered to the Trustee, which Mandatory Purchase Date should be not less than forty-five (45) days (or such lesser period as shall be agreed to by the Trustee) after the Trustee’s receipt of such notice from the Authority, and which notice shall be accompanied by a Favorable Opinion of Bond Counsel.

“Maturity Date” means the final date upon which principal is due on the Bonds, which is September 1, 2033.

“Maximum Annual Base Rental Payment” means the maximum annual payment which the City may be obligated to make with respect to the Base Rental Payments for the Project, as provided in the Facility Lease, or for any Subsequent Project, as provided and determined in a supplement to the Facility Lease.

“Maximum Rate” means, with respect to all Bonds other than Liquidity Facility Bonds, 12% per annum, and with respect to Liquidity Facility Bonds, such rate as is provided for in the applicable Liquidity Facility and not greater than 25% per annum; provided, however, that the Maximum Rate shall not exceed the highest rate then permitted by law.

“Mode” means, as the context may require, the ARS Mode, the Daily Mode, the Weekly Mode, the Flexible Mode, the Term Rate Mode, or the Fixed Rate Mode.

“Mode Change Date” means with respect to the Bonds in a particular Mode, the day on which another Mode for the Bonds begins, and includes an ARS Rate Conversion Date and a Conversion Date.

“Mode Change Notice” means the notice from the Authority to the other Notice Parties of the intention of the Authority to change the Mode with respect to the Bonds.

“Nationally Recognized Municipal Securities Information Repository” or “NRMSIR” means each such repository identified by the Securities Exchange Commission as such from time to time.

“1998 Bonds” means the Authority’s Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project).

“1998 Indenture” means trust indenture, dated as of March 1, 1998, by and between the Authority and the 1998 Trustee pursuant to which the 1998 Bonds were issued.

“1998 Lease” means the Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002, each by and between the City and the Authority.

“1998 Trustee” means The Bank of New York Trust Company, N.A., as successor trustee, under the 1998 Indenture.

“Noticed Termination Date” means the date on which a Liquidity Facility Providers obligation to advance funds or purchase Bonds under a Liquidity Facility terminates as stated in the Liquidity Facility Providers notice of termination delivered pursuant to the Liquidity Facility due to a default under specified sections of the Liquidity Facility, which date of termination shall be twenty (20) days (or such longer period as is specified in the Liquidity Facility) after the date of receipt by the Trustee of such notice.

“Notice Parties” means the Authority, the City, the Trustee, the Bond Insurer, if any, the Liquidity Facility Provider, if any, the Broker-Dealer, if any, the Auction Agent, if any, the Remarketing Agent, if any, and the Fixed Rate Remarketing Agent, if any.

“Opinion of Counsel” means a written opinion of counsel of recognized standing in the field of law being addressed in such opinion retained the Authority.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture relating to disqualified bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture including Bonds (or portions of Bonds) referred to in the provision of the Indenture relating to disqualified bonds; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture and when used with reference to Swaps, means all Swaps that have not been terminated pursuant to the terms thereof and all Swaps pursuant to which the Authority has existing or future obligations.

“Permitted Encumbrances” means (1) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to the Facility Lease, permit to remain unpaid; (2) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of recordation of the Facility Lease in the office of the County Recorder of the County of Stanislaus and which the City certifies in writing will not materially impair the use of the Leased Property; (3) the Sublease, as it may be amended from time to time and the Facility Lease, as it may be amended from time to time; (4) the Indenture, as it may be amended from time to time; (5) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (6) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions to which the Authority and the City consent in writing and certify to the Trustee will not materially impair the ownership interests of the Authority or use of the Leased Property by the City; and (7) subleases and assignments of the City which will not adversely affect the exclusion from gross income of interest on the Bonds.

“Permitted Investments” means any of the following obligations if and to the extent then permitted by law:

- (1) Federal Securities;
- (2) Obligations, participations, or other instruments of or issued by, or fully guaranteed as to interest and principal by, the Government National Mortgage Association (excluding stripped mortgage backed securities which are valued at greater than par on the unpaid principal);
- (3) Bills of exchange or time drafts drawn on and accepted by a commercial bank (including the Trustee or any of its affiliates), otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System and which are drawn on any bank the short-term obligations of which are rated in the highest letter and numerical rating category as provided by Moody’s and by S&P; provided, that purchases of eligible bankers acceptances may not exceed 270 days’ maturity;
- (4) Commercial paper of “prime” quality of the highest ranking or of the highest letter and numerical rating category as provided by Moody’s and by S&P, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of \$500,000,000 and that have an “A1” or higher rating for the issuer’s unsecured debentures, other than commercial paper, as provided by Moody’s and by S&P;

provided, that purchases of eligible commercial paper may not exceed 180 days' maturity nor represent more than 10% of the outstanding commercial paper of an issuing corporation;

(5) Non-negotiable certificates of deposit issued by a state or national bank (including the Trustee or any of its affiliates) that have maturities of not more than 365 days or deposit accounts with a state or national bank and that are fully insured by the Federal Deposit Insurance Corporation or the short term obligations of which state or national bank are rated no lower than "A1" by Moody's and "A+" by S&P;

(6) Any repurchase agreement of any securities enumerated in subdivisions (1) and (2) with any state or national bank (including the Trustee or any of its affiliates) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is either (A) with any institution which has debt rated no lower than "A1" by Moody's and "A+" by S&P or whose commercial paper is rated no lower than "P 1" by Moody's and no lower than "A 1" by S&P; (B) with any corporation or other entity that falls under the jurisdiction of the Federal Bankruptcy Code; provided, that (a) the term of such repurchase agreement is less than one (1) year or due on demand; (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral; (c) the market value of the collateral (as determined at least once in every 14 days) exceeds the principal amount of the repurchase agreement plus accrued interest and the market value of the collateral is maintained at levels acceptable to Moody's and to S&P; (d) failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral immediately; and (e) the repurchase agreement securities are free and clear of any third-party lien or claim; or (C) with financial institutions insured by the Federal Deposit Insurance Corporation or any broker-dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corporation; provided, that: (a) the market value of the collateral (as determined at least once in every 14 days) exceeds the principal amount of the repurchase agreement plus accrued interest and the market value of the collateral is maintained at levels acceptable to Moody's and to S&P; (b) the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral; (c) the Trustee has a perfected first priority security interest in the collateral; (d) the collateral is free and clear of third-party liens and in the case of a Securities Investors Protection Corporation broker was not acquired pursuant to a repurchase agreement or reverse repurchase agreement; and (e) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the collateral immediately;

(7) Certificates, notes, warrants, bonds or other evidence of indebtedness of the State or any local agencies therein which are rated in the highest short-term rating category or within one of the three highest long-term rating categories by Moody's and by S&P (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date);

(8) For amounts less than \$100,000, interest-bearing demand or time deposits (including certificates of deposit) in a nationally or state-chartered bank fully insured by the Federal Deposit Insurance Corporation, including the Trustee or any affiliate thereof, and of which an aggregate total of \$100,000 is not exceeded in any one financial institution;

(9) Investments in units of a money-market fund portfolio that is rated in the highest letter and numerical rating category by Moody's and by S&P (including funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services) and that is

composed of obligations guaranteed by the full faith and credit of the United States of America or repurchase agreements collateralized by such obligations;

(10) A guaranteed investment contract with a financial institution or insurance company (or guaranteed by a financial institution or insurance company) which has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated within the two highest rating categories of any Rating Agency;

(11) The Local Agency Investment Fund or similar pooled fund operated by or on behalf of the State and which is authorized to accept investments by or on behalf of the Authority of the moneys held by the Trustee in any of the accounts or funds established pursuant to the Indenture to the extent deposits and withdrawals may be made by the Trustee directly; and

(12) other forms of investments approved in writing by the related Bond Insurer.

“Person” means an individual, corporation, firm, association, partnership, trust, joint venture or any other legal entity or group of entities, including a government or political subdivision or an agency or instrumentality thereof.

“Principal Account” means the account by that name in the Revenue Fund established pursuant to the Indenture.

“Project Fund” means the fund by that name established pursuant to the Indenture.

“Provider Payment Account” means the account by that name established pursuant to the Indenture.

“Providers” means, collectively, the Swap Providers, the Liquidity Facility Providers, and the Reserve Facility Providers (if applicable) and any other party to an agreement with the City or the Authority in connection with the Bonds by which any Related Obligation is created.

“Purchase Date” means any Mandatory Purchase Date.

“Purchase Price” means an amount equal to the principal amount of the Bonds purchased on any Purchase Date, plus accrued interest to such Purchase Date (unless such Purchase Date is also an Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which shall be paid in the normal course).

“Rate Determination Date” means any date on which the interest rate with respect to the Bonds shall be determined, which shall be each Auction Date for the Bonds in the ARS Mode.

“Record Date” means the Business Day immediately preceding each Interest Payment Date.

“Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

“Regular Swap Payment” means any net payment (excluding any termination payment) due on any settlement date based on the swap rate pursuant to the Swap.

“Related Obligations” means the obligations of the Authority under any hedge agreement (including without limitation, any Swap), credit agreement, liquidity agreement or similar agreement entered into in connection with or related to the Bonds or a series thereof.

“Reserve Facility” means a surety bond or insurance policy issued to the Trustee, on behalf of the Bondholders, by a company licensed to issue an insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds if such entity shall be rated in the highest rating categories issued by Moody’s and by S&P, or a letter of credit issued or confirmed by a state or national bank, or a foreign bank with an agency or branch located in the United States, which has outstanding an issue of unsecured long term debt securities rated at least equal to the second highest rating category by Moody’s and S&P, or any combination thereof, deposited with the Trustee by the Authority to satisfy the Reserve Fund Requirement.

“Reserve Facility Costs” means amounts owed with respect to repayment of draws on a Reserve Facility, including interest thereon at the rate specified in the agreement pertaining to such Reserve Facility and expenses owed to the provider of a Reserve Facility.

“Reserve Fund Requirement” means with respect to all Outstanding Bonds an amount equal to the lesser of (i) the maximum annual Debt Service attributable to the Outstanding Bonds and (ii) 125% of average annual Debt Service attributable to the Outstanding Bonds; provided that with respect to the calculation of the Reserve Fund Requirement upon the issuance of a series of Additional Bonds the amount calculated shall be the least of (i) or (ii) above, or the amount derived by the addition of 10% of the proceeds from the sale of such series of Additional Bonds to the Reserve Fund and provided further that the Reserve Fund Requirement shall be reduced to the extent necessary so that all amounts therein may be deposited from Bond proceeds without requiring a portion thereof to be yield restricted in accordance with requirements of the Code.

“Revenues” means: (i) all Base Rental Payments and other payments paid by the City and received by the Authority pursuant to the Facility Lease (but not Additional Payments), (ii) all interest or other income from any investment, pursuant to the Indenture, of any money in any fund or account (other than the Rebate Fund) established pursuant to the Indenture or the Facility Lease, (iii) Swap Revenues, if any, and (iv) any additional security, pursuant to the Indenture.

“Securities Depository” means The Depository Trust Company and its successors and assigns, or any other securities depository selected as set forth in the Indenture.

“Supplemental Indenture” means any indenture duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture or providing for the issuance of Additional Bonds and entered into as provided in the Indenture.

“Swap” means an interest rate swap, cap, floor, collar or other hedging transaction which is entered into by the Authority for the purpose of managing interest rate risk with respect to specified Bonds which are being issued concurrently with the execution of the Swap, which are proposed to be issued in connection with such Swap, or which are Outstanding at the time of execution of such Swap.

“Swap Payment Date” means each date on which Regular Swap Payments are to be paid.

“Swap Provider” means an entity which is a party to a Swap with the Authority.

“Swap Revenues” means the sum of money due to be paid by a Swap Party to the Authority pursuant to any Swap subject to any netting of payments provided by the applicable Swap.

“Swapped Bonds” means the Bonds to which a Swap relates.

“Tax Certificate” means the Tax Certificate and Agreement delivered by the Authority and the City at the time of issuance and delivery of the Bonds, as the same may be amended or supplemented in accordance with its terms.

“Term Rate” means the per annum interest rate for the Bonds in the Term Rate Mode determined pursuant to the Indenture.

“Term Rate Mode” means the Mode during which the Bonds evidence interest at a Term Rate.

“Term Rate Period” means the period from (and including) the Mode Change Date or the date of initial conversion of the Bonds to a Term Rate Mode, as applicable, to (but excluding) the last day of the first period that such Bonds shall be in the Term Rate Mode as established by the Authority pursuant to the Indenture and, thereafter, the period from (and including) the beginning date of each successive Interest Rate Period selected for the Bonds by the Authority pursuant to the Indenture while such Bonds are in the Term Rate Mode to (but excluding) the commencement date of the next succeeding Interest Period, including another Term Rate Period. Except as otherwise provided in the Indenture, an Interest Period for Bonds in the Term Rate Mode must be at least one hundred eighty (180) days in length.

“Variable Rate Bonds” means the Bonds that are not Swapped Bonds which bear interest in a Daily Mode, Weekly Mode, Flexible Mode or ARS Mode.

“Weekly Mode” means the Mode during which the Bonds evidence interest at the Weekly Rate.

“Weekly Rate” means the per annum interest rate with respect to the Bonds in the Weekly Mode determined pursuant to the Indenture.

“Weekly Rate Period” means the period during which the Bonds evidence interest at a Weekly Rate, which shall be the period commencing on Thursday of each week to and including Wednesday of the following week, except the first Weekly Rate Period which shall be from the Mode Change Date for such Bonds to and including the Wednesday of the following week and the last Weekly Rate Period which shall be from and including the Thursday of the week prior to the Mode Change Date to and including the day next preceding the Mode Change Date.

THE INDENTURE

Pledge and Assignment

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, there are pledged under the Indenture all of the Revenues and any other amounts held in any fund or account established pursuant to the Indenture (other than the Bond Purchase Fund and the Rebate Fund) to (1) secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their

terms, and (2) secure the payment of any Related Obligations. Said pledge shall constitute a first lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds and any Providers, all of the Revenues and other assets pledged in the preceding paragraph and all of the rights of the Authority under the Facility Lease to receive and collect Base Rental Payments and other amounts (except for (1) the right to receive any Additional Payments to the extent payable to the Authority and (2) any rights of the Authority to indemnification), and the right to enforce, whether by action at law or in equity or by other means, all provisions covenants and agreements of the Facility Lease with respect to the payment of Base Rental Payments. The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall take all steps actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the City under the Facility Lease; provided that these rights shall not extend to any right to terminate the Facility Lease or re-enter or re-let the Leased Property or any other possessory right to the Leased Property.

The Authority shall notify the Trustee of the execution of any Related Obligations. The Swap Revenues shall be deposited in the Revenue Fund and Regular Swap Payments shall be paid from the Interest Account. Any Extraordinary Swap Payments owed to the Swap Provider shall be paid from the Provider Payment Account on a subordinate basis to any amounts then due and owing on the Bonds payable under the Indenture.

All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund". All Revenues deposited with the Trustee shall be held disbursed, allocated and applied by the Trustee only as provided in the Indenture.

In order to carry out and effectuate the pledge, charge and lien on Swap Revenues contained in the Indenture, the Authority agrees and covenants that all Swap Revenues shall be transferred when received to the Trustee for deposit in the Revenue Fund.

Allocation of Revenues

The Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee is directed to establish and maintain within the Revenue Fund) the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

FIRST: on or before each Interest Payment Date and Swap Payment Date, to the Interest Account, the amount of interest becoming due and payable on such Interest Payment Date on all Bonds and any Regular Swap Payments becoming due and payable on Swaps, until the balance in said account is equal to said amount of payments due; and

SECOND: to the Principal Account, on or before each September 1 commencing September 1 2007 the amount of the principal payment or Sinking Fund Installment becoming due and payable on such September 1 (or the succeeding Interest Payment Date if September 1 is not an Interest Payment Date), until the balance in said account is equal to said amount of such principal or Sinking Fund Installment; and

THIRD: to the Provider Payment Account, the amount of any Extraordinary Swap Payments or other amounts with respect to Related Obligations becoming due and payable on any date; provided however that payment of such amounts shall be subordinate to all amounts becoming due and payable on all Bonds and any Regular Swap Payments becoming due and payable on Swaps.

Application of Interest Account

All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds and any Regular Swap Payments as they shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

Application of Principal Account

All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to purchase or redeem or pay Sinking Fund Installments for a Series of Bonds or pay at maturity the Bonds of a Series as provided in the Indenture.

Reserve Fund

All money in the Reserve Fund shall be deposited with, used and withdrawn by the Trustee solely for the purpose of funding the Interest Account or the Principal Account, in that order, in the event of any deficiency in either of such accounts on a Principal Payment Date or Interest Payment Date or Swap Payment Date, except that so long as the Authority is not in default under the Indenture, any cash amounts in the Reserve Fund in excess of the Reserve Fund Requirement shall be withdrawn from the Reserve Fund and transferred to the Revenue Fund or, if so directed by the Authority, deposited into a Project Fund during construction of any Project on each July 1, following the payment of any amounts due on such date and on each date Bonds are redeemed or defeased. The Trustee shall notify the Authority if any withdrawal is made from the Reserve Fund for the purpose of funding the Interest Account or the Principal Account.

The Authority may satisfy the Reserve Fund Requirement, in whole or in part, at any time by the deposit with the Trustee for the credit of the Reserve Fund of a Reserve Facility. If the Reserve Fund Requirement is satisfied by a Reserve Facility, the Trustee shall draw on such Reserve Facility in accordance with its terms, in a timely manner, to the extent necessary to fund any such deficiency in the Interest Account or the Principal Account. The Authority shall repay solely from Revenues any draws under a Reserve Facility and any Reserve Facility Costs related thereto. Interest shall accrue and be payable on such draws and expenses from the date of payment by a Reserve Facility provider at the rate specified in the agreement with respect to such Reserve Facility.

If the Authority causes a cash-funded Reserve Fund to be replaced with a Reserve Facility, amounts on deposit in the Reserve Fund shall, upon Written Request of the Authority to the Trustee, be transferred to the City and applied for any lawful purpose, subject, in the case where such moneys

are proceeds of Bonds, to the receipt by the Authority of an Opinion of Counsel that such transfer will not cause the interest on the Bonds to be included in gross income for purposes of federal income taxation.

Application of Insurance Proceeds

In the event of any damage to or destruction of any part of the Leased Property covered by insurance, the Authority shall cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Property, and the Trustee shall hold said proceeds in a fund established by the Trustee for such purpose separate and apart from all other funds designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Authority shall file a Certificate with the Trustee that sufficient funds from insurance proceeds or from any funds legally available to the Authority, or from any combination thereof, are available in the event it elects to repair reconstruct or replace the Leased Property. The Trustee shall invest said proceeds in Permitted Investments pursuant to the Request of the Authority, as agent for the Authority under the Facility Lease, and withdrawals of said proceeds shall be made from time to time upon the filing with the Trustee of a Request of the Authority, stating that the Authority has expended moneys or incurred liabilities in an amount equal to the amount therein stated for the purpose of the repair, reconstruction or replacement of the Leased Property, and specifying the items for which such moneys were expended, or such liabilities were incurred, in reasonable detail. Any balance of such proceeds not required for such repair reconstruction or replacement and the proceeds of use and occupancy insurance shall be paid to the Trustee as Base Rental Payments and applied in the manner provided in the Indenture. Alternatively, the Authority, if the proceeds of such insurance together with any other moneys then available for such purpose are sufficient to prepay all, in case of damage or destruction in whole of the Leased Property, or that portion, in the case of partial damage or destruction of the Leased Property, of the Base Rental Payments and all other amounts relating to the damaged or destroyed portion of the Leased Property, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property and thereupon shall cause said proceeds to be deposited in the Special Redemption Account and used for the redemption of Outstanding Bonds pursuant to the Indenture. The Authority shall not apply the proceeds of insurance as set forth in the Indenture to redeem the Bonds in part due to damage or destruction of a portion of the Leased Property unless the Base Rental Payments on the undamaged portion of the Leased Property will be sufficient to pay the scheduled principal and interest on the Bonds remaining unpaid after such redemption.

Investment of Moneys

All moneys in any of the funds and accounts established pursuant to the Indenture (other than the Bond Purchase Fund) shall be invested by the Trustee solely in Permitted Investments. Moneys in the Bond Purchase Fund shall remain uninvested. Permitted Investments shall be purchased at such prices as the Authority may direct. In the absence of directions from the Authority, the Trustee shall invest in Permitted Investments specified in paragraph (9) of the definition thereof.

Moneys in all funds and accounts (other than the Bond Purchase Fund) shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture. Permitted Investments purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Trustee may

deliver such Permitted Investments for repurchase under such agreement. Permitted Investments purchased under an investment agreement may be deemed to mature on the date or dates on which the Trustee may withdraw the full amount invested therein, without penalty.

Application of Provider Payment Account

All amounts in the Provider Payment Account shall be used and withdrawn by the Trustee solely for the purpose of paying any amounts owed to Providers, including Extraordinary Swap Payments, when due. To the extent amounts deposited therein are insufficient to pay all amounts owed to Providers, such amounts shall be applied on a pro rate basis to the payment of amounts owed to Providers.

Particular Covenants

Punctual Payment. The Authority shall punctually cause to be paid the principal or Redemption Price and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds. Except as otherwise set forth in the Indenture, the Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this paragraph shall be deemed to limit the right of the Authority to issue obligations for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Against Encumbrances. The Authority shall not create any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds or Swaps are Outstanding, except the pledges and assignments created by the Indenture, and will assist the Trustee in contesting any such pledge, lien, charge or other encumbrance which may be created. Subject to this limitation the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding limited obligations of the Authority in accordance with their terms, and the Authority and Trustee shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bondholders under the Indenture against all claims and demands of all Persons whomsoever.

Tax Covenants; Rebate Fund. The Trustee shall establish and maintain a fund separate from any other fund or account established and maintained under the Indenture designated as the Rebate Fund. There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States of America. Notwithstanding the provisions of the Indenture relating to the pledge of Revenues, the allocation of money in the Revenue Fund, the investments of money in any fund or account, the application of funds upon acceleration and the defeasance of Outstanding Bonds, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by this Section and by the Tax Certificate. The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the Authority or the City, and shall have no liability or responsibility to enforce compliance by the Authority or the City with the terms of the Tax Certificate.

Any funds remaining in the Rebate Fund after redemption and payment with respect to all of the Bonds and all other amounts due under the Indenture or under the Facility Lease or provision made therefor satisfactory to the Trustee, including accrued interest and payment of any applicable fees and expenses to the Trustee and satisfaction of the Rebate Requirement (as defined in the Tax Certificate), shall be withdrawn by the Trustee and remitted to or upon the direction of the Authority.

The Authority shall not use or permit the use of any proceeds of the Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations, and shall not take or permit to be taken any other action or actions, which would cause any of the Bonds to be an “arbitrage bond” within the meaning of Section 148 of the Code “private activity bond” within the meaning of Section 141(a) of the Code, or “federally guaranteed” within the meaning of Section 149(b) of the Code and any such applicable requirements promulgated from time to time thereunder and under Section 103(c) of the Internal Revenue Code of 1954, as amended. The Authority shall observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Authority shall comply with all requirements of Section 148 and 149(b) of the Code to the extent applicable to the Bonds. In the event that at any time the Authority is of the opinion that for purposes of this paragraph it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Authority shall so instruct the Trustee under the Indenture in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

The Authority and the Trustee (as directed by the Authority) specifically covenant to comply with the provisions and procedures of the Tax Certificate; provided that the Trustee shall not be bound by this covenant if an Event of Default has occurred and continuing.

The Authority shall not use or permit the use of any proceeds of the Bonds or any funds of the Authority, directly or indirectly, in any manner, and shall not take or omit to take any action that would cause any of the Bonds to be treated as an obligation not described in Section 103(a) of the Code.

If the Authority shall provide to the Trustee an Opinion of Counsel that any specified action required under this Section or the Tax Certificate is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds the Trustee and the Authority may conclusively rely on such opinion in complying with the

requirements of this Section, and, notwithstanding the Indenture, the covenants under the Indenture shall be deemed to be modified to that extent.

The Authority covenants that, in the event of any change in the Indenture or other relevant documents relating to the Bonds, or any other actions taken or omitted by the Authority, upon the advice or with the approving Opinion of Counsel other than Sidley Austin LLP, Bond Counsel in connection with the original execution and delivery of the Bonds, the Authority will, upon the making of any such change, or the taking or omission of any such other action, cause to be delivered an Opinion of Counsel (together with a reliance letter thereon addressed to the Bond Insurer for the Bonds and the Trustee) nationally recognized in the area of municipal bonds to the effect that the interest on the Bonds is excluded from gross income for federal income tax purposes.

Amendments to Facility Lease or Sublease. The Authority shall not supplement, amend, modify or terminate any of the terms of the Facility Lease or Sublease, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the Trustee and the Bond Insurer. The Trustee shall give such written consent (a) if such supplement, amendment, modification or termination will not materially adversely affect the interests of the Bondholders or result in any material impairment of the security given for the payment of the Bonds (provided that such supplement amendment or modification shall not be deemed to have such adverse effect or to cause such material impairment solely by reason of substitution of real property pursuant to the Facility Lease), (b) to accommodate the issuance of Additional Bonds pursuant to a Supplemental Indenture, (c) to add to the agreements, conditions, covenants and terms required to be observed or performed thereunder by any party thereto, or to surrender any right or power therein reserved to the Authority or the City, (d) to cure, correct or supplement any ambiguous or defective provision contained therein, which action does not materially adversely affect the interests of the Bondholders, (e) to accommodate any removal or substitution of the Leased Property in accordance with the Facility Lease, (f) to modify the legal description of the Leased Property to conform to the requirements of title insurance or otherwise to add or delete property descriptions to reflect accurately the description of the parcels intended or preferred to be included therein, or (g) the Trustee first obtains the written consent of the Bondholders of a majority in principal amount and Accreted Value, as the case may be, of the Bonds then Outstanding to such settlement, amendment, modification or termination; provided, that no such supplement, amendment, modification or termination shall reduce the amount of Base Rental Payments to be made to the Authority or the Trustee by the City pursuant to the Facility Lease, or extend the time for making such payments, or permit the creation of any lien prior to or on a parity with the lien created by the Indenture on the Base Rental Payments (except as expressly provided in the Facility Lease), in each case without the written consent of all of the Bondholders of the Bonds then Outstanding and the Bond Insurer.

Leasehold Estate; Enforcement of Facility Lease. The Authority will be, on the date of the delivery of the Bonds, the owner and lawfully possessed of the leasehold estate described in the Facility Lease, and the Facility Lease will be, on the date of delivery of the Bonds, a valid subsisting demise for the term therein set forth of the property which it purports to demise. At the time of the delivery of the Bonds the City will be the owner in fee simple of the premises described therein, and the Facility Lease will be lawfully made by the City, and the covenants contained in the Facility Lease on the part of the City will be valid and binding. At the time of the delivery of the Bonds, the Authority will have good right, full power and lawful authority to lease said leasehold estate, in the manner and form provided in the Facility Lease, and the Facility Lease will be duly and regularly executed.

Without allowance for any days of grace which may or might exist or be allowed by law or granted pursuant to any terms or conditions of the Facility Lease, the Authority will in all respects promptly and faithfully keep, perform and comply with all the terms, provisions covenants, conditions and agreements of the Facility Lease to be kept, performed and complied with by it. The Authority will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for declaring a forfeiture of the Facility Lease, or would or might be a ground for cancellation or termination of the Facility Lease by the lessee thereunder. The Authority will promptly deposit with the Trustee (to be held by the Trustee until the title and rights of the Trustee under the Indenture shall be released or reconvened) any and all documentary evidence received by it showing compliance with the provisions of the Facility Lease to be performed by the Authority. The Authority, immediately upon its receiving or giving any notice, communication or other document in any way relating to or affecting the Facility Lease, or the leasehold estate thereby created, which may or can in any manner affect the estate of the lessor or of the Authority in or under the Facility Lease, will deliver the same, or a copy thereof, to the Trustee.

Waiver of Laws. The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is waived by the Authority to the extent permitted by law.

Further Assurances. The Authority shall make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Holders of the Bonds of the rights and benefits provided in the Indenture.

Events of Default

The following events shall be Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise or default in the redemption of any Bonds from Sinking Fund Installments in the amount and at the times provided therefor;

(B) default in the due and punctual payment of any installment of interest on any Bond or any Regular Swap Payment when and as such interest installment or Regular Swap Payment shall become due and payable;

(C) default in any material respect by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the City by the Trustee, or to the Authority, the City and the Trustee by any of the Bond Insurer or the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or

(D) an Event of Default occurring under the Facility Lease.

Upon actual knowledge of the existence of any Event of Default, the Trustee shall notify the Authority, the City, and the Bond Insurer in writing as soon as practicable; provided, however, that the Trustee need not provide notice of any event of default pursuant to paragraph (D) above (a “Lease Default Event) if the City has expressly acknowledged the existence of such Lease Default Event in a writing delivered to the Trustee, the Bond Insurer and the Authority. Additionally, the Trustee shall immediately notify the applicable Bond Insurer if at any time there are insufficient moneys to make any payments of principal of and/or interest on the Insured Bonds insured by such Bond Insurer and immediately upon the occurrence of any Event of Default under the Indenture and shall provide such additional information as such Bond Insurer shall reasonably request.

Acceleration of Maturities

Whenever any Event of Default has happened and be continuing, the Trustee may take the following remedial steps:

(A) In the case of an Event of Default described in (A) or (B) under “Event of Default”, the Trustee may notify the Authority and the City of such Event of Default may make a demand for payment under the Indenture and may declare the principal of all obligations issued under the Indenture then outstanding to be due and immediately payable, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture to the contrary notwithstanding;

(B) In the case of an Event of Default described in (C) under “Event of Default”, the Trustee may take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Authority with any covenant condition or agreement by the Authority under the Indenture; and

(C) In the case of an Event of Default described in (D) under “Event of Default”, the Trustee may take whatever action the Authority would be entitled to take, and shall take whatever action the Authority would be required to take, pursuant to the Facility Lease in order to remedy the Lease Default Event.

Application of Revenues and Other Funds After Default

If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (subject to the provisions under the Indenture relating to disqualified bonds and other than moneys required to be deposited in the Rebate Fund or the Bond Purchase Fund) shall be applied by the Trustee as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and the Providers and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture; and

(2) To the payment of the principal or Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) and the Regular Swap Payments subject to the provisions of the Indenture, as follows:

(a) Unless the principal of all of the Bonds shall have become or have been declared due and payable

FIRST: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments and any Regular Swap Payments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

SECOND: To the payment to the Persons entitled thereto of the unpaid principal (including Sinking Fund Installments) or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the Persons entitled thereto, without' any discrimination or preference.

THIRD: To the payment to the Providers entitled thereto of amounts due with respect to any Related Obligations, and, if the amount available shall not be sufficient to pay in full any amounts due with respect to any Related Obligations, then to the payment thereof ratably, according to the amounts due thereon, to the Providers entitled thereto without discrimination or preferences.

(b) If the principal of all of the Bonds shall have become or have been declared due and payable

FIRST: To the payment to the Persons entitled thereto of the principal and interest then due and unpaid upon the Bonds and any Regular Swap Payments, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond or of any principal or interest over any Regular Swap Payment, according to the amounts due respectively for principal and interest and Regular Swap Payments, to the Persons entitled thereto without any discrimination or preference.

SECOND: To the extent funds remain available, to the payment to the Providers entitled thereto of amounts due with respect to any Related Obligations, and, if the amount available shall not be sufficient to pay in full any amounts due with respect to any Related Obligations, then to the payment thereof ratably, according to the amounts due thereon, to the Providers entitled thereto, without discrimination or preferences.

Trustee to Represent Bondholders

The Trustee is appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as Trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting

on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture, the Facility Lease, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Indenture, the Facility Lease, the Act or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other amounts and assets pledged under the Indenture pending such proceedings. If more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%). All rights action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

Bondholders' Direction of Proceedings

Anything in the Indenture to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall, have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefor, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

Limitation on Bondholders' Right to Sue

No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Facility Lease, the Act or any other applicable law with respect to such Bond, unless (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such suit, action or proceeding in its own name; provided, however, that if more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%); (3) such Holder or said Holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by such Holders or Holders' action to affect disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture, the Facility Lease, the Act or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Authority

Nothing in the Indenture, or in the Bonds, contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal or Redemption Price of and interest on the Bonds to the respective Holders of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other assets pledged therefor, and not otherwise, or affect or impair the right of such Holders, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings

In case any proceedings taken by the Trustee or anyone or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the Authority, the Trustee, the Bond Insurer, the Liquidity Facility Provider (if any) and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee, the Bond Insurer, the Liquidity Facility Provider (if any) and the Bondholders shall continue as though no such proceedings had been taken.

Remedies Not Exclusive

No remedy in the Indenture conferred upon or reserved to the Trustee or to the Holders of the Bonds or to any Provider is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or thereafter existing at law or in equity or otherwise.

No Waiver of Default

No delay or omission of the Trustee or of any Holder of the Bonds or of any Provider to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Trustee

Duties, Immunities and Liabilities of Trustee. The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture, and, except to the extent required by law, no implied covenants or obligations shall be read into the Indenture against the Trustee. The Trustee shall during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person that customarily engages in activities essentially similar to those provided for the Trustee under the Indenture would exercise or use under the circumstances in the conduct of such person's own affairs.

The Authority may, upon written request of the City shall, remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

The Trustee may at any time resign by giving written notice of such resignation to the Authority, the Bond Insurer, the Liquidity Facility Provider (if any), the City and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation the Authority shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment.

Any removal or resignation of the Trustee and appointment of a successor Trustee shall only become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within thirty (30) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of such Bondholder and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee. Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but nevertheless at the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon the request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and

certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon the acceptance of appointment by a successor Trustee as provided in this subsection, the Authority shall mail, or cause to be mailed, a notice of the succession of such Trustee to the trusts under the Indenture to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the Authority fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Authority.

The Trustee and any successor Trustee shall be a trust company or bank having a combined capital and surplus of at least seventy-five million dollars (\$75,000,000) (or providing a guarantee of the full and prompt performance by the Trustee of its obligations under this Bond Indenture by a guarantor with such combined capital and surplus) and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this paragraph, the Trustee shall resign immediately in the manner and with the effect specified in this Section.

Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business provided such company shall be eligible under the Indenture, shall be the successor to such Trustee without the execution or filing of any paper or any further act anything in the Indenture to the contrary notwithstanding.

Liability of Trustee. The Trustee may become the owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect, any committee formed to protect the rights of Bondholders, whether or not such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

The Trustee shall not be liable for any error of judgment made in good faith by any of its officers, employees, agents or representatives, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of the Indenture, other than to make draws on a Liquidity Facility or Bond Insurance Policy in accordance with the terms of the Indenture, unless such Bondholders shall have offered to the Trustee security or indemnity, satisfactory to the Trustee, against the costs, expenses and liabilities which may be incurred therein or thereby. The Trustee has no obligation or liability to the

Holders for the payment of interest on, principal of or premium, if any, with respect to the Bonds from its own funds, but rather the Trustee's obligations shall be limited to the performance of its duties under the Indenture.

Except with respect to Events of Default specified in the Indenture, the Trustee shall not be deemed to have knowledge of any Event of Default unless and until an officer at the Principal Office responsible for the administration of its duties under the Indenture shall have actual knowledge thereof or the Trustee shall have received written notice thereof at the Principal Office. The Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements in the Indenture or of any of the documents executed in connection with the Bonds, or as to the existence of a default or Event of Default thereunder. The Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it.

The Trustee may execute any of the trusts or powers under the Indenture or perform any duties under the Indenture either directly or by or through attorneys-in-fact, agents, receivers, officers, employees or representatives, but shall be answerable for the negligence or misconduct of any such attorney-in-fact, agent, receiver, officer, employee or representative selected by it. The Trustee shall be entitled to advice of counsel and other professionals concerning all matters of trust and its duty under the Indenture, but the Trustee shall not be answerable for the professional malpractice of any counselor other professional (including without limiting the generality of the foregoing, attorneys-in-law or certified public accountants) in connection with the rendering of such counsels or other professionals' advice in accordance with the terms of the Indenture, if such counselor other professional was selected by the Trustee with due care.

Modification or Amendment of the Indenture

Amendments Permitted. The Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Trustee and of any Swap Provider may be modified or amended from time to time and at any time by an indenture or indentures supplemental, which the Authority and the Trustee may enter into when, the City shall have filed with the Trustee the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding. No such modification or amendment shall (1) extend the stated maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof or change the Purchase Price to be paid to Holders tendering their Bonds, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds, the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds or the Swap Provider of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Holders of all Bonds then Outstanding and the Swap Provider. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Bondholders at the addresses shown on the registration books maintained by the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

The Indenture and the rights and obligations of the Authority, of the Trustee and of the Holders of the Bonds, except as it relates to the Swap Agreement, may also be modified or amended from time to time and at any time by an indenture or indentures supplemental, which the Authority and the Trustee may enter into without the necessity of obtaining the consent of any Bondholders, for any purpose that will not materially adversely affect the interests of the Holders of the Bonds, including (without limitation) anyone or more of the following purposes:

(1) to add to the covenants and agreements of the Authority contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority;

(2) to make such provisions for the purpose of curing any ambiguity inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority or the Trustee may deem necessary or desirable;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(4) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure set forth in Article III (which shall be deemed not to adversely affect Bondholders);

(5) to evidence or give effect to, or to conform to the terms and provisions of any Liquidity Facility;

(6) to evidence or give effect to, or to conform to the terms and provisions of any insurance policy, letter of credit, surety bond or other credit enhancement for the Bonds;

(7) to facilitate and implement any book entry system (or any termination of a book entry system) with respect to the Bonds;

(8) to maintain the exclusion from gross income of interest payable with respect to the Bonds; or

(9) to make any modification or amendment to the Indenture which will be effective upon the remarketing of Bonds following the mandatory tender of the Bonds.

Any Supplemental Indenture entered into pursuant to this paragraph shall not, for purposes of this paragraph, materially adversely affect the interest of the Bondholders so long as (a) all Bonds are insured by a Bond Insurance Policy or are Variable Rate Bonds, (b) each Bond Insurer shall be rated in the highest Rating Category by S&P and Moody's and (c) if there are Variable Rate Bonds, the Supplemental Indenture shall not become effective until notice thereof shall have been given to Bondholders and thirty (30) days shall have passed during which time Owners of the Variable Rate Bonds shall have had the opportunity to tender their Bonds for purchase or if Bonds are ARS, a successful Auction has been conducted.

The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise. In any event, the Trustee shall obtain the Swap Provider's consent prior to entering into any Supplemental Indenture which materially adversely affects the Swap Providers rights, duties, or immunities under the Indenture or otherwise.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to this Article, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Defeasance

Discharge of Indenture. The Bonds may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways:

- (A) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable;
- (B) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount to pay when due or redeem all Bonds then Outstanding; or
- (C) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority and under any Related Obligations and all Swaps have been terminated and are no longer outstanding, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Trustee signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture (except as otherwise provided in the Indenture) shall cease, terminate become void and be completely discharged and satisfied. In such event, upon the request of the Authority, the Trustee shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary to evidence such discharge and satisfaction and the Trustee shall pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption; provided that in all events moneys in the Rebate Fund shall be subject to the provisions of Indenture relating to the Rebate Fund.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond) and pay any amounts due and payable on any Swaps then Outstanding, provided that, if such Bond is to be redeemed prior to

maturity (a) notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, and (b) the Trustee, the Bond Insurer, the Swap Provider and the Authority shall have received (i) verification report prepared by independent certified public accountants, or other verification agent (which may be the Remarketing Agent) satisfactory to the Trustee and the Authority, to the effect that the payment of the principal of and premium, if any, and interest on such Bonds then Outstanding and any and all other amounts required to be paid under the provisions of this Bond Indenture has been provided for in the manner set forth in this Bond Indenture and the Swap Agreement, and (ii) an Opinion of Bond Counsel addressed and delivered to the Trustee and the Authority to the effect that so providing for the payment of such Bond shall not adversely affect the exclusion of the interest on such Bond from gross income for federal income tax purposes, then all liability of the Authority in respect of such Bond shall cease, terminate and be completely discharged, except only that thereafter the Holder thereof shall be entitled to payment of the principal of and interest on such Bond by the Authority, and the Authority shall remain liable for such payments, but only out of such money or securities deposited with the Trustee as aforesaid for their payment.

Notwithstanding anything in the Indenture to the contrary, if the interest on or principal of the related Insured Bonds shall have been paid by the related Bond Insurer pursuant to the related Bond Insurance Policy, the obligations of the Authority under the Indenture and under such Insured Bonds shall not be deemed discharged or satisfied, such Insured Bonds shall remain Outstanding for all the assignment and pledge contained in the Indenture and all obligations of the Authority under the Indenture shall continue to exist and run to the benefit of such Bond Insurer, and such Bond Insurer shall be subrogated to the rights of Holders of such Insured Bonds including, without limitation, any rights that the Holders of such Bonds may have in respect of securities law violations arising from the offer and sale of such Insured Bonds.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to payor redeem any Bonds, the money or securities to be so deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture (other than the Rebate Fund) and shall be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity (based on an assumed interest rate equal to the Maximum Rate for periods for which the actual interest rate on the Bonds cannot be determined), except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(B) United States Government Obligations, the principal of and interest on which when due (without any income from the reinvestment thereof) will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity (based on an assumed interest rate equal to the Maximum Rate for periods for which the actual interest rate on the Bonds cannot be determined), or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the Authority) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds, and provided further, that with respect to the deposit of United States Government Obligations pursuant to paragraph (B), the Trustee shall have received (i) a verification report from a firm of independent accountants or attorneys acceptable to the Trustee to the effect that the amount deposited is sufficient to make the payment specified therein and (ii) a defeasance opinion addressed to the Bond Insurer.

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of or premium, if any, or interest on, any Bonds and remaining unclaimed for three years (or, if shorter, one day before such moneys would escheat to the State of California under then applicable California law) after such principal or interest, as the case may be, has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or three years (or, if shorter, one day before such moneys would escheat to the State of California under then applicable California law) after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the City free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the Authority and the Trustee indemnifying the Authority and the Trustee with respect to claims of Holders of Bonds which have not yet been paid and containing the agreement of the City to remain liable for the amount so repaid to the City, and all liability of the Authority and the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee may (at the cost of the City) first mail to the Holders of Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Trustee, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof.

Limited Liability of Authority

Notwithstanding anything the Indenture or in the Bonds contained, the Authority shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of the Indenture.

The Bond Insurance Policy Provisions

Payments with respect to claims for interest on and principal of the Bonds disbursed by the Trustee from proceeds of the Bond Insurance Policy shall not be considered to discharge the obligation of the Authority with respect to such Bonds, and the Bond Insurer shall become the owner of such unpaid Bond and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

To the extent that the Indenture confers upon or give or grant to the Bond Insurer any right, remedy or claim under or by reason of the Indenture, the Bond Insurer is explicitly recognized as being a third party beneficiary under the Indenture and may enforce any such right, remedy or claim conferred, given or granted thereunder.

THE FACILITY LEASE

Lease of Leased Property

Pursuant to the Facility Lease, the Authority subleases to the City and the City subleases from the Authority the Leased Property, subject, however, to all easements, encumbrances, and restrictions that exist at the time of the commencement of the term of the Facility Lease. The Leased Property shall consist of the real properties described in Exhibit A of the Facility Lease, as the same may be amended from time to time, pursuant to the terms thereof.

Term; Occupancy

The term of the Facility Lease shall commence on the date of recordation of the Facility Lease in the office of the County Recorder of Stanislaus County, State of California, or on April 18, 2007, whichever is earlier, and shall end on September 1, 2033, unless such term is extended or sooner terminated. If on such termination date, the Series of Bonds corresponding to the Base Rental Payments attributable to the Leased Property, or if applicable, the related Leased Unit, and all other amounts then due under the Facility Lease with respect to such Leased Property or Leased Unit (as the case may be), including any Reserve Facility Costs and amounts due under any Related Obligations, shall not be fully paid, or if the rental payable under the Facility Lease with respect to such Leased Property or Leased Unit (as the case may be) shall have been abated at any time and for any reason, then the term of the Facility Lease with respect to such Leased Property or Leased Unit (as the case may be) shall be extended until all Bonds and Related Obligations of such Series corresponding to the Base Rental Payments attributable to such Leased Property or Leased Unit (as the case may be) and all other amounts then due under the Facility Lease with respect to such Leased Property or Leased Unit (as the case may be), including any Reserve Facility Costs and amounts due under any Related Obligations, shall be fully paid, except that the term of the Facility Lease as to such Leased Property or Leased Unit (as the case may be) shall in no event be extended beyond ten (10) years after such date. If prior to such date, all Bonds of a Series corresponding to the Base Rental Payments attributable to the Leased Property, or if applicable, the related Leased Unit and all other amounts then due under the Facility Lease with respect to such Leased Property or Leased Unit (as the case may be), including any Reserve Facility Costs and amounts due under any Related Obligations, shall be fully paid, or provision therefor made, the term of the Facility Lease with respect to such Leased Property or Leased Unit (as the case may be) shall end ten (10) days thereafter or upon written notice by the City to the Authority, whichever is earlier.

Removal or Substitution of Leased Property

Pursuant to the Indenture, the City may remove or substitute real property as part of the Leased Property for purposes of the Facility Lease, but only after the City shall have filed with the Authority and the Trustee, with copies to each rating agency then providing a rating for the Bonds, all of the following:

- (a) Executed copies of the Facility Lease or amendments thereto containing the amended description of the Leased Property, including the legal description of the Leased Property as modified if necessary;
- (b) A Certificate of the City with copies of the Facility Lease or a site lease, if needed, or amendments thereto containing the amended description of the Leased Property stating that such

documents have been duly recorded in the official records of the County Recorder of Stanislaus County, State of California;

(c) A Certificate of the City evidencing that the annual fair rental value of the Leased Property which will constitute the Leased Property after such removal or substitution will be at least equal to 100% of the maximum amount of Base Rental Payments for (i) the 1998 Bonds and (ii) all Series of Bonds becoming due in the then current year ending August 14 through and including each year during which any Series of Bonds would be Outstanding or in any subsequent year ending August 15 through and including each year during which any Series of Bonds would be Outstanding;

(d) A Certificate of the City stating that, based upon review of such instruments, certificates or any other matters described in such Certificate of the City, the City has good merchantable title to the Leased Property which will constitute the Leased Property after such substitution. The term “good merchantable title” shall mean such title as is satisfactory and sufficient for the needs and operations of the City;

(e) A Certificate of the City stating that such removal or substitution does not adversely affect the City’s use and occupancy of the Leased Property;

(f) An Opinion of Counsel (as such term is defined in the Indenture) stating that such amendment or modification (i) is authorized or permitted by the Constitution and laws of the State and the Indenture; (ii) complies with the terms of the Constitution and laws of the State and of the Indenture; (iii) will, upon the execution and delivery thereof, be valid and binding upon the Authority and the City; and (iv) will not cause the interest on the Bonds to be included in gross income for federal income tax purposes; and

(g) A Certificate of the City stating that all conditions to the release or substitution of such property under the 1998 Lease have been satisfied.

Subordination to the 1998 Lease

Notwithstanding any provisions of the Facility Lease to the contrary, the Facility Lease and the rights granted to the City under the Facility Lease are subordinate to the right of the City and the 1998 Trustee under the 1998 Lease, the 1998 Indenture and the rights granted thereunder.

Base Rental Payments

The City agrees to pay to the Authority, as Base Rental Payments for the use and occupancy of the Leased Property (subject to certain the provisions of the Facility Lease) annual rental payments, in accordance with the Base Rental Payment Schedule attached to the Facility Lease.

Each annual payment of Base Rental Payments (to be payable in installments as aforesaid) shall be for the use of the Leased Property.

The City and the Authority agree that on each day on which Base Rental Payments are payable during the term of the lease of the Leased Property, there shall be applied as a credit against the Base Rental Payments payable on such date for the Leased Property the amounts by which such Base Rental Payments for the Leased Property when added to the funds held pursuant to the Indenture (other than the Reserve Fund) and available to pay debt service on the Bonds and any

Related Obligations exceeds such payment obligations due and payable on or before the fifteenth day of the immediately succeeding month.

Additional Payments

The City shall also pay such amounts (the “Additional Payments”) as shall be required by the Authority for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Facility Lease or any pledge of Base Rental Payments payable under the Facility Lease, the Indenture, the Reserve Facility, its interest and the lease of the Leased Property to the City, including but not limited to payment of all fees, costs and expenses and all administrative costs of the Authority related to the Bonds, the Related Obligations, the Leased Property and the Project, including, without limiting the generality of the foregoing, salaries and wages of employees, all expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, auction agents, broker-dealers or attorneys, and fees and expenses payable to any bond insurer, and all other necessary administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Bonds or of the Indenture; but not including in Additional Payments amounts required to pay the principal of or interest on the Bonds or the portion of the Reserve Facility Costs related thereto or payments on Related Obligations or the payment of any Regular Swap Payments or Extraordinary Swap Payments.

The Authority has issued and may in the future issue bonds and has entered into and may in the future enter into leases to finance facilities other than the Leased Property and the Project. The administrative costs of the Authority shall be allocated among said facilities and the Leased Property. The fees of the Trustee under the Indenture, and any other expenses directly attributable to the Leased Property shall be included in the Additional Payments payable under the Facility Lease. The fees of any trustee or paying agent under any indenture securing any additional Series of Bonds of the Authority, and any other expenses directly attributable to any facilities other than the Leased Property, shall not be included in the administrative costs of the Leased Property and shall not be paid from the Additional Payments payable under the Facility Lease. Any expenses of the Authority not directly attributable to any particular leased property or project of the Authority shall be equitably allocated among all such leased property or projects in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Authority to consider the question and render an opinion thereon, shall be a final and conclusive determination as to such allocation. The Trustee may conclusively rely upon the Written Request of the Authority, with the approval of a duly authorized representative of the City, endorsed thereon, in making any determination that costs are payable as Additional Payments under the Facility Lease, and shall not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Leased Property.

Fair Rental Value

The payment of up to the Maximum Annual Base Rental Payments (as shown in the Facility Lease) and Additional Payments, together with the lease payments made under the 1998 Lease, for each rental period during the term of the Facility Lease shall constitute the total rental for said rental period and shall be paid by the City in each Rental Payment Period for and in consideration of the right of use and occupancy of, and continued quiet use and enjoyment of, the Leased Property during each such period for which said rental is to be paid. The parties have agreed and determined that

such total rental payable for each Rental Payment Period represents the fair rental value of the Leased Property for each such period. In making such determination, consideration has been given to the appraised value of the Leased Property, costs of acquisition, demolition, site preparation, design, construction and financing of the Leased Property, other obligations of the parties under the Facility Lease, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public.

Payment Provisions; Deferred Rental

At the request of the City, the Authority is issuing the Bonds as variable rate bonds, and entering into an interest rate swap transaction in an effort to provide a lower cost to the City for the lease of the Leased Property. It is contemplated by the parties that the amount of Base Rental Payments to be payable by the City to the Authority during each Rental Payment Period will be equal to the Estimated Base Rental Payments shown in an exhibit to the Facility Lease. In the event that the amount needed in such Rental Payment Period by the Authority to pay the principal of and interest on the Bonds and any Related Obligations is more than the Estimated Base Rental Payments for such Rental Payment Period, the City will be obligated to pay up to the Maximum Annual Base Rental Payment for such Rental Payment Period. Further, the City agrees that if in any year the Maximum Annual Base Rental Payment exceeds the amount needed by the Authority to pay the principal of and interest on the Bonds and any Related Obligations coming due on or before September 1 following the end of such Rental Payment Period, the excess amount may be deferred by the Authority, at its sole option, on such terms and conditions as it shall determine are necessary to protect the interests of the owners of the Bonds and the Providers of any Related Obligations, and thereupon such excess amount (the "Deferred Rental") need not be paid by the City to the Authority at that time, but instead shall be deferred until such subsequent time as the Authority shall have need for such payment; provided that the Deferred Rental shall not cause the Maximum Annual Base Rental Payment in any Rental Payment Period to exceed 150% of the Estimated Base Rental Payment for such Rental Payment Period as shown in an exhibit to the Facility Lease.

Notwithstanding any dispute between the Authority and the City, the City shall make all Base Rental Payments and Additional Payments when due without deduction or offset of any kind and shall not withhold any Base Rental Payments or Additional Payments pending the final resolution of such dispute. In the event of a determination that the City was not liable for said Base Rental Payments or Additional Payments or any portion thereof, said payments or excess of payments, as the case may be, shall be credited against subsequent Base Rental Payments or Additional Payments due under the Facility Lease or refunded at the time of such determination. Amounts required to be deposited by the City with the Trustee on any date shall be reduced to the extent of amounts on deposit in the Revenue Fund and available therefor.

All payments received shall be applied first to the Base Rental Payments due under the Facility Lease and thereafter to all Additional Payments due under the Facility Lease, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default under the Facility Lease.

Nothing contained in the Facility Lease shall prevent the City from making from time to time contributions or advances to the Authority for any purpose now or thereafter authorized by law, including the making of repairs to, or the restoration of, the Leased Property in the event of damage to or the destruction of the Leased Property.

Appropriations Covenant

The City covenants to take such action as may be necessary to include all Estimated Base Rental Payments and Additional Payments due under the Facility Lease and all lease payments and additional payments under the 1998 Lease in its annual budgets, and to make necessary annual appropriations for such payments, and for such additional amounts as required below. The City will deliver to the Authority and the Trustee within ninety (90) days of adoption of the City budget copies of the portion of each annual City budget relating to the payment of Estimated Base Rental Payments and Additional Payments under the Facility Lease and lease payments and additional payment under the 1998 Lease as so calculated. If in any fiscal year, the amount initially budgeted is insufficient to pay actual Debt Service on the Bonds and payments with respect to Related Obligations, the City shall, by supplemental budget in such fiscal year, appropriate and pay such additional amounts until the total amount appropriated for Base Rental Payments equals Maximum Annual Base Rental Payments for such year as provided in the exhibit to the Facility Lease. The covenants on the part of the City contained in the Facility Lease shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Facility Lease agreed to be carried out and performed by the City.

The Authority and the City understand and intend that the obligation of the City to pay Base Rental Payments and Additional Payments under the Facility Lease shall constitute a current expense of the City and shall not in any way be construed to be a debt of the City in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the City, nor shall anything contained in the Facility Lease constitute a pledge of the general tax revenues, funds or moneys of the City. Base Rental Payments and Additional Payments due under the Facility Lease shall be payable only from current funds which are budgeted and appropriated or otherwise legally available for the purpose of paying Base Rental Payments and Additional Payments or other payments due under the Facility Lease as consideration for use of the Leased Property. The Facility Lease shall not create an immediate indebtedness for any aggregate payments which may become due under the Facility Lease in the event that the term of the Facility Lease is continued. The City has not pledged the full faith and credit of the City, the State of California or any agency or department thereof to the payment of the Base Rental Payments and Additional Payments or any other payments due under the Facility Lease.

Rental Abatement

The Base Rental Payments and Additional Payments shall be abated proportionately during any period in which by reason of any damage or destruction (other than by condemnation, or planned demolition as part of the Project) there is substantial interference with the use and occupancy of the Leased Property by the City, in the proportion in which the initial cost of that portion of the Leased Property rendered unusable bears to the initial cost of the whole of the Leased Property. 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 Facility Lease shall continue in full force and effect and the City waives the benefits of California Civil Code Section 1932(2) and 1933(4) and of Title 11 of the United States Code, Section 365(h) and any and all other rights to terminate the Facility Lease by virtue of any such damage or destruction.

Notwithstanding the foregoing, such abatement shall not result to the extent of moneys held by the Trustee under the Indenture (including, particularly, without limitation, the Reserve Fund, Principal Account and Interest Account), or to the extent such Base Rental Payments are made from proceeds of insurance and rental interruption insurance as provided in the Facility Lease.

Maintenance, Alterations and Additions

Maintenance and Utilities. During such time as the City is in possession of the Leased Property, all maintenance and repair, both ordinary and extraordinary, of the Leased Property shall be the responsibility of the City, which shall at all times maintain or otherwise arrange for the maintenance of the Leased Property in first class condition, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, and shall pay for or otherwise arrange for payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof or any other cause and shall pay for or otherwise arrange for the payment of all insurance policies required to be maintained with respect to the Leased Property. In exchange for the rental provided in the Facility Lease, the Authority agrees to provide only the Leased Property.

Changes to the Leased Property. Subject to the Facility Lease and the provisions of the 1998 Lease, the City, at its own expense, shall have the right to remodel the Leased Property or to make additions, modifications and improvements to the Leased Property. All such additions, modifications and improvements shall thereafter comprise part of the Leased Property and be subject to the provisions of the Facility Lease. Such additions, modifications and improvements shall not damage the Leased Property or cause them to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made, shall be of a value which is at least equal to the value of the Leased Property immediately prior to the making of such additions, modifications and improvements.

Installation of City's Equipment. The City and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Leased Property. All such items shall remain the sole property of such party, in which neither the Authority nor the Trustee shall have any interest, and may be modified or removed by such party at any time provided that such party shall repair and restore any and all damage to the Leased Property resulting from the installation, modification or removal of any such items. Nothing in the Facility Lease shall prevent the City from purchasing items to be installed under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Leased Property.

Insurance

Fire and Extended Coverage Insurance. The City shall procure or cause to be procured and maintain or cause to be maintained, throughout the term of the Facility Lease, insurance against loss or damage to any structures constituting any part of the Leased Property by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance and sprinkler system leakage insurance. Said extended coverage insurance 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. Such insurance shall be in an amount equal to the replacement

cost (without deduction for depreciation) of all structures constituting any part of the Leased Property, excluding the cost of excavations, of grading and filling, and of the land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$500,000 or comparable amount adjusted for inflation), or, in the alternative, shall be in an amount and in a form sufficient (together with moneys held under the Indenture), in the event of total or partial loss, to enable all outstanding Bonds to be redeemed.

In the event of any damage to or destruction of any part of the Leased Property, caused by the perils covered by such insurance, the Authority, and subject to the terms of the 1998 Lease and the 1998 Indenture, shall cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Property, and the Trustee shall hold said proceeds separate and apart from all other funds, in a special fund to be designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as they were in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Trustee shall permit withdrawals of said proceeds from time to time upon receiving the Written Request of the Authority, stating that the Authority has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred. Any balance of said proceeds not required for such repair, reconstruction or replacement shall be treated by the Trustee as Base Rental Payments and applied in the manner provided in the Indenture. Alternatively, the Authority, at its option, with the written consent of the City, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to redeem an aggregate principal amount of outstanding Bonds, equal to the amount of Base Rental Payment attributable to the portion of the Leased Property so destroyed or damaged (determined by reference to the proportion which the cost of such portion of the Leased Property bears to the cost of the Leased Property), may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property and thereupon shall cause said proceeds to be used for the redemption of outstanding Bonds pursuant to the Indenture.

As an alternative to providing the insurance required by the first paragraph of this Section, or any portion thereof, the City may provide a self insurance method or plan of protection if and to the extent such self insurance method or plan of protection shall afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the City. So long as such method or plan is being provided to satisfy the requirements of the Facility Lease, there shall be filed annually with the Trustee a statement of an actuary, insurance consultant or other qualified person (which may be the Risk Manager of the City), stating that, in the opinion of the signer, the substitute method or plan of protection is in accordance with the requirements of this Section and, when effective, would afford reasonable coverage for the risks required to be insured against. There shall also be filed a Certificate of the City setting forth the details of such substitute method or plan. In the event of loss covered by any such self insurance method, the liability of the City under the Facility Lease shall be limited to the amounts in the self insurance reserve fund or funds created under such method.

Any insurance required by the Facility Lease relating to fire and extended coverage insurance, to the extent permitted, shall not be a duplication of the insurance maintained under the 1998 Lease.

Liability Insurance. Except as otherwise provided, the City shall procure or cause to be procured and maintain or cause to be maintained, throughout the term of the Facility Lease, a standard comprehensive general liability insurance policy or policies in protection of the Authority and the City and their respective members, directors, officers, agents and employees, and the Trustee, indemnifying said parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the operation of the Leased Property, with minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$500,000 for damage to property resulting from each accident or event. 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 carried by the City.

As an alternative to providing the insurance required by the preceding paragraph, or any portion thereof, the City may provide a self insurance method or plan of protection if and to the extent such self insurance method or plan of protection shall afford reasonable protection to the Authority and the City and their respective members, directors, officers, agents and employees, and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the City. So long as such method or plan is being provided to satisfy the requirements of the Facility Lease, there shall be filed annually with the Trustee a statement of an actuary, independent insurance consultant or other qualified person (which may be the Risk Manager of the City), stating that, in the opinion of the signer, the substitute method or plan of protection is in accordance with the requirements of this Section and, when effective, would afford reasonable protection to the Authority and the City and their respective members, directors, officers, agents and employees, and the Trustee against loss and damage from the hazards and risks covered thereby. There shall also be filed a Certificate of the City setting forth the details of such substitute method or plan.

Any insurance required under the Facility Lease relating to liability insurance, to the extent permitted, shall not be a duplication of the insurance maintained under the 1998 Lease.

Rental Interruption or Use and Occupancy Insurance. The City shall procure or cause to be procured and maintain or cause to be maintained, rental interruption or use and occupancy insurance to cover loss, total or partial, of the rental income from or the use of the Leased Property as the result of any of the hazards covered by the insurance required by the Facility Lease, in an amount sufficient to pay the part of the total rent under the Facility Lease attributable to the portion of the Leased Property rendered unusable (determined by reference to the proportion which the cost of such portion bears to the cost of the Leased Property) for a period of at least two years, except that such insurance may be subject to a deductible clause of not to exceed two hundred fifty thousand dollars (\$250,000) or a comparable amount adjusted for inflation. Any proceeds of such insurance shall be used by the Trustee to reimburse to the City any rental theretofore paid by the City under the Facility Lease attributable to such structure for a period of time during which the payment of rental under the Facility Lease is abated, and any proceeds of such insurance not so used shall be applied as provided in the Facility Lease (to the extent required for the payment of Base Rental Payments and to the extent required for the payment of Additional Payments) and any remainder shall be treated as Revenue under the Indenture.

Worker's Compensation. The City shall also maintain worker's compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure its

employees against liability for compensation under the Worker's Compensation Insurance and Safety Act now in force in California, or any act enacted as an amendment or supplement thereto. As an alternative, such insurance may be maintained as part of or in conjunction with any other insurance carried by the City. Such insurance may be maintained by the City in the form of self-insurance.

Title Insurance. The City shall obtain, for the benefit of the Authority and the Trustee, upon the execution and delivery of the Facility Lease, title insurance on the Leased Property in an amount not less than \$61,430,000, subject only to Permitted Encumbrances. Any title insurance held under the 1998 Lease shall satisfy, on a dollar to dollar basis, the requirements of this paragraph, so long as the Trustee is named as an additional insured, it being understood that the rights of the Trustee shall be subject to the prior rights of the 1998 Trustee.

Insurance Proceeds; Form of Policies. All policies of insurance required by the Facility Lease relating to fire and extended coverage insurance and rental interruption and use and occupancy insurance shall name the City, the Authority and the Trustee as insured and shall contain a lender's loss payable endorsement in favor of the Trustee. Any such policies may also name the 1998 Trustee as an insured if the policies are intended to satisfy both the requirements of the Facility Lease and the 1998 Lease. The Trustee shall, to the extent practicable, collect, adjust and receive all moneys which may become due and payable under any such policies, may compromise any and all claims thereunder and shall apply the proceeds of such insurance as provided in Facility Lease. All policies of insurance required by the Facility Lease shall provide that the Trustee shall be given thirty (30) days notice of each expiration thereof or any intended cancellation thereof or reduction of the coverage provided thereby. The Trustee shall not be responsible for the sufficiency of any insurance required in the Facility Lease and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the City. The City shall pay when due the premiums for all insurance policies required by the Facility Lease, and shall promptly furnish evidence of such payments to the Authority.

Defaults and Remedies

Defaults and Remedies. (a) If the City shall fail to pay any Base Rental Payments or Additional Payments payable under the Facility Lease when the same becomes due, time being expressly declared to be of the essence of the Facility Lease, or the City shall fail to keep, observe or perform any other term, covenant or condition contained in the Facility Lease to be kept or performed by the City for a period of sixty (60) days after notice of the same has been given to the City by the Authority or the Trustee or for such additional time as is reasonably required, in the sole discretion of the Authority, to correct the same, or upon the happening of any of the events specified in paragraph (b) below (any such case above being an "Event of Default"), the City shall be deemed to be in default under the Facility Lease and it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Facility Lease. Upon any such default, the Authority, in addition to all other rights and remedies it may have at law, shall have the option, without terminating the Facility Lease, but subject to the terms of the 1998 Lease (i) to collect each installment of rent as it becomes due and enforce any other terms or provision to be kept or performed by the City, regardless of whether or not the City has abandoned the Leased Property, or (ii) to exercise any and all rights of entry and re-entry upon the Leased Property. So long as the Facility Lease is not terminated the City shall remain liable and agrees to keep or perform all covenants and conditions contained in the Facility Lease to be kept or performed by the City and, if the Leased Property is not re-let, to pay the full amount of the rent to the end of the term of the Facility Lease or, in the event that the Leased Property is re-let, to pay any deficiency in rent that

results therefrom; and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as hereinabove provided for the payment of rent under the Facility Lease (without acceleration), notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental specified in the Facility Lease, and notwithstanding any entry or re-entry by the Authority or suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such entry or re-entry or obtaining possession of the Leased Property. Should the Authority elect to enter or re-enter as provided in the Facility Lease, the City irrevocably appoints the Authority as the agent and attorney-in-fact of the City to re-let the Leased Property, or any part thereof, from time to time, either in the Authority's name or otherwise, upon such terms and conditions and for such use and period as the Authority may deem advisable, and to remove all persons in possession thereof and all personal property whatsoever situated upon the Leased Property and to place such personal property in storage in any warehouse or other suitable place located in the City of Modesto, California, for (to the extent permitted by law) the account of and at the expense of the City, and the City (to the extent permitted by law) exempts and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Leased Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Facility Lease. The City agrees that the terms of the Facility Lease constitute full and sufficient notice of the right of the Authority to re-let the Leased Property and to do all other acts to maintain or preserve the Leased Property as the Authority deems necessary or desirable in the event of such re-entry without effecting a surrender of the Facility Lease, and further agrees that no acts of the Authority in effecting such re-letting shall constitute a surrender or termination of the Facility Lease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise. The City further waives the right to any rental obtained by the Authority in excess of the rental specified in the Facility Lease and conveys and releases such excess to the Authority as compensation to the Authority for its services in re-letting the Leased Property or any part thereof. The City further agrees to the extent permitted by law to pay the Authority the reasonable cost of any alterations or additions to the Leased Property necessary to place the Leased Property in condition for re-letting immediately upon notice to the City of the completion and installation of such additions or alterations.

The City waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Leased Property as provided in the Facility Lease and all claims for damages that may result from the destruction of or injury to the Leased Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be in or upon the Leased Property.

(b) If (1) the City's interest in the Facility Lease or any part thereof is assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority, or (2) the City or any assignee shall file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the City's debts or obligations, or offers to the City's creditors to effect a composition or extension of time to pay the City's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the City's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the City, or if a receiver of

the business or of the property or assets of the City shall be appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the City shall make a general or any assignment for the benefit of the City's creditors, or if (3) the City shall abandon or vacate the Leased Property, then the City shall be deemed to be in default under the Facility Lease.

(c) The Authority shall in no event be in default in the performance of any of its obligations under the Facility Lease or imposed by any statute or rule of law unless and until the Authority shall have failed to perform such obligations within sixty (60) days or such additional time as is reasonably required to correct any such default after notice by the City to the Authority properly specifying wherein the Authority has failed to perform any such obligation. In the event of default by the Authority, the City shall be entitled to pursue any remedy provided by law.

(d) In addition to the other remedies set forth above, upon the occurrence of an event of default, the Authority shall be entitled to proceed to protect and enforce the rights vested in the Authority by the Facility Lease or by law. The provisions of the Facility Lease and the duties of the City and of its trustees, officers or employees shall be enforceable by the Authority by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority shall have the right to bring the following actions:

Accounting. By action or suit in equity to require the City and its trustees, officers and employees and its assigns to account as the trustee of an express trust.

Injunction. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority.

Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce the Authority's rights against the City (and its board, officers and employees) and to compel the City to perform and carry out its duties and obligations under the law and its covenants and agreements with the City as provided in the Facility Lease.

The exercise of any rights or remedies under the Facility Lease shall not permit acceleration of Base Rental Payments.

Each and all of the remedies given to the Authority under the Facility Lease or by any law now or thereafter enacted are cumulative and the single or partial exercise of any right, power or privilege under the Facility Lease shall not impair the right of the Authority to other or further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" shall include, but not be limited to, re-letting by means of the operation by the Authority of the Leased Property. If any statute or rule of law validly shall limit the remedies given to the Authority under the Facility Lease, the Authority nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

In the event the Authority shall prevail in any action brought to enforce any of the terms and provisions of the Facility Lease, the City agrees to pay a reasonable amount as and for attorney's fees incurred by the Authority in attempting to enforce any of the remedies available to the Authority under the Facility Lease, whether or not a lawsuit has been filed and whether or not any lawsuit culminates in a judgment.

Waiver. Failure of the Authority to take action on any default on the part of the City shall not be, or be construed as, a waiver thereof, nor shall any custom or practice which may grow up between the parties in the course of administering this instrument be construed to waive or to lessen the right of the Authority to insist upon performance by the City of any term, covenant or condition, or to exercise any rights given the Authority on account of such default. A waiver of a particular default shall not be deemed to be a waiver of the same or any subsequent default. The acceptance of rent under the Facility Lease shall not be, or be construed to be, a waiver of any term, covenant or condition of the Facility Lease.

Eminent Domain; Prepayment

Eminent Domain. If the whole of the Leased Property or so much thereof as to render the remainder unusable for the purposes for which it was used by the City shall be taken under the power of eminent domain, the term of the Facility Lease shall cease as of the day that possession shall be so taken. If less than the whole of the Leased Property shall be taken under the power of eminent domain and the remainder of the Leased Units is usable for the purposes for which it was used by the City at the time of such taking, then the Facility Lease shall continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there shall be a partial abatement of the Base Rental Payments due under the Facility Lease in an amount equivalent to the amount by which the annual payments of principal and interest on the Outstanding Bonds will be reduced by the application of the award in eminent domain to the redemption of outstanding Bonds. So long as any of the Bonds shall be outstanding, any award made in eminent domain proceedings for taking the Leased Property or any of the Leased Units thereof shall be paid to the Trustee and applied to the prepayment of the Base Rental Payments as provided in the Facility Lease, but subject to the terms of the 1998 Lease. Any such award made after all of the Base Rental Payments and Additional Payments have been fully paid, or provision therefor made, shall be paid to the to the City.

Prepayment. (a) Subject to the terms of the 1998 Lease, the City shall prepay on any date from insurance (including proceeds of title insurance) and eminent domain proceeds, to the extent provided in the Facility Lease (provided, however, that in the event of partial damage to or destruction of the Leased Property caused by perils covered by insurance, if in the judgment of the Authority the insurance proceeds are sufficient to repair, reconstruct or replace the damaged or destroyed Leased Property, such proceeds shall be held by the Trustee and used to repair, reconstruct or replace the damaged or destroyed Leased Property), all or any part of Base Rental Payments then unpaid so that the aggregate annual amounts of Base Rental Payments which shall be payable after such prepayment date shall be as nearly proportional as practicable to the aggregate annual amounts of Base Rental Payments unpaid prior to the prepayment date (taking into account the reduction in Base Rental Payments allocable to future interest on the Bonds that are redeemed), at a prepayment amount equal to the redemption payment of the maximum amount of Bonds, including the principal thereof and the interest thereon to the date of redemption, plus any applicable premium redeemable from such proceeds.

(b) The City may prepay, from any source of available funds, all or any portion of Base Rental Payments by depositing with the Trustee moneys or securities as provided in the Indenture sufficient to defease or redeem all or a portion of a Series of Bonds corresponding to such Base Rental Payments when due; provided that the City furnishes the Trustee with an Opinion of Counsel that such deposit will not cause interest on such Series of Bonds to be includable in gross income for federal income tax purposes. The City agrees that if following such prepayment the Leased Property

are damaged or destroyed or taken by eminent domain, it is not entitled to, and by such prepayment waives the right of, abatement of such prepaid Base Rental Payments and shall not be entitled to any reimbursement of such Base Rental Payments.

(c) Before making any prepayment, the City shall, within five (5) days following the event creating such right or obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment will be made, which date shall be not less than forty-five (45) days from the date such notice is given.

(d) When (1) there shall have been deposited with the Trustee at or prior to the due dates of the Base Rental Payments or the date when the City may exercise its option to purchase the Leased Property or any of the Leased Unit thereof, in trust for the benefit of the Owners of the Bonds and irrevocably appropriated and set aside to the payment of the Base Rental Payments or option price, sufficient moneys and Permitted Investments described in paragraph (1) of the definition thereof in the Indenture, not redeemable prior to maturity, the principal of and interest on which when due will provide money sufficient to pay all principal, premium, if any, and interest on the Bonds to the due date of the Bonds or date when the City may exercise its option to purchase the Leased Property, as the case may be; (2) all requirements of the Indenture have been satisfied; and (3) an agreement shall have been entered into with the Trustee for the payment of its fees and expenses so long as any of the Bonds shall remain unpaid, then and in that event the right, title and interest of the Authority in the Facility Lease and the obligations of the City under the Facility Lease shall thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Authority and the obligation of the City to have such moneys and such Permitted Investments applied to the payment of the Base Rental Payments or option price) and the Authority's interest in and title to the Project or applicable portion or item thereof shall be transferred and conveyed to the City. In such event, the Authority shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the Authority and evidence such discharge and satisfaction, and the Authority shall pay over to the City as an overpayment of Base Rental Payments all such moneys or Permitted Investments held by it other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Base Rental Payments or the option price and the fees and expenses of the Trustee, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of Base Rental Payments or the option price and the fees and expenses of the Trustee, and shall be applied by the Authority to the payment of the Base Rental Payments or the option price and the fees and expenses of the Trustee.

Covenants

Right of Entry. The Authority and its assignees shall have the right to enter upon and to examine and inspect the Leased Property during reasonable business hours (and in emergencies at all times) (a) to inspect the same, (b) for any purpose connected with the Authority's or the City's rights or obligations under the Facility Lease, and (c) for all other lawful purposes.

Liens. In the event the City shall at any time during the term of the Facility Lease cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Leased Property, the City shall pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon or about the Leased Property and shall keep the Leased Property free of any and all mechanics' or materialmen's liens or other

liens against the Leased Property or the Authority's interest therein. In the event any such lien attaches to or is filed against the Leased Property or the Authority's interest therein, the City shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the City desires to contest any such lien it may do so in good faith. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the City shall forthwith pay and discharge said judgment. The City agrees to and shall, to the maximum extent permitted by law, indemnify and hold the Authority and the Trustee and their respective members, directors, agents, successors and assigns, harmless from and against, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorney's fees) as a result of any such lien or claim of lien against the Leased Property or the Authority's interest therein.

Authority Not Liable. The Authority and its members, directors, officers, agents and employees shall not be liable to the City or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Leased Property. The City, to the extent permitted by law, shall indemnify and hold the Authority and its members, directors, officers, agents and employees, harmless from, and defend each of them against, any and all claims, liens and judgments arising from the construction or operation of the Leased Property, including, without limitation, death of or injury to any person or damage to property whatsoever occurring in, on or about the Leased Property regardless of responsibility for negligence, but excepting the active negligence of the person or entity seeking indemnity.

Assignment and Subleasing. Neither the Facility Lease nor any interest of the City under the Facility Lease shall be mortgaged, pledged, assigned, sublet or transferred by the City by voluntary act or by operation of law or otherwise, except with the prior written consent of the Authority, which, in the case of subletting, shall not be unreasonably withheld; provided such subletting shall not affect the tax-exempt status of the interest on the Bonds. No such mortgage, pledge, assignment, sublease or transfer shall in any event affect or reduce the obligation of the City to make the Base Rental Payments and Additional Payments required under the Facility Lease.

Title to Leased Property; No Merger of Interests. During the term of the Facility Lease, the Authority shall hold a leasehold estate to the Leased Property and any and all additions which comprise fixtures, repairs, replacement or modifications thereof, except for those fixtures, repairs, replacements or modifications which are added thereto by the City and which may be removed without damaging the Leased Property, and except for any items added to the Leased Property by the City pursuant to the Facility Lease. This provision shall not operate to the benefit of any insurance company if there is a rental interruption covered by insurance pursuant to the Facility Lease.

The leasing by the Authority to the City of the Leased Property pursuant to the 1998 Lease, the leasing by the City to the Authority of the Leased Property pursuant to the Sublease and the leasing by the Authority to the City of such Leased Property shall not effect or result in a merger of the City's leasehold estate pursuant to the Facility Lease, and the Authority shall continue to have and hold a leasehold estate in the Leased Property pursuant to the Sublease throughout the term thereof. As to the Leased Property, the Facility Lease shall be deemed and constitute a sub-sublease.

Tax Covenants. The City and the Authority will not make any use of the proceeds of the obligations provided in the Facility Lease or any other funds of the City or the Authority which will

cause such obligations to be “arbitrage bonds” subject to federal income taxation by reason of Section 148 of the Code. The City and the Authority will not make any use of the proceeds of the obligations provided in the Facility Lease or any other funds of the City or the Authority which will cause such obligations to be “federally guaranteed” and subject to inclusion in gross income for federal income tax purposes by reason of Section 149(b) of the Code. To that end, so long as any rental payments are unpaid, the City and the Authority, with respect to such proceeds and such other funds, will comply with all requirements of such Sections 148 and 149(b) and all regulations of the United States Department of the Treasury issued thereunder to the extent that such requirements are, at the time, applicable and in effect.

The City further covenants that it will not use or permit the use of the facilities financed or refinanced by the proceeds of the Bonds by any person not an “exempt person” within the meaning of Section 141(a) of the Code or by an “exempt person” (including the City) in an “unrelated trade or business,” in such manner or to such extent as would result in the inclusion of interest received under the Facility Lease in gross income for federal income tax purposes under Section 103 of the Code.

If at any time the City is of the opinion that it is necessary to restrict or limit the yield on or change in any way the investment of any moneys held by the Trustee or the City or the Authority under the Facility Lease or the Indenture, the City shall so instruct the Trustee or the appropriate officials of the City in writing, and the Trustee or the appropriate officials of the City, as the case may be, shall take such actions as may be necessary in accordance with such instructions.

In furtherance of the covenants of the City set forth above, the City will comply with the Tax Certificate and will instruct the Trustee in writing as necessary to comply with the Tax Certificate. The Trustee and the Authority may conclusively rely on any such written instructions, and the City agrees to hold harmless the Trustee and the Authority for any loss, claim, damage, liability or expense incurred by the Authority for any actions taken by the Authority in accordance with such instructions.

The City and the Authority shall at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the interest on the Bonds will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being excluded from gross income for federal income tax purposes.

Continuing Disclosure. The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Facility Lease, failure of the City to comply with the Continuing Disclosure Agreement shall not be considered an event of default under the Facility Lease; however, the Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least 25% aggregate principal amount of Bonds Outstanding and provided satisfactory indemnification is provided to the Trustee, shall) or any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to compel the City to comply with its obligations under this paragraph.

Taxes. The City shall pay or cause to be paid all taxes and assessments of any type or nature charged to the Authority or affecting the Leased Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the term of the Facility Lease as and when the same become due.

Authority's Purpose. The Authority covenants that, prior to the discharge of the Facility Lease, it will not engage in any activities inconsistent with the purposes for which the Authority is organized.

Purpose of Facility Lease. The City covenants that during the term of the Facility Lease (a) it will use, or cause the use of, the Leased Property for public purposes and for the purposes for which the Leased Property are customarily used, (b) it will not vacate or abandon the Leased Property or any part thereof, and (c) it will not make any use of the Leased Property which would jeopardize in any way the insurance coverage required to be maintained.

Compliance with 1998 Lease; Covenant Not to Terminate or Amend the 1998 Lease. The City agrees to comply with the terms of the 1998 Lease and make all payments due thereunder, as provided therein. The City and the Authority covenant not to terminate or amend the 1998 Lease so long as the Bonds are outstanding, unless such a termination or amendment of the 1998 Lease would not have a material adverse effect on the holders of the Bonds.

Amendment or Termination

Amendment or Termination. The Authority and the City may at any time amend, modify or terminate the Facility Lease in accordance with the terms thereof and of the Indenture, or provide for the amendment of the Facility Lease to remove or substitute the Leased Property, or to provide for the issuance of Additional Bonds pursuant to the Indenture.

THE SUBLEASE

Subleased Premises

The City subleases to the Authority (without option to purchase) and the Authority subleases from the City, on the terms and conditions set forth in the Sublease, the Leased Property.

Term

The terms of the Sublease shall remain in effect until the term of the Facility Lease expires as provided thereof, provided, however, that if Base Rental Payments (as defined therein) due under the Facility Lease remain unpaid at the expiration of the Lease term, then the Sublease shall not terminate until the earlier of (i) September 1, 2033, (ii) the date on which the Bonds have been paid in full, (iii) the termination of the term of the Facility Lease pursuant to the terms thereof, or (iv) the termination of the term of the 1998 Lease.

Right to Sublease

The City covenants that it has a leasehold interest in the Leased Property and has the right, pursuant to the 1998 Lease to sublease the Leased Property to the Authority.

Termination

The Authority agrees, upon the termination of the Sublease, to quit and surrender the Leased Property in the same good order and condition as the same was in at the time of commencement of the term under the Sublease (with such modifications and improvements as are contemplated by the Facility Lease), and with reasonable wear and tear excepted.

Default

In the event the Authority shall be in default in the performance of any obligation on its part to be performed under the terms of the Sublease, which default continues for 30 days following written notice to and demand for correction thereof by the City, the City may exercise any and all remedies granted by law which do not adversely affect the interests of the owners of the Bonds, with the consent of the Trustee; provided that the City may not terminate the Sublease and shall exercise only remedies providing for specific performance under the Sublease.

Eminent Domain

In the event the whole or any part of the Leased Property is taken by eminent domain proceedings, the interest of the Authority shall be recognized and is determined to be the amount of the then unpaid or outstanding Bonds and all other amounts due under the Indenture and the Facility Lease attributable to such part of the Leased Property and any award in eminent domain proceedings shall be paid to the Trustee and the Trustee shall apply such award as provided in the Facility Lease, subject to the prior rights of the 1998 Trustee.

No Merger of Interests

The leasing by the Authority to the City of the Leased Property pursuant to the 1998 Lease, the subleasing by the City to the Authority of the Leased Property pursuant to the Sublease and the sub-subleasing by the Authority to the City of such Leased Property pursuant to the Facility Lease shall not effect or result in a merger of the Authority's leasehold estate pursuant to the Sublease.

Amendment

The Authority and the City may at any time agree to the amendment of the Sublease; provided, however, that the Authority and the City agree and recognize that the Sublease is entered into as contemplated by the terms of the Indenture, and accordingly, that any such amendment shall only be made or effected in accordance with and subject to the terms of the Indenture.

Compliance with 1998 Lease; Covenant Not to Terminate or Amend the 1998 Lease

The City agrees to comply with the terms of the 1998 Lease and make all payments due thereunder, as provided therein. The City and the Authority covenant not to terminate or amend the 1998 Lease so long as the Bonds are outstanding, unless such a termination or amendment of the 1998 Lease would not have a material adverse effect on the holders of the Bonds.

Subordination to the 1998 Lease

The City and the Authority acknowledge that the Sublease and the rights granted under the Sublease are subordinate to the right of the City and the 1998 Trustee under the 1998 Lease, the 1998 Indenture and the rights granted thereunder.

APPENDIX B
ARS PROVISIONS

ARTICLE I
DEFINITIONS

In addition to the words and terms elsewhere defined in the Indenture, the following words and terms as used in this Appendix B and elsewhere in the Indenture and Official Statement have the following meanings with respect to a Series of Bonds in an ARS Mode, unless the context or use indicates another or different meaning or intent:

“Agent Member” means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

“All Hold Rate” means, as of any Auction Date, 55% of the ARS Index in effect on such Auction Date.

“ARS” means Auction Rate Securities.

“ARS Bonds” means Bonds evidencing interest at the ARS Rate.

“ARS Index” shall have the meaning specified in Section 2.07 of this Appendix B.

“ARS Rate” means for each Series of Bonds, the rate of interest to be evidenced by such Series of Bonds during each Auction Period determined in accordance with Section 2.03 of this Appendix B; provided, however, that in no event may the ARS Rate exceed the Maximum Interest Rate.

“ARS Rate Conversion Date” means the date on which ARS Bonds convert from a Mode other than an ARS Mode to the ARS Mode for an ARS Rate Period and begin to evidence interest at an ARS Rate.

“ARS Rate Period” means (i) any period of time commencing on the day following the Initial Period to but not including a Conversion Date for a Series of ARS Bonds and (ii) the period from and including an ARS Rate Conversion Date for a Series of Bonds to but excluding the next Conversion Date for such Series of Bonds.

“Auction” means each periodic implementation of the Auction Procedures.

“Auction Agent” means the auctioneer appointed in accordance with Section 3.01 or 3.02 of this Appendix B. The initial Auction Agent for the Series 2007 Bonds shall be Deutsche Bank Trust Company Americas.

“Auction Agreement” means an agreement between an Auction Agent and the Trustee approved by the Bond Insurer for a Series of Bonds pursuant to which an Auction Agent agrees to follow the procedures specified in this Appendix B with respect to ARS Bonds, as such agreement may from time to time be amended or supplemented.

“Auction Date” means, with respect to a Series of ARS Bonds, (a) if such Series of ARS Bonds are in a daily Auction Period, each Business Day, (b) if such Series of ARS Bonds are in a Special Auction Period, the last Business Day of the Special Auction Period, and (c) if such Series of ARS Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Series of ARS Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to a Series of ARS Bonds in an Auction Period other than a daily Auction Period or a Special Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for such Series of ARS Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final Maturity Date; and provided, further, that if a Series of ARS Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for such Series of ARS Bonds and (y) the Business Day next preceding the final Maturity Date. The last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion. The first Auction Date for the Series 2007 Bonds is September 2, 2008.

“Auction Period” means with respect to a Series of ARS Bonds:

- (a) a Special Auction Period;
- (b) with respect to a Series of ARS Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;
- (c) with respect to a Series of ARS Bonds in a seven day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally seven days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally seven days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally seven days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally seven days beginning on a Friday (or the day following the last day of the prior

Auction Period if the prior Auction Period does not end on a Thursday) and ending on the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(d) with respect to a Series of ARS Bonds in a 28-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 28 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 28 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 28 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 28 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 28 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(e) with respect to a Series of ARS Bonds in a 35-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 35 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Sunday) and ending on the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 35 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Monday) and ending on the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 35 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 35 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 35 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Thursday) and ending on the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(f) with respect to a Series of ARS Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period (unless such first day of the month is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); and

(g) with respect to a Series of ARS Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the last day of the month which is the sixth calendar month following the beginning date of such Auction Period (such six month period to include the month when the six-month Auction Period commenced) and ending on the last day of every sixth month thereafter; provided that no six-month Auction Period for a Series of ARS Bonds may extend beyond the Maturity Date;

provided, however, that:

(a) if there is a conversion of a Series of ARS Bonds with Auctions generally conducted on Fridays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(b) if there is a conversion of a Series of ARS Bonds with Auctions generally conducted on Mondays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(c) if there is a conversion of a Series of ARS Bonds with Auctions generally conducted on Tuesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(d) if there is a conversion of a Series of ARS Bonds with Auctions generally conducted on Wednesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion; and

(e) if there is a conversion of a Series of ARS Bonds with Auctions generally conducted on Thursdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Interest Rate because Sufficient Clearing Bids do not exist, the Auction Period shall automatically change to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

“Auction Procedures” means the procedures for conducting Auctions for a Series of ARS Bonds during an ARS Rate Period set forth in this Appendix B.

“Auction Rate” means for a Series of ARS Bonds, the rate of interest to be borne by such Series of ARS Bonds during each Auction Period determined in accordance with Section 2.03 of this Appendix B, which: (i) if Sufficient Clearing Bids exist, shall be the Winning Bid Rate, provided, however, if all of the ARS Bonds of such Series are the subject of Submitted Hold Orders, such rate shall be the All Hold Rate with respect to such Series of ARS Bonds; and (ii) if Sufficient Clearing Bids do not exist, such rate shall be the Maximum Interest Rate with respect to such Series of ARS Bonds.

“Available Bond” means for a Series of ARS Bonds on each Auction Date, the aggregate principal amount of such Series of ARS Bonds that are not the subject of Submitted Hold Orders.

“Bid” has the meaning specified in subsection (a) of Section 2.01 of this Appendix B.

“Bidder” means each Existing Owner and Potential Owner who places an Order.

“Broker-Dealer” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix B that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Authority and that is a party to a Broker-Dealer Agreement with the Auction Agent.

“Broker-Dealer Agreement” means an agreement approved by the Bond Insurer for a Series of Bonds among the Auction Agent, the Authority and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix B, as such agreement may from time to time be amended or supplemented.

“Broker-Dealer Deadline” means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; provided, however, that nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions herein. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

“Clerical Error” means a clerical error in the processing of an Order, and includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners (including Orders

from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a "Clerical Error" is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

"Conversion Date" means the date on a Series of ARS Bonds are converted from an ARS Mode to a Mode other than an ARS Mode and begin to bear interest at a Daily Rate, a Weekly Rate, a Flexible Rate, a Term Rate or a Fixed Rate.

"Error Correction Deadline" means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker-Dealer; provided, however, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time, unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

"Existing Owner" means a Person who is listed as the beneficial owner of ARS Bonds in the records of the Auction Agent; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

"Hold Order" has the meaning specified in subsection (a) of Section 2.01 of this Appendix B.

"Initial Period" means the period from the issue date of the Series 2007 Bond to and including September 2, 2008.

"Interest Payment Date" with respect to Series 2007 Bond means September 1, 2007, March 1, 2008 and September 3, 2008 with respect to the Initial Period for the Series 2007 Bond, and thereafter for any Series of ARS Bonds (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Special Auction Period of (i) seven or more but fewer than one hundred eighty-three (183) days, the Business Day immediately following such Special Auction Period, or (ii) more than one hundred eighty-two (182) days, each April 1 and October 1 and on the Business Day immediately following such Special Auction Period and (d) the date when the final principal amount of the Bonds of a Series becomes due and payable, either at maturity or upon early redemption.

"LIBOR" means, with respect to a Series of ARS Bonds, on any date of determination for an Auction Period for such Series of ARS Bonds, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

"Maximum Interest Rate" means the lesser of 12% or the maximum rate permitted by applicable law.

“Order” means a Hold Order, Bid or Sell Order.

“Potential Owner” means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in ARS Bonds in addition to ARS Bonds currently owned by such Person, if any; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

“Principal Office” means, with respect to the Auction Agent of a Series of ARS Bonds, the office thereof designated in writing to the Authority, the Trustee and each Broker-Dealer.

“Sell Order” has the meaning specified in subsection (a) of Section 2.01 of this Appendix B.

“Special Auction Period” means, with respect to a Series of ARS Bonds, (a) any period of one hundred eighty-two (182) days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of a Series of ARS Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of a Series of ARS Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a Series of ARS Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of a Series of ARS Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a Series of ARS Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, or (b) any period which is longer than one hundred eighty-two (182) days, which begins on an Interest Payment Date and ends not later than the final scheduled Maturity Date and, in either case, is not otherwise within the definition of an Auction Period.

“Submission Deadline” means 1:00 p.m. New York City time on each Auction Date for a Series of ARS Bonds not in a daily Auction Period, and 11:00 a.m., New York City time, on each Auction Date for such Series of ARS Bonds in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association’s Early Market Close Recommendations for shortened trading days for the bond markets (the “SIFMA Recommendation”) unless the Auction Agent is instructed otherwise in writing by the Trustee or the Authority. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m., New York City time.

“Submitted Bid” has the meaning specified in subsection (b) of Section 2.04 of this Appendix B.

“Submitted Hold Order” has the meaning specified in subsection (b) of Section 2.04 of this Appendix B.

“Submitted Order” has the meaning specified in subsection (b) of Section 2.04 of this Appendix B.

“Submitted Sell Order” has the meaning specified in subsection (b) of Section 2.04 of this Appendix B.

“Sufficient Clearing Bids” means with respect to a Series of ARS Bonds, an Auction for which the aggregate principal amount of such Series of ARS Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Interest Rate is not less than the aggregate principal amount of such Series of ARS Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Interest Rate.

“Winning Bid Rate” means with respect to a Series of ARS Bonds, the lowest rate specified in any Submitted Bid for such Series of ARS Bonds which if selected by the Auction Agent as the ARS Rate for such Series of ARS Bonds would cause the aggregate principal amount of such Series of ARS Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds.

ARTICLE II

AUCTION PROCEDURES

Section 2.01. Orders by Existing Owners and Potential Owners.

(a) Prior to the Broker-Dealer Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, one or more Orders as to:

(A) the principal amount of the ARS Bonds, if any, held by such Existing Owner, which such Existing Owner commits to continue to hold for the next succeeding Auction Period without regard to the Auction Rate for such Auction Period;

(B) the principal amount of the ARS Bonds, if any, held by such Existing Owner, which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum specified in such Order (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (b)(i)(A) of this Section); and/or

(C) the principal amount of the ARS Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the first Business Day of the next succeeding Auction Period (or on the same day in the case of a daily Auction Period) without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) each Potential Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of ARS Bonds, which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof, an Order containing the information referred to in clause (i)(A) above is herein referred to as a “Hold Order,” an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a “Bid,” and an Order containing the information referred to in clause (i)(C) above is herein referred to as a “Sell Order.”

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Owner or a Potential Owner or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding ARS Bonds. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or a Bid which does not specify a specific interest rate.

(b) (i) A Bid by an Existing Owner shall constitute an offer to sell on the first Business Day of the next succeeding Auction Period (or the same day in the case of a daily Auction Period):

(A) the principal amount of the ARS Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the ARS Bonds to be determined as described in subsection (a)(v) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(C) a lesser principal amount of the ARS Bonds to be determined as described in subsection (b)(iv) of Section 2.05 of this Appendix B if such specified rate shall be higher than the Maximum Interest Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an offer to sell:

(A) the principal amount of the ARS Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of the ARS Bonds as described in subsection (b)(iv) of Section 2.05 of this Appendix B if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an offer to purchase:

(A) the principal amount of the ARS Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the ARS Bonds as described in subsection (a)(vi) of Section 2.05 of this Appendix B if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) If an Order or Orders covering all of the ARS Bonds held by an Existing Owner is not submitted to the Broker-Dealer of record for such Existing Owner prior to the Broker-Dealer Deadline, such Broker-Dealer shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of ARS Bonds held by such Existing Owner and not subject to Orders submitted to such Broker-Dealer; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of ARS Bonds to be converted held by such Existing Owner, such Broker-Dealer shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of ARS Bonds to be converted held by such Existing Owner not subject to Orders submitted to such Broker-Dealer.;

(ii) for purposes of any Auction, any Order by any Existing Owner or Potential Owner shall be revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline, all such Orders shall be irrevocable, except as provided in Sections 2.02(e)(ii) and 2.02(f); and

(iii) for purposes of any Auction other than during a daily Auction Period, any ARS Bonds sold or purchased pursuant to subsection (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; provided that, for purposes of any Auction during a daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

Section 2.02. Submission of Orders by Broker-Dealers to Auction Agent.

(a) Each Broker-Dealer shall submit to the Auction Agent in writing, or by such Electronic Means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date for Bonds of a Series, all Orders with respect to ARS Bonds accepted by such Broker-Dealer in accordance with Section 2.01 above and specifying with respect to each Order or aggregation of Orders pursuant to Section 2.02(b) below:

(i) the name of the Broker-Dealer;

(ii) the number of Bidders placing Orders, if requested by the Auction Agent;

(iii) the aggregate principal amount of the ARS Bonds, if any, that are the subject of such Order;

(iv) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of the ARS Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of the ARS Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of the ARS Bonds, if any, subject to any Sell Order placed by such Existing Owner.

(v) the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Owner, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Owner submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the principal amount of the ARS Bonds specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Owners with those of other Potential Owners on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders of different Existing Owners with other Existing Owners on whose behalf the Broker-Dealer is submitting Orders; provided, however, Bids may only be aggregated if the interest rates on the Bids are the same.

(c) Neither the Authority, the Trustee nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(d) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the ARS Bonds for its own account.

(e) Until the Submission Deadline, a Broker-Dealer may withdraw or modify any Order previously submitted to the Auction Agent (i) for any reason if the Order was generated by the Auction Desk of the Broker-Dealer for the account of the Broker-Dealer or (ii) to correct a Clerical Error in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.

(f) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:

(i) submit to the Auction Agent an Order received from an Existing Owner, Potential Owner or a Broker-Dealer which is not an Order originated by the

Auction Desk, in each case prior to the Broker-Dealer Deadline, or an Order generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline (provided that in each case the Broker-Dealer has a record of such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of (A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or, under the conditions then prevailing, impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

(ii) modify or withdraw an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer (whether generated by the Broker-Dealer's Auction Desk or elsewhere within the Broker-Dealer) for its own account and submitted to the Auction Agent prior to the Submission Deadline or pursuant to clause (i) above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this Section 2.02(f) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this Section 2.02(f) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that (A) in the case of a newly submitted Order or portion thereof or revised Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Owner or Potential Owner or is an Order received from the Broker-Dealer that was not originated by the Auction Desk, in each case, prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Owner, a Potential Owner or the Broker-Dealer which was not originated by the Auction Desk prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received or generated. The Auction Agent shall be entitled to rely conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

(g) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall communicate such awareness to the Auction Agent prior to 5:00 p.m. New York City time on the Auction Date (or 2:00 pm. New York City time in the case of Bonds in a daily Auction Period). If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m. New York City time on the first day of the Auction Period with respect to which such Auction was conducted, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in Bonds in such Auction of the corrected results.

(h) Nothing contained herein shall preclude the Auction Agent from:

(i) advising a Broker-Dealer prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the ARS Bonds; provided, however, that if the Auction Agent so advises any Broker-Dealer, it shall so advise all Broker-Dealers; or

(ii) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline; provided, however, that if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification.

Section 2.03. Treatment of Orders by the Auction Agent.

(a) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order until one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed, such Broker-Dealer may correct and resubmit to the Auction Agent any such Order that, solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subsections (b), (c) or (d) of this Section 2.03 and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If one or more Orders covering in the aggregate more than the number of Units of Outstanding Bonds of a particular Series are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid in the following order of priority:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record;

(ii) (A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record over the principal amount of ARS Bonds subject to Hold Orders referred to in clause (i) above;

(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record over the

principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record over the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above; and

(D) the principal amount of ARS Bonds subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this clause (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including the principal amount of ARS Bonds equal to the excess of the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record over the sum of the principal amount of ARS Bonds considered to be subject to Hold Orders pursuant to clause (i) above and the principal amount of ARS Bonds considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to clause (ii) above.

(d) If any Order is for other than an integral amount of ARS Bonds in Authorized Denominations, then the Auction Agent shall round the amount down to the nearest number of whole amount of ARS Bonds in Authorized Denominations, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of principal amount of ARS Bonds in Authorized Denominations.

(e) For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Trustee or the Authority that any portion of an Order by a Broker-Dealer relates to a ARS Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.

(f) For purposes of any Auction other than during a daily Auction Period, no portion of a ARS Bond which the Auction Agent has been notified by the Trustee or the Authority has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

(g) If an Order or Orders covering all of the ARS Bonds is not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the principal amount of ARS Bonds for which such Broker-Dealer is the Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been

submitted by such Broker-Dealer prior to the Submission Deadline covering the principal amount of ARS Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Broker-Dealer covering the principal amount of ARS Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

Section 2.04. Determination of ARS Rate.

(a) If requested by the Trustee or a Broker-Dealer, not later than 10:30 a.m., New York City time (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date for the ARS Bonds, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Trustee, if requested) of the All Hold Rate and the ARS Index. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(b) Promptly after the Submission Deadline for the ARS Bonds on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a “Submitted Hold Order,” a “Submitted Bid” or a “Submitted Sell Order,” as the case may be, and collectively as a “Submitted Order”) and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the ARS Rate for the new Auction Period shall be the same as the ARS Rate for the preceding Auction Period or, (B) if the failure to make such calculation was for any other reason or if the ARS Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the ARS Rate for the period as so extended shall be the same as the ARS Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the ARS Rate for the new Auction Period shall be the Maximum Interest Rate or, (B) if the failure to make such calculation was for any other reason or if the ARS Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the ARS Rate for the period as so extended shall be the same as the ARS Rate for the Auction Period prior to the extension. In the event a new Auction Period is established as set forth in

clause (ii) (A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate had been determined. In the event an Auction Period is extended as set forth in clause (i) (B) or (ii) (B) above, an Auction shall be held on the last Business Day of the Auction Period as so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

(d) Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the ARS Rate shall be the Maximum Interest Rate.

(e) In the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the ARS Rate for the next Auction Period shall be the Maximum Interest Rate and the Auction Period shall be a seven-day Auction Period.

(f) If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the ARS Rate shall be the Maximum Interest Rate.

Section 2.05. Allocation of the ARS Bond.

(a) In the event of Sufficient Clearing Bids for a Series of ARS Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for such Series of ARS Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the ARS Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the ARS Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of the ARS Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding ARS Bonds that are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding ARS Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of the Outstanding ARS Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of such ARS Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the ARS Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of the ARS Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding ARS Bonds that are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding ARS Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Outstanding ARS Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for a Series of ARS Bonds, Submitted Orders, for such Series of ARS Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Interest Rate, shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Interest Rate, shall be accepted, thus requiring each such Potential Owner to purchase the ARS Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Interest Rate, shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of the ARS Bonds obtained by multiplying (A) the aggregate principal amount of the ARS Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of Outstanding ARS Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Outstanding ARS Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of the ARS Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Interest Rate shall be rejected.

Section 2.06. Notice of ARS Rate.

(a) On each Auction Date, the Auction Agent shall notify by each Broker-Dealer that participated in the Auction held on such Auction Date by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following with respect to the ARS Bonds for which an Auction was held on such Auction Date:

(i) the ARS Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner whether such Bid or Sell Order was accepted or rejected and the principal amount of the ARS Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of the ARS Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the ARS Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of the ARS Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-

Dealers (and the Agent Member, if any, of each such other Broker Dealer) and the principal amount of the ARS Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) if requested by an Existing Owner or a Potential Owner, advise each Existing Owner or Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the ARS Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Existing Owner or Potential Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of such ARS Bonds to be purchased pursuant to such Bid (including, with respect to such ARS Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such ARS Bond) against receipt of such ARS Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of such ARS Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) The Auction Agent shall give notice of the Auction Rate to the Authority and Trustee by mutually acceptable Electronic Means and the Trustee shall promptly give notice of such Auction Rate to the Securities Depository.

Section 2.07. ARS Index.

(a) For ARS Bonds in an Auction Period of 35 days or less the ARS Index is LIBOR. The ARS Index with respect to ARS Bonds in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in *The Wall Street Journal* or such other source as may be mutually agreed upon by Authority and the Broker-Dealer. If either rate is unavailable, the ARS Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Authority. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, *i.e.* a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

(b) If for any reason on any Auction Date the ARS Index shall not be determined as hereinabove provided, the ARS Index shall be the ARS Index for the Auction Period ending on such Auction Date.

(c) The determination of the ARS Index as provided herein shall be conclusive and binding upon the Authority, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of such Series of ARS Bonds.

Section 2.08. Miscellaneous Provisions Regarding Auctions.

(a) In this Appendix B, each reference to the purchase, sale or holding of “ARS Bonds” shall refer to beneficial interests in such ARS Bonds, unless the context clearly requires otherwise.

(b) During an ARS Rate Period with respect to a Series of ARS Bonds, the provisions of this Indenture, and the definitions contained therein and described in this Appendix B, including without limitation the definitions of Maximum Interest Rate, All Hold Rate, ARS Index, Interest Payment Date, and the ARS Rate, may be amended pursuant to this Indenture, subject to the prior written consent of the Bond Insurer for such Series of Bonds, by obtaining the consent of the Owners of all of the ARS Bonds of such Series then outstanding as follows:

If on the first Auction Date occurring at least twenty (20) days after the date on which notice of such proposed amendment was given by the Trustee to the Owners of the ARS Bonds Outstanding, such notice to be given by mail to each Owner at its address as it appears on the registration books of the Trustee, (i) the ARS Rate which is determined on such date is the Winning Bid Rate or All Hold Rate and (ii) there is delivered to the Trustee a Favorable Opinion of Special Counsel the proposed amendment shall be deemed to have been consented to by the Owners of all of the ARS Bonds outstanding bearing interest at an ARS Rate.

(c) If the Securities Depository notifies the Authority that it is unwilling or unable to continue as registered owner of the ARS Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Authority within ninety (90) days after the Authority receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the Authority shall execute and the Trustee shall authenticate and deliver certificates representing the ARS Bonds. Such ARS Bonds shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Authority and the Trustee.

(d) During an ARS Period, so long as the ownership of ARS Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of an ARS Bonds only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of ARS Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the Owner of such ARS Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the ARS Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Section 2.09. Changes in Auction Period or Auction Date.

(a) Changes in Auction Period. (i) During any ARS Rate Period, the Authority may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of ARS Bonds among daily, seven-days, 28-days, 35-days, three months, six months and a Special Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the ARS Bonds. The Authority shall initiate the change in the length of the Auction Period by giving written notice to the Trustee, the Series 2007 Bonds Insurer, the applicable Auction Agent, the applicable Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, such notice to be provided at least ten (10) Business Days prior to the Auction Date for such Auction Period. Any change in the length of an Auction Period to an Auction Period longer than 35 days shall be subject to the prior written consent of the Series 2007 Bond Insurer.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Special Auction Period and shall apply to all ARS Bonds of a Series.

(iii) The change in length of the Auction Period for the ARS Bonds subject to change shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period, except to the extent any Existing Owner submits an Order with respect to such ARS Bonds, each Existing Owner of an ARS Bonds subject to change shall be deemed to have submitted Sell Orders with respect to all ARS Bonds of a Series if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Interest Rate, and the Auction Period shall be a seven-day Auction Period.

(b) Changes in Auction Date. During any ARS Rate Period, the Auction Agent, with the written consent of the Authority, may specify an earlier or later Auction Date for the ARS Bonds (but in no event shall such date be more than five (5) Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the ARS Bonds. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least forty-five (45) days prior to the proposed changed Auction Date to the Trustee, the Authority, the Broker-Dealers and the Securities Depository. In the event the Auction Agent specifies an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Special Auction Period ends and the Interest Payment Date relating to a Special Auction Period shall be adjusted accordingly.

(c) Changes Resulting from Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction

Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday.

ARTICLE III

AUCTION AGENT

Section 3.01. Auction Agent.

(a) The Auction Agent for the ARS Bonds shall be appointed by the Trustee, at the written direction of the Authority, and shall perform the functions specified herein. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Authority, the Trustee and each Broker-Dealer, which written instrument may be in the form of an Auction Agreement. Notwithstanding that the Auction Agent may be the agent of the Trustee, the Trustee shall not be liable in any way for any action taken, suffered or omitted, or for any error of judgment made by the Auction Agent, whether in the performance of its duties under the Auction Agreement or otherwise.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in ARS Bonds with the same rights as if such entity were not the Auction Agent.

Section 3.02. Qualifications of Auction Agent; Resignation; Removal.

The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$30,000,000, or (b) a member of NASD having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by this Indenture and a member of, or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least ninety (90) days notice to the Authority, the Trustee, the Insurer and the Broker-Dealers. The Auction Agent may be removed at any time by written notice, delivered by the Trustee, upon the written direction of the Authority, to the Auction Agent and the Series 2007 Bond Insurer. Upon any such resignation or removal, the Trustee, upon the written direction of the Authority, shall appoint a successor Auction Agent approved by the Series 2007 Bond Insurer meeting the requirements of this section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and any ARS Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor has been appointed by the Trustee. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may terminate the Auction Agreement by giving at least thirty (30) days notice to the Authority, the Trustee, the Insurer and the Broker-Dealers, and if it has not received such compensation by the expiration of such thirty (30) days, the Auction Agent may resign even if a successor Auction Agent has not been appointed.

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APPENDIX C

CERTAIN INFORMATION REGARDING THE CITY

The Bonds are special limited obligations of the Authority payable solely from and secured solely by the Revenues pledged in the Indenture; they are not a debt of the City. However, the Base Rental Payments payable by the City pursuant to the Facility Lease are expected to be a substantial component of the Revenues. The following information with respect to the City is presented in that context. Additional information with respect to the City contained in its comprehensive annual financial report for the fiscal year ended June 30, 2006. A copy of that report is set forth in Appendix D.

General

The City, which is the county seat of Stanislaus County, was incorporated in 1884. It is located in the center of the northern San Joaquin Valley, approximately 93 miles east of the City and County of San Francisco, and encompasses an area of approximately 36 square miles.

The City operates under a council-manager form of government pursuant to a charter initially adopted in 1951. The City Council of the City (the "City Council"), consists of seven elected members, appoints the City Clerk and Auditor, the City Attorney, and the City Manager. The City Manager heads the executive branch of government, implements the directives and policies of the City Council and manages the administrative and operational functions through the various department heads who are appointed by the City Manager.

The City provides the full range of services normally associated with a municipality including police and fire protection, highways and streets, parks and recreation, library, planning and zoning, building and engineering, various maintenance services and administration. The City also provides parking and airport facilities and water, sewer, and bus service. The school districts in the City are separate governmental entities which receive no funding from the City.

Population

The following table represents historical population statistics for the City, the County and the State.

CITY OF MODESTO Population Estimates⁽¹⁾

<i>Calendar Year</i>	<i>City of Modesto</i>	<i>Stanislaus County</i>	<i>State of California</i>
2001	193,691	458,640	34,441,561
2002	199,623	472,730	35,088,671
2003	204,185	484,598	35,691,472
2004	207,543	495,160	36,245,016
2005	207,987	505,352	36,728,196
2006	208,107	514,370	37,172,015

⁽¹⁾ As of January 1.

Source: California State Department of Finance, for Population Estimates for City, County and State, 2001-2006.

Employee Relations

The City has approximately 1,325 authorized permanent positions and approximately 1,206 actual full-time employees for Fiscal Year 2006-07 and had approximately 1,292 authorized full-time permanent and approximately 1,212 actual full-time employees for Fiscal Year 2005-06. City employees are represented by six labor organizations, the principal of which is Modesto City Employees Association which represents approximately 40% of all City employees in a variety of classifications.

Approximately 95% of all City employees are covered under negotiated agreements. The current agreements have expiration dates as follows:

Modesto City Firefighters Association	December 20, 2010
Modesto Police Management Association	June 22, 2009
Modesto Police Officers Association	December 22, 2008
Modesto City Employees Association	July 23, 2007
Modesto Police Non-sworn Association	July 23, 2007
Modesto Confidential & Management Assoc	June 25, 2007

In August 2005, approximately 200 Modesto City Employees Association employees (field, clerical and technical) engaged in a one-day job action and picketing following impasse in the contract negotiations. No city services were disrupted as a result of the job action. The Association has subsequently reached agreement with the City on a contract which will expire in July 2007.

On March 14, 2007 the City reached a settlement in the amount of \$3.25 million with three employees who alleged gender discrimination, harassment and retaliation. The City expects to pay the settlement amount from its General Fund and does not expect such payment will have an adverse effect on the City's ability to make Base Rental Payments under the Facility Lease.

Insurance

The City is exposed to various risks of loss related to torts, damage to and loss of assets, errors and omissions, injuries to and illness of employees, and natural disasters. The City maintains an Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for the following risks up to the maximum amount per claim shown: workers' compensation - \$750,000; liability - \$1,000,000; and dental care - \$1,200. The City no longer self-insures for risks associated with employee illnesses and instead offers a variety of commercial plans to its employees. The City obtains commercial insurance for property loss, airport liability, and for claims in excess of the preceding self-insured coverage amounts.

For liability claims the City is one of twelve members of the Authority for California Cities Excess Liability (ACCEL) risk pool, which provides workers' compensation insurance and general liability insurance for the member agencies. This pool covers City claims between \$1,000,000 and \$5,000,000. The City contributes its pro rata share of anticipated losses to the pool. Should actual losses be greater than anticipated, the City will be assigned its pro rata share of the deficiency. Conversely, if actual losses are less than anticipated, the City will be refunded its pro rata share of the excess. Total claims in the pool are estimated to be \$2,000,000 for Fiscal Year 2006-07.

Commercial insurance covers claims over \$5,000,000 in three excess layers of \$10,000,000 each for an additional \$30,000,000 per claim. Settled claims have not exceeded the commercial coverage in any of the past five fiscal years.

Employee Retirement System

Retirement Plan. The City contributes to the Public Employees' Retirement System of the State of California ("PERS"), an agent multiple-employer public employee retirement program that acts as a common investment and administrative agent for participating entities in California. The City's total pension cost for the fiscal year ended June 30, 2006 was \$11,748,699. The City's payments to PERS for the fiscal year ending June 30, 2007 are estimated to be \$18,064,718.

All full-time City employees are eligible to participate in the retirement program. Benefits vest after five 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 3% percent of their average salary during the highest-paid 1-year period of employment, multiplied by their years of service. All other covered employees may retire at age 55, with an annual benefit payable monthly for life equal to 2% percent of their average salary during the highest-paid 1-year period of employment, multiplied by their years of service. These employees may retire at age 50 with reduced benefit at retirement. The retirement program also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance. Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year.

The City pays most of the required employee contribution to the program, which totals 9% percent for safety and 7% percent for miscellaneous employees, in accordance with contractual agreements. The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis adopted by the PERS Board of Administration. The current rate is 9.124% of the annual covered payroll for miscellaneous employees and 24.421% for safety employees.

In addition to the pension benefits described above, the City provides health care benefits to employees who retire from the City under contractual arrangement with all employee groups. All full-time employees, except firefighters who receive a cash payout, are eligible to set-aside a percentage of accumulated sick leave upon retirement to be used for contributions towards future healthcare premiums to a choice of 4 insurance plans. The City has no obligation to make health contributions for retirees who have no accumulated sick leave. The estimated liability for current retirees' future City contributions was \$14,534,598 as of June 30, 2006. The estimated current portion thereof, \$1,659,707, is fully funded. The long-term portion thereof is partially funded, with the balance being funded over time by charges to the City's operating funds. The City reports the current and long-term portions of this liability in the Employee Benefits Management Fund as part of the compensated absences liability balances. For firefighters, the City's obligation for retiree health benefits is not a function of accumulated sick leave. Firefighters are covered under PERS Health plans and the City has a statutory obligation to make designated contributions to fund firefighters' retiree health premiums. The current statutory contribution is \$80.80 per month.

In June 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 45 ("GASB 45"), which addresses how state and local governments should account for and

report their costs and obligations related to post-employment health care and other non-pension benefits (“OPEB”). GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation. However, the unfunded actuarial liability is required to be amortized over future periods on the income statement. GASB 45 also established disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. These disclosure requirements will be effective for the City’s Fiscal Year ending June 30, 2008. GASB 45 may result in an increase in the annual expense recognized by the City for post retirement health care benefits. The City has retained the services of an actuary to determine the extent of the City’s OPEB liability. The amount of the liability and the increase in the annual expense to be recognized, if any, has not yet been determined by the City.

Investment Policy

The City invests its funds in accordance with the City’s Investment Policy, adopted by the City Council in 1984 and most recently amended in 2006. In accordance with Sections 53601 *et seq.* of the California Government Code, idle cash management and investment transactions are the responsibility of the City Finance Director/Treasurer. Investments permitted under the Investment Policy include the following:

- Bonds issued by the City.
- United States Treasury notes, bonds, bills or certificates of indebtedness.
- Registered State of California warrants, treasury notes or bonds.
- Bonds, notes, warrants or indebtedness of local agencies within the State.
- Commercial paper of “prime” quality.
- Certificates of deposit and negotiable certificates of deposit.
- Investment in repurchase agreements or reverse repurchase agreements .
- Medium-term corporate notes.
- State of California Local Agency Investment Fund (LAIF).

Funds are invested in the following order of priority:

- Safety- Preservation of principal and interest.
- Liquidity- Ability to readily convert investment to cash when needed.
- Yield - potential dollar earnings on an investment.

The City’s cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City attempts to obtain the highest yield when selecting an investment, provided the criteria for safety and liquidity are met.

Budgetary Process

The fiscal year of the City begins on the first day of July of each year and ends on the 30th day of June of the following year.

At such date as the City Manager determines, each department head must furnish to the City Manager an estimate of revenues and expenditures for such department for the ensuing fiscal year, detailed in such manner as may be prescribed by the City Manager. In preparing the proposed budget, the City Manager reviews the estimates, holds conferences thereon with the respective department heads, and revises the estimates as the City Manager deems advisable.

Prior to the beginning of each fiscal year, the City Manager submits to the City's Finance Committee the proposed budget. After reviewing and making such revisions as it deems advisable, the City Finance Committee recommends the proposed budget with revisions, if any, to the City Council. The City Council determines the time for the holding of a public hearing thereon and causes to be published a notice thereof not less than ten days prior to the hearing date. Copies of the proposed budget are available for inspection by the public in the office of the City Clerk at not less than ten days prior to the hearing. At the conclusion of the public hearing, the City Council further considers the proposed budget and makes revisions thereto that it deems advisable. On or before June 30 of each year, it adopts the budget with revisions, if any, by the affirmative vote of at least a majority of the total members of the City Council.

From the effective date of the budget, the several amounts stated as proposed expenditures become appropriated to the several departments, offices and agencies for the objects and purposes named. In accordance with the City's financial policies, certain appropriations may be amended with the signed authorization of the City Manager, subsequent to the adoption of the original budget. At any public meeting after the adoption of the budget, the City Council may amend or supplement the budget by a resolution adopted by the majority vote of the City Council. All appropriations lapse at the end of the fiscal year to the extent that they have not been expended or lawfully encumbered.

The City Council employs, at the beginning of each fiscal year, an independent certified public accountant who, at such time or times as specified by the City Council, at least annually, and at such other times as the City Council shall determine, examines the financial statements of the City in accordance with generally accepted auditing standards, including such tests of the accounting records and such other auditing procedures as such accountant considers necessary. As soon as practicable after the end of the fiscal year, a final audit and report is submitted by such accountant to the City Council and copy of the financial statements as of the close of the fiscal year is published.

Following is a table which shows the adopted final and actual General Fund Budget for Fiscal Year 2005-06 and the adopted General Fund Budget for Fiscal Year 2006-07.

CITY OF MODESTO
General Fund Budgets
For Fiscal Years 2005-06 and 2006-07

	<i>Adopted Final Budget on a GAAP basis 2005-06</i>	<i>Actual on a GAAP Basis 2005-06</i>	<i>Variance with Adopted Final Budget</i>	<i>Adopted Budget on a GAAP Basis 2006-07</i>
Revenues:				
Taxes	\$ 46,870,082	\$ 47,349,236	\$ 479,154	\$ 50,608,523
Licenses and permits	154,440	96,081	(58,359)	101,174
Intergovernmental	45,097,112	48,205,287	3,108,175	48,491,939
Charges for services ⁽¹⁾	14,982,086	14,953,869	(28,217)	16,241,225
Special assessments levied	156,000	65,909	(90,091)	158,500
Interest and rent	559,963	1,217,293	657,330	490,680
Fines and forfeitures	941,000	877,376	(63,624)	546,835
Miscellaneous	<u>2,067,286</u>	<u>2,028,310</u>	<u>(38,976)</u>	<u>786,091</u>
TOTAL REVENUES	\$ 110,827,969	\$114,810,175	\$ 3,982,206	\$ 117,424,967
Expenditures and Transfers:				
General Government	\$ 14,132,003	\$ 13,336,716	\$ 761,847	\$ 11,805,661
Community Development	5,849,006	5,201,794	647,212	6,313,766
Public works	1,956,291	1,719,587	236,704	6,713,599
Parks and recreation	12,523,831	11,560,029	963,802	12,046,068
Public safety	73,148,870	72,425,399	723,471	77,623,686
Debt Service:				
Principal retirement	9,917	9,916	1	9,917
Interest	<u>1,061</u>	<u>1,061</u>	<u>0</u>	<u>1,061</u>
TOTAL EXPENDITURES	\$ 107,620,979	\$104,287,942	\$ 3,333,037	\$ 114,513,758
Excess of revenues over expenditures	\$ 3,206,990	\$ 10,522,233		
Other Financing Sources (Uses):				
Transfers in	\$ 2,301,925	\$ 2,111,925	\$ (190,000)	\$ 2,337,022
Transfers out	<u>(12,567,433)</u>	<u>(9,739,702)</u>	<u>2,827,731</u>	<u>(11,081,117)</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (10,265,508)	\$ (7,627,777)	\$ 2,637,731	\$ (8,744,095)
NET CHANGE IN FUND BALANCE	\$ (7,058,518)	\$ 2,894,456	\$ 9,952,974	\$ (5,832,886)
FUND BALANCES, July 1	\$ 20,415,059	\$ 20,415,059	\$ --	\$ 23,309,515
FUND BALANCES, June 30	<u>\$ 13,356,541</u>	<u>\$ 23,309,515</u>	<u>\$ 9,952,974</u>	<u>\$ 17,476,629</u>

⁽¹⁾ Includes indirect cost recovery

Source: City of Modesto Financial Statements and City of Modesto Finance Department.

Financial Statements

The accounting policies of the City of Modesto conform to generally accepted accounting principles. The audited financial statements of the City for the fiscal year ended June 30, 2006 are set forth in Appendix D.

Accounts of the City are organized on the basis of funds and account groups each of which is considered a separate accounting entity. Operations of each fund are accounted for with a separate set of self-balancing accounts. The various funds are grouped into broad categories, as follows: Governmental Funds (General, Special Revenue, Capital Projects and Debt Service), Proprietary Funds (Enterprise Funds, including the Sewer, Water, Parking, Airport, Golf Course and Community Center Funds; and Internal Service Funds), Fiduciary Funds (Agency).

All Governmental Funds and Fiduciary Funds use the modified accrual basis of accounting. The Proprietary Funds use the accrual basis of accounting.

The General Fund is the general operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund. Revenues and expenditures in the City's General Fund for Fiscal Years 2001-02 through 2005-06 are shown in the following table. Taxes, Intergovernmental Revenues, Charges for Services, and Miscellaneous Revenue are the City's major sources of revenues. In Fiscal Year 2005-06 Taxes and Intergovernmental Revenues comprised 41.2% and 41.9% respectively, of General Fund revenues, followed by Charges for Services, 13.0% and Miscellaneous Revenue, 1.06%. Major Fiscal Year 2005-06 General Fund expenditures included 69.4% for Public Safety, 12.8% for General Government, and 10.9% for Parks and Recreation.

Summary Financial Information

The following tables present a statement of revenues, expenditures, and changes in fund balance for the City's General Fund and the City's General Fund balance sheet for the fiscal years ended June 30, 2002 through 2006 prepared by the City of Modesto Finance Department based on the City's audited financial statements for fiscal years ending June 30, 2002 through June 30, 2006.

CITY OF MODESTO
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30

	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>
Revenues:					
Taxes	\$ 35,522,028	\$ 38,600,472	\$ 39,511,646	\$ 41,441,857	\$ 47,349,236
Licenses and permits	173,348	169,108	199,097	63,652	96,081
Intergovernmental	41,803,124	40,612,942	39,246,030	46,874,556	48,205,287
Charges for services	15,372,308	16,448,226	13,845,944	15,544,008	14,953,869
Special assessments levied	256,646	218,294	76,119	106,442	65,909
Interest and rent	1,429,709	1,301,989	905,295	982,728	1,217,293
Net increase (decreased) in fair value of investments	324,154	(229,744)	(524,439)	46,933	16,814
Fines and forfeitures	546,199	576,168	524,050	562,876	877,376
Miscellaneous	<u>1,075,837</u>	<u>1,458,583</u>	<u>1,245,979</u>	<u>774,837</u>	<u>2,028,310</u>
TOTAL REVENUES	\$ 96,503,353	\$ 99,156,038	\$ 95,029,721	\$ 106,397,889	\$ 114,810,175
Expenditures and Transfers:					
General Government	\$ 10,100,976	\$ 10,938,635	\$ 11,482,386	\$ 11,456,602	\$ 13,336,716
Community and Development	4,354,977	4,277,758	4,461,865	4,975,859	5,146,011
Highways and Streets	6,127,102	6,046,662	--	--	--
Public works	4,411,426	4,257,233	1,522,787	1,696,411	1,719,587
Parks and recreation	13,543,782	13,334,626	11,099,460	11,433,777	11,471,198
Public safety	51,697,705	55,550,490	61,126,497	69,403,326	72,205,341
Capital Outlay	1,015,003	2,083,805	1,214,088	646,818	398,112
Debt Service:					
Principal retirement	7,501	8,043	8,625	9,248	9,916
Interest	<u>3,476</u>	<u>2,934</u>	<u>2,352</u>	<u>1,729</u>	<u>1,061</u>
TOTAL EXPENDITURES	\$ 91,261,948	\$ 96,500,186	\$ 90,918,060	\$ 99,623,770	\$ 104,287,942
Excess (deficiency) of revenues over (under) expenditures	\$ 5,241,405	\$ 2,655,852	\$ 4,111,661	\$ 6,774,119	\$ 10,522,233
Other Financing Sources (Uses):					
Operating transfers in	\$ 4,637,518	\$ 6,388,569	\$ 1,965,408	\$ 1,982,387	\$ 2,111,925
Operating transfers out	(12,252,389)	(7,116,206)	(11,499,889)	(9,320,816)	(9,739,702)
Proceeds of loan payable	<u>191,835</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (7,423,036)	\$ (727,637)	\$ (9,534,481)	\$ (7,338,429)	\$ (7,627,777)
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	\$ (2,181,631)	\$ 1,928,215	\$ (5,422,820)	\$ (564,310)	\$ 2,894,456
FUND BALANCES, July 1	\$ 26,655,605	\$ 24,473,974	\$ 26,402,189	\$ 20,979,369	\$ 20,415,059
FUND BALANCES, June 30	<u>\$ 24,473,974</u>	<u>\$ 26,402,189</u>	<u>\$ 20,979,369</u>	<u>\$ 20,415,059</u>	<u>\$ 23,309,515</u>

Source: City of Modesto Comprehensive Annual Financial Statements, fiscal years 2001-02 through 2005-06.

CITY OF MODESTO
General Fund Balance Sheets
As of June 30

<i>Assets</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
Cash and cash equivalents	\$ 17,355,651	\$ 19,053,785	\$ 11,110,511	\$ 10,840,532	\$ 9,141,367
Receivables:					
Accounts	453,374	371,249	376,284	241,970	354,635
Interest	62,235	84,836	16,456	252,418	272,623
Utilities, net	613,454	615,687	592,005	766,763	824,856
Taxes	7,880,490	9,073,783	9,077,338	8,760,074	10,485,306
Due from governments	597,046	862,689	249,265	232,950	548,231
Due from other funds	1,689,000	1,210,100	1,700,000	3,634,000	5,572,000
Due from JPA	--	--	46,542	--	--
Notes receivable, net	92,283	92,283	92,283	92,283	92,283
Prepaid expenses/expenditures	--	4,576	--	70,000	--
Restricted assets:					
Cash and cash equivalents	1,460,797	1,390,184	1,445,486	1,445,486	1,845,018
Advances to other funds	662,001	1,898,279	2,153,901	1,877,297	1,644,193
Total assets	<u>\$ 30,866,331</u>	<u>\$ 34,657,451</u>	<u>\$ 26,860,071</u>	<u>\$ 28,213,773</u>	<u>\$ 30,780,512</u>
 <i>Liabilities and Fund Balances</i>					
Liabilities					
Accounts payable	\$ 2,536,338	\$ 1,864,757	\$ 1,707,233	\$ 2,003,433	\$ 2,241,841
Accrued salaries and benefits	2,099,671	2,397,879	453,761	774,239	1,116,500
Deferred revenues	295,551	602,442	274,222	1,537,541	364,061
Payable from restricted assets:					
Refundable deposits	1,460,797	1,390,184	1,445,486	1,483,501	1,845,119
Advances from other funds	--	2,000,000	2,000,000	2,000,000	1,903,476
Total Liabilities	<u>\$ 6,392,357</u>	<u>\$ 8,255,262</u>	<u>\$ 5,880,702</u>	<u>\$ 7,798,714</u>	<u>\$ 7,470,997</u>
Fund Balances:					
Reserved	\$ 1,961,061	\$ 3,393,560	\$ 3,327,569	\$ 2,955,054	\$ 2,702,381
Unreserved:					
Designated, reported in:					
General Fund	5,576,555	6,807,996	5,990,699	6,237,000	5,900,886
Undesignated, reported in:					
General Fund	16,936,358	16,200,633	11,661,101	11,223,005	14,706,248
Total Fund Balances	<u>24,473,974</u>	<u>26,402,189</u>	<u>20,979,369</u>	<u>20,415,059</u>	<u>23,309,515</u>
Total Liabilities and Fund Balances	<u>\$ 30,866,331</u>	<u>\$ 34,657,451</u>	<u>\$ 26,860,071</u>	<u>\$ 28,213,773</u>	<u>\$ 30,780,512</u>

Source: City of Modesto Comprehensive Annual Financial Statements for Fiscal Years 2001-02 through 2005-06.

Financial Obligations

Short Term Obligations. The City has no short term obligations outstanding.

Equipment Leases. The City has acquired ballpark parking lot lighting and land for a new park under capital lease agreements. The related liabilities are included in obligations under capital leases in the governmental activities section. The following is a schedule of the future minimum lease payments on capital leases as of June 30, 2006:

<i>Year Ending June 30</i>	
2006	\$ 463,803
Total Minimum Lease Payments	\$ 463,803
Less Interest	<u>(18,899)</u>
Present value of Net Minimum Lease Payments	\$ 444,904

Source: City of Modesto Financial Statements, Fiscal Year 2005-06.

Long Term Leases Evidenced by Certificates of Participation and Lease Revenue Bonds. The City has the following certificate of participation and lease revenue bond transactions outstanding as of June 30, 2006:

<i>Title</i>	<i>Principal Outstanding</i>	<i>Maturity</i>
1993 Refunding Certificates of Participation (Community Center Project)	\$ 21,655,000	November 1, 2023
1993 Refunding Certificates of Participation (Golf Course Project)	5,855,000	November 1, 2023
1997 Lease Revenue Bonds (John Thurman Field Renovation Project) ⁽¹⁾	2,500,000 ⁽²⁾	November 1, 2016
1998 Lease Revenue Bonds (Capital Improvements and Refinancing Project) ⁽¹⁾	<u>60,005,000⁽³⁾</u>	September 1, 2033
	\$ 90,015,000	

⁽¹⁾ Bonds of the Modesto Public Financing Authority in connection with which the City is obligated to make certain lease payments.

⁽²⁾ All of these bonds will be defeased upon the issuance of the Modesto Public Financing Authority's Lease Revenue Refunding and Capital Improvement Bonds, Series 2007.

⁽³⁾ \$54,700,000 of these bonds will be defeased upon the issuance of the Modesto Public Financing Authority's Lease Revenue Refunding and Capital Improvement Bonds, Series 2007.

Source: City of Modesto Financial Statements, Fiscal Year 2005-06.

Overlapping Debt and Debt Ratios

The following table summarizes direct and overlapping bonded debt within the City.

**CITY OF MODESTO
Statement of Direct and Overlapping Debt as of June 30, 2006**

<u>Direct and Overlapping Assessment Debt:</u>	<u>Net Debt Outstanding⁽¹⁾</u>	<u>Percentage Applicable to the City⁽²⁾</u>	<u>Amount Applicable to the City</u>
City of Modesto	\$ 0	100.0%	\$ 0
Total Direct And Overlapping Tax And Assessment Debt			\$ 0
<u>Overlapping General Fund Debt – School Districts:</u>			
Ceres Unified School District	\$ 24,379,806	10.0%	\$ 2,437,981
Modesto High School District	24,328,337	72.5	17,638,044
Modesto High School District	75,789,875	68.5	51,916,064
Sylvan Union School District	9,110,000	85.0	7,743,500
Salida Union School District	1,650,000	27.0	445,500
Stanislaus Union School District	3,725,000	33.0	1,229,250
Yosemite Community College District	<u>94,445,000</u>	28.2	<u>26,633,490</u>
TOTAL OVERLAPPING DEBT	\$ 233,428,018		\$ 108,043,829
TOTAL DIRECT AND OVERLAPPING DEBT	\$ 233,428,018		\$ 108,043,829

⁽¹⁾ Gross debt outstanding less applicable amounts in debt service funds.
⁽²⁾ Determined by ratio of assessed valuation of property subject to taxation in overlapping portion to valuation of all property subject to taxation in jurisdiction.
 Source: Stanislaus County Auditor; calculated by Modesto Finance Department.

Assessed Valuation and Tax Collections

In California, property which is subject to *ad valorem* taxes is classified as “secured” or “unsecured.” Secured and unsecured property are entered on separate parts of the assessment roll maintained by the county assessor. 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 opinion of the assessor, to secure payment of the taxes. Other property is placed on the “unsecured roll.”

The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured personal property taxes: (a) filing a civil action against the taxpayer; (b) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (c) filing a certificate of delinquency for record in the county recorder’s office, in order to obtain a lien on certain property of the taxpayer; and (d) seizure and sale of personal property improvements or possessory interest belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes to the State for the amount of taxes which are delinquent.

A 10% penalty is added to delinquent taxes which have been levied in respect of property on the secured roll. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquent penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property

is deemed to the State and then is subject to sale by the county tax collector. A 10% penalty also attaches to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1.5% per month begins to accrue in respect of such taxes beginning the first day of the third month following the delinquency date.

The valuation of property is determined as of March 1 each year and installments of taxes levied upon secured property become delinquent on the following December 10 and April 10. Taxes on unsecured property are due March 1 and become delinquent August 31, and such taxes are levied at the prior year's secured tax rate.

The following tables set forth historical property tax levies and collections in the City and historical information as to the assessed values and actual value of taxable real and personal property. The one percent (1%) property tax is levied and collected by Stanislaus County and remitted to the City.

City Assessed Valuations

The County Assessor of Stanislaus County assesses all real and personal property in the City of Modesto for tax purposes except public utility property which is assessed by the State Board of Equalization. California law exempts \$7,000 of the assessed valuation of an owner occupied dwelling. Effective with the 1980-81 fiscal year, State law also exempted 100% of the value of business inventories from taxation, rather than 50% as in prior years. The law provides for reimbursements to local agencies based on their share of the revenues derived from the application of the maximum tax rate applied to business inventories in the 1979-80 fiscal year, with adjustments to reflect increases in population and the consumer price index.

Revenue estimated to be lost to local taxing agencies due to such exemptions is reimbursed from State sources. Such reimbursement is based upon total taxes due upon such exempt values and is not reduced by any amount for estimated delinquencies. The table below presents a ten year history of assessed valuations of property within the City.

CITY OF MODESTO Ten Year History of Assessed Valuations

<i>Fiscal Year</i>	<i>Real Property Assessed Valuation⁽¹⁾</i>	<i>Personal Property Assessed Valuation</i>
1997-98	\$ 6,733,847,244	\$314,105,845
1998-99	6,814,118,056	364,091,322
1999-00	7,113,017,315	374,764,312
2000-01	8,284,751,572	465,640,345
2001-02	9,240,625,466	400,351,138
2002-03	10,005,769,331	229,231,096
2003-04	10,516,523,400	433,048,483
2004-05	11,405,079,179	504,487,150
2005-06	12,734,371,632	513,206,844
2006-07	14,625,040,482	556,920,513

⁽¹⁾ All years shown at full cash value.

Source: Stanislaus County Assessor; last equalized roll.

Tax Levies and Delinquencies

Taxes are collected by the Stanislaus County Tax Collector and are currently distributed under the “Teeter Plan” (as described below). Taxes and assessments on the secured roll are payable in two installments on November 1 and February 1 of each fiscal year, and become delinquent after December 10 and April 10, respectively. A penalty of 10% is added to the first installment if not paid on or before December 10, and 10%, is added to the second installment if not paid on or before April 10. At the end of the first year of delinquency, property is sold to the State.

Under the Teeter Plan (as described below), a county forwards 100% of property tax levies, including taxes for prior years, to underlying governmental entities, including itself. In exchange, the county keeps moneys from all delinquent taxes, interest, and penalties.

The following table shows property tax levies and collections for the City.

CITY OF MODESTO Property Tax Levies And Collections Fiscal Years 2001-02 to 2005-06

<i>Year Ended June 30</i>	<i>Total Tax Levy⁽¹⁾</i>	<i>Current Tax Collected</i>	<i>Percent of Levy Collected</i>	<i>Delinquent Tax Collections</i>	<i>Total Tax Collections</i>	<i>Total Collections as % of Current Levy⁽²⁾⁽³⁾</i>
2001-02	\$8,312,582	\$8,249,461	99.24%	\$11,028	\$8,260,489	99.37%
2002-03	9,172,429	9,118,481	99.41	16,174	9,134,655	99.59
2003-04	9,709,897	9,440,383	97.22	107,388	9,547,771	98.33
2004-05	10,568,415	10,133,222	95.88	24,163	10,157,385	96.11
2005-06	11,130,020	10,794,066	96.98	233,290	11,027,356	99.08

⁽¹⁾ Totals include exempt organizations.

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

⁽³⁾ Since 1994, the City has participated in the County of Stanislaus “Teeter Plan” (as described below) which guarantees the City 100% of each year’s property tax levy in exchange for the County retaining late fees and delinquency penalties.

Source: City of Modesto, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2005. City of Modesto, 2006.

Teeter Plan

The Board of Supervisors of the County, in 1994, adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 *et seq.* of the State Revenue and Taxation Code. Pursuant to the Teeter Plan, the County establishes a tax losses reserve fund and a tax resources account and each entity levying property taxes in the County may draw on the amount of uncollected taxes and assessments credited to its fund, in the same manner as if the amount credited had been collected.

The County is responsible for determining the amount of the tax levy on each parcel in the taxing entity, which is entered onto the secured real property tax roll. Upon completion of the secured real property tax roll, the County’s Auditor-Controller determines the total amount of taxes and assessments actually extended on the roll for each fund for which a tax levy has been included, and apportions 100% of the tax and assessment levies to that fund’s credit. Such moneys may thereafter be drawn against the taxing agency in the same manner as if the amount credited had been collected. The County determines which moneys in the County treasury (including those credited to the tax losses reserve fund) shall be available to be drawn on to the extent of the amount if

uncollected taxes credited to each fund for which a levy has been included. When amounts are received on the secured tax roll for the current year, or for redemption of tax-defaulted property, Teeter Plan moneys are distributed to the apportioned tax resources accounts.

So long as the Teeter Plan remains in effect, the City's receipt of revenues with respect to the levy of *ad valorem* property taxes will not be dependent upon actual collections of the *ad valorem* property taxes by the County. However, under the statute creating the Teeter Plan, the Board of Supervisors could under certain circumstances terminate the Teeter Plan in its entirety and, in addition, the Board of Supervisors could terminate the Teeter Plan if the delinquency rate for all *ad valorem* property taxes levied within the City in any year exceeds 3%. In the event that the Teeter Plan were terminated, the amount of the levy of *ad valorem* property taxes in the City would depend upon the collections of the *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the City.

Although the County is entitled to draw on the full amount of taxes credited to the tax fund for a taxing entity in approximately October of each tax year, it has been the City's experience that it receives approximately 55% of the tax allocations for the year by December 31, an additional 40% by April 30 and the final 5% by June 30.

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 (\$22,287,940) and in lieu sales tax amount (\$7,339,967) accounted for approximately 38.0% of the City's tax receipts in the General Fund in Fiscal Year 2005-06, an increase of approximately 3% from the prior Fiscal Year. The 7.375% sales and use tax is levied and collected by the State, which returns to the City 0.95% of the amount of sales in the City.

Business License Tax. The City levies a business license tax which accounted for \$10,374,157, or approximately 13.5% of the City's tax receipts in the General Fund in Fiscal Year 2005-06, a decrease of approximately 0.5% 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 on hotel and motel bills, utility consumption, a real property transfer tax and a franchise fee.

The following table presents the tax revenues of the City for the last five Fiscal Years:

**CITY OF MODESTO
General Fund Tax Revenues By Source**

	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>
Sales and Use Tax	\$27,061,426	\$25,887,064	\$27,150,743	\$21,277,711	\$22,287,940
Utility Users Tax	12,516,962	13,732,571	14,718,858	15,622,652	17,584,060
Property Taxes	9,132,278	10,169,004	11,294,599	11,316,694	14,318,747
Business License Taxes	8,734,281	9,238,797	9,231,136	9,726,816	10,374,157
Other Taxes ⁽¹⁾	<u>5,138,507</u>	<u>5,460,100</u>	<u>4,267,053</u>	<u>10,086,397</u>	<u>12,412,239</u>
Total	\$62,583,454	\$64,487,536	\$66,662,389	\$68,030,270	\$76,977,143

⁽¹⁾ Includes Transient Occupancy Tax, Franchise Tax and after Fiscal Year 2003-04, In-lieu Sales Tax.
Source: City of Modesto Finance Department.

Motor Vehicle License Fees

Prior to 2003, a significant revenue source of the City was State of California payments in-lieu of taxes. The City receives a portion of Department of Motor Vehicles license fees (“VLF”) collected statewide. Payment of State assistance depends on the adoption by the State of its budget, including the appropriations therein providing for local assistance. These revenues are shown in the accompanying financial statements as “intergovernmental revenues from other agencies.”

Several years ago, the state-wide VLF was reduced by approximately two-thirds. However, pursuant to legislation, the State continued to remit to cities and counties the same amount that those local agencies would have received if the VLF had not been reduced, known as the “VLF backfill.” On June 19, 2003, the State triggered an increase in VLF to be effective beginning October 1, 2003. The Governor signed an executive order on November 17, 2003 to reduce the VLF rate once again, eliminating the increase. On December 17, 2003 the Governor issued another executive order, this time appropriating \$2.625 billion to provide backfill funding for the city and county VLF funding in 2003/04 which covered the backfill except for the VLF loan amounts.

The State Legislature adopted AB 1768 which deferred payment to local agencies of the amount of the VLF backfill that related to the period from June 20, 2003 to September 30, 2003 when the higher VLF went into effect, until August 2006. This VLF “gap” or “loan” was approximately \$1.2 billion statewide. The City’s share of the “loan” was \$3.4 million. The State repaid its VLF loans in July 2005.

The City’s budgeted VLF amount of \$1,307,399 for Fiscal Year 2006/07 is based on projected amounts at the reduced VLF rates and does not include the property tax backfill provided for in current state legislation. The State’s 2005/06 Budget realigned certain property tax revenues so that cities and counties would be kept whole with respect to the amount of the VLF backfill in future years. The City accounts for this realignment of property taxes in-lieu of VLF in the same manner as VLF in its financial statements.

Largest Property Taxpayers

The ten largest property-taxpayers in the City for 2005-06 and their percentage of total property taxes are shown in the following table:

CITY OF MODESTO Principal Payers of Property Tax, 2005-06

<i>Property Taxpayer</i>	<i>Type of Business</i>	<i>Assessed Value</i>	<i>Percent of Total Taxes</i>
Doctors Medical Center of Modesto, Inc.	Medical	\$ 124,351,668	0.92%
Macerich Vintage Fair Ltd.	Shopping Ctr.	89,022,304	0.66
Foster Dairy Farms	Food Processing	85,162,505	0.63
Phenix Management Group	Food Processing	55,134,550	0.41
Stanislaus Partners	Real Estate	50,125,907	0.37
Liljenquist Modesto Co.	Real Estate	47,400,844	0.35
HRC Modesto, LLC	Real Estate	33,813,000	0.25
Pan Pacific Retail Properties	Retail Properties	28,220,183	0.21
Gallo Glass Company	Manufacturing	22,365,373	0.17
McClatchy Newspapers Corporation	Publishing	<u>22,265,538</u>	<u>0.17</u>
TOTAL		\$ 557,861,872	4.14%

Source: Stanislaus County Tax Collector.

Employment

The City forms part of the Modesto Metropolitan Area Labor Market (Stanislaus County) reported on periodically by the State Department of Employment Development. As of calendar year 2005, this labor market had a total civilian employment of 210,800.

The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 2002 through 2006. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

MODESTO METROPOLITAN STATISTICAL AREA
Industry Employment and Labor Force
(Annual Averages)

	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
<u>Civilian Labor Force</u>					
Employment	198,900	201,500	204,600	210,800	227,100
Unemployment	21,200	22,000	20,700	19,000	209,000
Unemployment Rate	9.6%	9.8%	9.2%	8.3%	8.0%
<u>Wage and Salary Employment:</u>					
Total Farm	13,900	14,000	13,800	14,100	14,100
Natural Resources, Mining and Construction	10,700	11,400	12,300	13,300	13,400
Manufacturing	22,500	23,100	22,700	22,300	23,100
Wholesale Trade	5,600	5,700	6,000	6,200	5,900
Retail Trade	21,700	21,800	21,500	22,700	22,500
Transport., Warehousing, Utilities	4,500	4,600	4,700	5,200	5,200
Information	2,100	2,200	2,500	2,500	2,400
Financial Activities	5,600	6,000	6,100	6,200	6,400
Professional and Business Services	15,000	13,800	14,200	14,900	14,800
Educational and Health Services	18,100	18,900	19,200	19,500	19,600
Leisure and Hospitality	13,600	13,700	14,200	14,800	15,500
Other Services	6,200	6,200	6,200	6,100	5,900
Federal Government	1,200	1,200	1,200	1,200	1,200
State Government	1,900	1,900	1,700	1,700	1,800
Local Government	<u>22,200</u>	<u>21,900</u>	<u>22,100</u>	<u>22,700</u>	<u>23,300</u>
Total All Industries	164,600	166,300	168,500	173,300	172,500

Note: Totals may not add up because of rounding.

Source: Labor Division of the California State Employment Development Department.

Industrial and Commercial Development

The City is located in the heart of California's Central Valley, a highly productive agricultural area. The availability of low-cost power, modern sewage treatment and disposal facilities, a good supply of water, reasonably priced developable land and excellent transportation facilities have been important factors in the development of a sound and growing industrial base.

Approximately 488 commercial manufacturing plants are located in and surrounding the City, comprising a growing manufacturing base. Manufacturing accounts for approximately 11.7% of all wage and salary workers.

There are over 4,200 total net acres of industrially-zoned lands within the Modesto sphere of influence, of which approximately 1,729 are within the City limits. Most of Modesto's large manufacturing employers are located in the Beard Industrial District, situated south of Yosemite Boulevard in eastern Modesto. Such employers include E&J Gallo Winery, Frito-Lay, Del Monte, Parker Hannifin, Seneca, Georgia Pacific, and Weyerhaeuser. 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 Union Pacific and Burlington Northern Santa Fe (BNSF) railroads in the metropolitan area. The south Modesto industrial area, located within the City, is accessible by the Union Pacific railroad. The largest manufacturing employers in Stanislaus County as of December, 2006, are as follows:

STANISLAUS COUNTY
Largest Manufacturing Employers as of December, 2006

<i>Name of Company</i>	<i>Employment</i>	<i>Product(s)</i>
E & J Gallo Wine	3311	Winery
Del Monte Foods	2600	Fruit Products
Signature Fruit	2321	Fruit Products
Stanislaus Food Products	2300	Tomato Products
Foster Farms	1512	Poultry Processor
Con Agra	1000	Food Processing
Racor	859	Filtration Products
Frito-Lay	700	Snack Food Products
Patterson Frozen Foods	650	Frozen Food Products
Bronco Winery	620	Winery

Source: Modesto Chamber of Commerce.

Construction Activity and Property Value

“Single Family Housing,” includes detached, semi-detached, rowhouse and townhouse units. Rowhouses and townhouses are included when each unit is separated from the adjacent unit by an unbroken ground-to-roof party or fire wall. Condominiums are included in single-family when they are of zero-lot-line or zero-property-line construction; when units are separated by an air space; or, when units are separated by an unbroken ground-to-roof party or fire wall. “Multi-Family Housing,” includes duplexes, 3-4-unit structures and apartment-type structures with five units or more. Multi-family housing also includes condominium units in structures of more than one living unit that do not meet the above single-family housing definition. “Residential Alterations and Additions,” means alterations, additions, and conversions to residential structures, excluding special installation permits for electrical, plumbing, heating, air-conditioning, or similar mechanical work, or installation of fire escapes, elevators, signs, etc.

“New Commercial,” includes new hotels and motels, office and bank buildings, stores and other mercantile buildings, parking garages, service stations, and amusement and recreational buildings. “New Industrial,” includes manufacturing plants and affiliated buildings. “Other New Nonresidential,” includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings, and miscellaneous nonresidential structures. “Nonresidential Alterations and Additions,” means alterations, additions, and conversions to nonresidential structures, excluding special installation permits for electrical, plumbing, heating, air-conditioning, or similar mechanical work, or installation of fire escapes, elevators and signs, etc.

Provided below are the building permits and valuations for the City for calendar years 2002 through 2006.

CITY OF MODESTO
Residential and Nonresidential Building Permit Valuations
and Total Residential Building Permits

	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
Permit Valuation					
New Single-family	\$ 216,245,472	\$ 169,003,473	\$ 69,473,535	\$ 165,909,336	\$ 81,650,097
New Multi-family	1,719,426	6,087,705	20,721,736	1,719,478	3,812,649
Res. Alterations & Additions	<u>9,062,856</u>	<u>9,793,040</u>	<u>15,707,552</u>	<u>17,947,953</u>	<u>49,896,219</u>
Total Residential	\$ 227,027,754	\$ 184,884,218	\$ 105,902,823	\$ 185,576,767	\$ 135,358,965
New Commercial	20,306,197	30,255,734	35,298,696	62,592,553	27,027,078
New Industrial	6,580,320	1,183,692	2,003,992	0	2,279,197
New Other	19,899,918	26,649,779	61,628,516	32,919,890	19,182,213
Non-Res. Alterations & Additions	32,507,506	24,933,722	25,524,261	19,914,523	23,513,438
Total Nonresidential	<u>79,293,941</u>	<u>83,022,927</u>	<u>124,455,465</u>	<u>115,426,966</u>	<u>72,001,926</u>
Total All Building	\$ 306,321,695	\$ 267,907,145	\$ 230,358,288	\$ 301,003,773	\$ 207,360,891
New Dwelling Units					
Single Family	1,067	1,105	348	872	380
Multiple Family	21	78	297	9	35
Total	1,088	1,183	645	881	415

Note: Totals may not add up because of rounding.

Source: Building Permit Summary, Construction Industry Research Board and City of Modesto.

Commercial Activity

The City is the retail, financial and service center of Stanislaus County. The City's economy, while primarily agricultural, does include other economic sectors. The table below summarizes taxable sales for the calendar years 2001 through 2005.

CITY OF MODESTO
Taxable Transactions
Calendar Years 2001 through 2005
(in Thousands of Dollars)

Retail Outlets	2001	2002	2003	2004	2005
Apparel stores	\$ 112,847	\$ 129,773	\$ 126,372	\$ 147,849	\$ 168,064
General merchandise stores	499,333	507,438	518,024	539,780	549,742
Food stores	115,743	119,423	136,462	162,515	168,121
Eating and drinking places	219,205	235,337	245,609	259,861	272,313
Home furnishing and appliances	109,395	131,234	130,089	162,749	169,723
Bldg. materials and farm implements	188,459	188,388	204,427	288,841	316,796
Auto dealers and supplies	230,912	247,861	259,395	260,655	247,795
Service stations	106,229	101,551	115,317	126,608	146,946
Other retail stores	<u>364,468</u>	<u>381,371</u>	<u>392,650</u>	<u>394,363</u>	<u>405,229</u>
Subtotal	\$1,946,591	\$2,042,376	\$2,128,345	\$2,343,221	\$2,444,729
All Other Outlets	<u>367,760</u>	<u>372,899</u>	<u>433,387</u>	<u>311,646</u>	<u>309,659</u>
All Outlets	\$2,314,351	\$2,415,275	\$2,561,732	\$2,654,867	\$2,754,388

Source: State of California, Board of Equalization.

The following table shows the dollar volume of taxable transactions in the County of Stanislaus from 2001 through 2005.

COUNTY OF STANISLAUS
Taxable Transactions
Calendar Years 2001 through 2005
(in Thousands of Dollars)

Retail Outlets	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Apparel stores	\$ 127,711	\$ 154,083	\$ 154,867	\$ 192,858	\$ 213,850
General merchandise stores	754,247	784,431	803,255	846,742	927,418
Specialty stores	411,996	432,777	465,562	501,694	535,480
Food stores	255,923	260,781	282,781	291,867	308,864
Eating and drinking places	378,985	403,421	421,793	452,120	489,169
Household	153,417	181,384	187,214	198,691	210,720
Building materials	360,337	368,472	416,983	508,825	572,552
Automotive	1,244,939	1,248,936	1,305,986	1,396,277	1,516,702
Other retail stores	<u>249,876</u>	<u>273,693</u>	<u>297,729</u>	<u>331,376</u>	<u>368,269</u>
Subtotal	\$3,937,431	\$ 4,107,978	\$4,336,170	\$4,720,450	\$5,143,024
Business and Personal Services	214,161	233,862	224,429	240,245	253,838
All Other Outlets	<u>1,421,077</u>	<u>1,494,025</u>	<u>1,614,893</u>	<u>1,804,973</u>	<u>1,889,038</u>
All Outlets	\$5,572,669	\$ 5,825,865	\$6,175,492	\$6,765,668	\$7,285,900

Source: State of California, Board of Equalization.

Agriculture

The City is located in one of the most productive agricultural areas in the United States. The County of Stanislaus 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 789,853 acres of farmland in production in the County of Stanislaus. Following is a five year summary of farm production in the County of Stanislaus.

STANISLAUS COUNTY Agricultural Production 2001-2005

<i>Commodity</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Fruit and Nut Crops	\$ 311,735,000	\$ 393,520,000	\$ 431,642,000	\$ 616,452,000	\$ 686,897,000
Vegetable Crops	100,153,000	105,508,000	105,667,000	125,903,000	91,454,000
Field Crops	139,898,000	132,418,000	127,329,000	137,871,000	147,744,000
Seed Crops	797,000	561,000	533,000	401,000	810,000
Apiary	7,389,000	7,323,000	7,565,000	8,865,000	12,045,000
Nursery Crops	68,960,000	85,889,000	99,164,000	111,272,000	71,240,000
Livestock & Poultry	233,237,000	242,677,000	239,990,000	403,205,000	401,244,000
Livestock & Poultry Products	<u>491,131,000</u>	<u>400,075,000</u>	<u>443,042,000</u>	<u>574,465,000</u>	<u>566,161,000</u>
TOTALS	\$1,353,300,000	\$1,367,971,000	\$1,454,932,000	\$1,978,434,000	\$ 1,977,595,000

Source: Stanislaus County Department of Agriculture.

Fruit and nut crops amounted for nearly a third of the total annual gross value of farm production in Stanislaus County. The production value of fruit and nut crops exceeded \$640 million in 2005 to rank as the major commodity group in Stanislaus County. In 2005, almonds headed the list of products in this group, with a gross value of more than \$473 million. The following table shows a listing of the leading agricultural commodities in 2005.

LEADING FARM COMMODITIES IN STANISLAUS COUNTY

<i>Rank</i>	<i>Commodity</i>	<i>Gross Production Value in 2005</i>
1	Milk, All	\$546,848,000
2	Almonds	473,043,000
3	Cattle & Calves, All	196,253,000
4	Chickens, All	161,480,000
5	Walnuts	80,309,000
6	Silage, All	59,928,000
7	Peaches, All	46,273,000
8	Alfalfa	43,953,000
9	Deciduous Fruit & Nut Nursery	40,760,000
10	Turkeys, All	38,762,000

Source: Stanislaus County 2006 Agricultural Crop Report.

Educational Facilities

There are 24 public elementary schools, 4 junior high schools, 8 high schools, and 1 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 at Stanislaus, which offers both undergraduate and graduate degrees.

Transportation

The City is traversed by three state highways. Interstate 5, with which two of these state roads connects, passes approximately 20 miles to the west of the City of Modesto. 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 Francisco and Los Angeles. The deepwater port of Stockton, California, located approximately 30 miles from the City, provides shipping to coastal and overseas markets.

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APPENDIX D

**CITY OF
Modesto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2006**

**Prepared by
Finance Department**

CITY OF MODESTO
June 30, 2006
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CITY of MODESTO

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[TDD (209) 526-9211 Hearing and Speech Impaired only]

December 22, 2006

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Modesto:

The City of Modesto City Charter and Municipal Code require that a complete financial statement and report on the finances of the City be submitted to the City Council at the end of each fiscal year. This report is being submitted to fulfill that requirement for the fiscal year ended June 30, 2006.

City management assumes full responsibility for the completeness and reliability of the information contained in this report. We believe the data fairly represent the financial position and results of operations of the City. The disclosures necessary to enable the reader to understand the City's financial affairs have been included. The City's accounting system has been developed and maintained with due consideration given to the adequacy of internal controls. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The evaluation of the costs and benefits of particular control requires estimates and judgments by management.

The Charter also requires an annual audit by an independent certified public accountant selected by the City Council. The accounting firm of Maze & Associates was selected in 2003 to perform the City's annual financial audits for a period of three years. In 2006, this contract was extended for one year. The auditors have issued an unqualified ("clean") opinion on the financial statements for the year ended June 30, 2006, which is presented on page 3. In addition to meeting the City Charter audit requirements, the audit was also designed to meet the requirements of the federal Single Audit Act of 1996 and related OMB Circular A-133. The auditor's reports related specifically to the Single Audit will be presented separately at a later date.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A is designed to be read in conjunction with this transmittal letter.

City of Modesto Profile

Modesto is a dynamic city located in the heart of California's San Joaquin Valley and is the retail, service and financial center of Stanislaus County. The City currently occupies a land area of approximately 36 square miles and serves a population of over 208,000. Periodically, as allowed by state statute, the City extends its corporate limits by annexation when deemed appropriate by the City Council.

Incorporated in 1884, Modesto adopted its City Charter on March 12, 1951, and has operated under the council- manager form of government since that date. Under this form of government, policy-making and legislative authority are vested in an elected council consisting of the Mayor

INTRODUCTORY SECTION

and six members. The Modesto City Council is elected by chair on a non-partisan basis, meaning 6 members represent the entire City rather than specific geographical areas within the City's boundaries. The Mayor is elected separately on a non-partisan basis. The Mayor and City Council are responsible for passing ordinances, adopting and amending the operating and capital budgets, appointing various committee members, and hiring the City Manager, City Attorney, and City Clerk/Auditor. The City Manager of Modesto is charged with carrying out the policies and ordinances of the City Council, overseeing the day-to-day operations of the City, and for appointing the Deputy City Manager and department heads, with general responsibilities for the Economic Development and Health, Safety & Culture components of the City's Vision. Support services departments, like Finance, Personnel and Information Technology report to the City Manager.

The City provides services typically associated with a municipality. These include administrative services; police and fire protection; highway, street, and utility infrastructure construction and maintenance; sanitation; planning and zoning; recreational activities and cultural events. Parking, airport facilities, water, sewer, storm drainage and bus services are also provided.

The City's financial reporting entity includes all funds and activities of the City of Modesto as the primary government and its component units, which are legally separate entities that operate under the auspices of the City and provide services that supplement City services. The City's component units are blended into the City's funds because their governing boards consist of all seven members of the City Council. These component units are the Modesto Municipal Sewer District No. 1, the Redevelopment Agency of the City of Modesto, the Modesto Public Financing Authority and the City of Modesto Community Facilities Districts.

The annual operating budget serves as the foundation for Modesto's financial planning and control. The proposed budget is adopted annually prior to July 1, by passage of a resolution. The Council's legally adopted budget level is at the fund level. During the fiscal year, the budget may be modified. The City Council has also adopted fiscal policies that delegate budget control authority to the Council, City Manager and the Finance Director.

Local economy

Modesto area employment in retail and manufacturing remained strong over the past year. Retail sector jobs account for one-sixth of Stanislaus County's wage and salary workers with the manufacturing sector trailing close behind. Stanislaus County consistently ranks among the top 10 California counties in terms of annual agricultural production values. The county's leading commodities are milk, almonds and poultry.

The unemployment rate has remained fairly steady for the last several years and is approximately 7%. Just over 10 years ago the unemployment rate was 15%. Since 2000, over 8,200 jobs have been added to the local economy, representing cumulative growth of more than 5%. Industries recording the most growth were: educational and health services; retail sales, and construction. Employees within the community enjoy an average commute time of 26 minutes.

Building permit activity has boomed over the past decade. In fiscal year 1996, the City issued 4,186 permits with estimated cost of construction valued at \$114 million. Permit activity peaked in 2001, when 7,155 permits with construction valued at \$477 million were issued, and activity has remained above 5,000 permits annually since 2001. During fiscal year 2006, 5,968 permits were issued valued at \$298 million.

Since 2000, the City's population grew 10.5% to 208,107. This population growth is largely attributable to the relatively low cost of housing compared to the Bay Area and to the growth of employment within the region.

During the past ten years, public safety costs have risen not only in amount, but also as a percentage of total expenditures. Public safety represented 69.2% of total General Fund expenditures in 2006, compared with 62.4% ten years ago. Expenses for other governmental functions have remained steady or decreased compared to total fund expenses during the same time period. Increased population, as well as higher salaries and charges for retirement, have caused this relative increase in public safety charges.

Long-Term Financial Planning

In Fiscal Year 2003, the City Council adopted a policy of maintaining at least 8% of general fund expenditures in reserve. At the end of Fiscal Year 2006, the general fund unreserved and undesignated balance was \$14.7 million representing 12.93% of total general fund outflows (expenditures and transfers out).

State Impacts

Between Fiscal Years 1991 and 2005, the State of California diverted \$36.6 million in local revenues from the City of Modesto into its own coffers. In 2005 the state enacted new legislation known as the Triple-Flip. As the name implies, a series of revenue exchanges take place leaving the City with 25% less sales tax revenue and more property tax revenue in its place. A similar exchange takes place leaving the City with property tax revenue in place of 67% of the In-Lieu Vehicle License Fees. These exchanges not only affect the character and amount of the revenues received by the City but also affect City cash flow, because a monthly stream of payments has been replaced by semi-annual payments.

Important Financial Policies

In 2003, the City Council adopted a series of financial policies that direct how the City's financial business is conducted. In addition to the 8% General Fund reserve level, these policies include direction on departmental annual budget savings, tracking of all transfers to the Redevelopment Agency for future payback, capital budgeting, interfund loan interest rates and investment pool interest allocation. These policies were reviewed and revised at the start of the 2007 Fiscal Year.

Following the implementation of cost reduction strategies which included a hiring "chill" during the 2004-2005 Fiscal Year, the City Council relaxed somewhat the limitation on new appropriations and lifted the hiring "chill" during the current fiscal year.

Major Initiatives

During Fiscal Year 2005, California voters approved Proposition 1A. This initiative places stricter controls on the state's ability to divert local revenue. While this protection is seen as beneficial to local government, local revenues are still affected by the Triple-Flip component of the legislation described above. In Fiscal Year 2006, the last payment to be made under the revised legislation that shifted local property tax dollars to the Education Revenue Augmentation Fund was made.

Awards and Acknowledgments

For the twenty-second consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Modesto for its comprehensive annual financial report for the fiscal year ended June 30, 2005. The report also received the Outstanding Award for Financial Reporting from the California Society of Municipal Finance Officers (CSMFO). To receive this recognition, the City must publish an easily readable and efficiently organized report. The report must satisfy both generally accepted accounting principles and applicable legal requirements. Both awards are valid for a period of one year. Effective with the fiscal year ending June 30, 2006, the CSMFO changed its program and will accept only reports not submitted to GFOA. We

believe that the current Comprehensive Annual Financial Report continues to meet the requirements of the program, and it will be submitted to the GFOA to determine its eligibility.

The Comprehensive Annual Financial Report is the result of the cooperative work of many people. We wish to convey our appreciation to all members of the Finance Department team who assisted and contributed to its successful completion. In particular, we commend the Accounting Division staff responsible for the preparation of the report.

Respectfully submitted,



M. Wayne Padilla, CPA
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

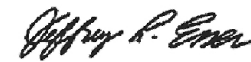
City of Modesto California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

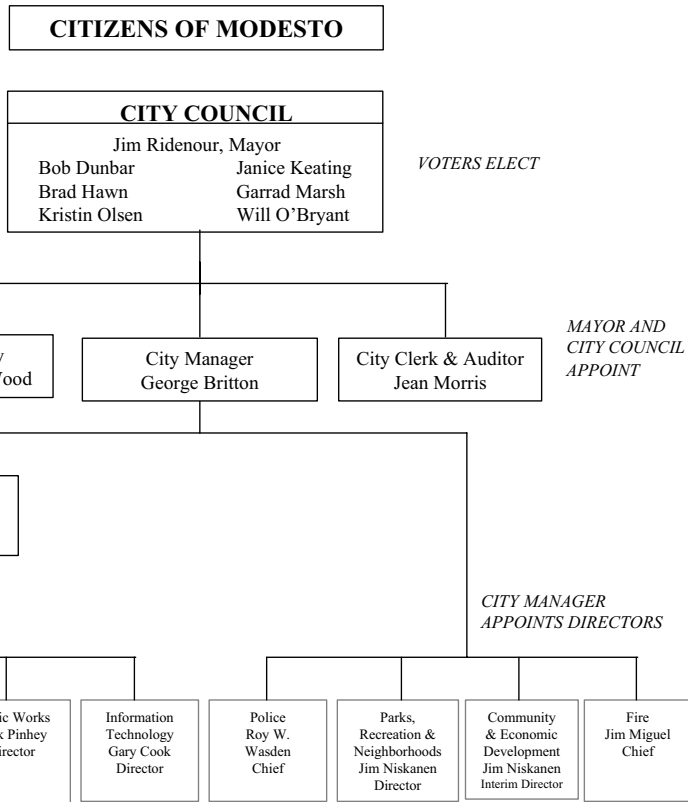


President



Executive Director

D-6



FINANCIAL SECTION

Citizens Advisory Boards, Commissions and Committees

ALSO APPOINTED BY THE MAYOR AND CITY COUNCIL

- Airport Advisory Committee
- Board of Building Appeals
- Board of Zoning Adjustments
- Charter Review Committee
- Citizen Housing & Community Development
- Citizens Advisory Committee on Recycling
- Citizens Redevelopment Advisory Committee
- Community Qualities Forum
- Culture Commission
- Disabled Access Appeals Board

- Downtown Improvement District Advisory Board
- Equal Opportunity/Disability Commission
- Golf Courses Committee
- Housing Rehabilitation Loan Committee
- Human Relations Commission
- Landmark Preservation Commission
- Local Cable Programming Committee
- Planning Commission
- Tuolumne River Regional Park Citizens Advisory Committee
- Youth Commission

MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS

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To the Honorable Mayor and Members of the City Council
City of Modesto, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

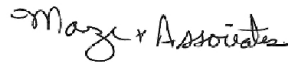
In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto as of June 30, 2006 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued reports dated December 15, 2006 on our consideration of the City's internal control structure and on its compliance with laws and regulations.

Management's Discussion and Analysis and the Budget and Actual statement for the General Fund are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Combining and Individual Fund Statements and Schedules listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic statements of the City of Modesto. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section listed in the Table of Contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



December 15, 2006

A Professional Corporation

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Management's Discussion and Analysis

This section of the City of Modesto (City) comprehensive annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2006. Please read it in conjunction with the transmittal letter at the front of this report and the basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded liabilities at the close of the 2006 fiscal year by \$702,468,163 (*total net assets*). Of this amount, \$64,246,970 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$120,937,678 is restricted for a specific purpose (*restricted net assets*), and \$517,283,315 is invested in capital assets, net of related debt.
- The City's total net assets increased by \$69,959,566. Approximately sixty-four percent of this increase is attributable to governmental activities.
- As of June 30, 2006, the City's governmental funds reported combined fund balances of \$149,662,117, an increase of \$30,620,541 in comparison with the prior year. Approximately 71% of the combined fund balances, \$106,790,850 is available to meet the City's current and future needs (*unreserved fund balance*).
- At the end of the fiscal year, the General Fund fund balance was \$23,309,515, or 22% of total General Fund expenditures. Of this, \$2.7 million is reserved for encumbrances and non-current assets, and \$5.9 million is designated for specific purposes, including \$5.8 million appropriated in the fiscal year 2006-07 budget. The unreserved/undesignated balance of \$14,706,248 represents 14.1% of total General Fund outflows. The City Council has adopted a goal of maintaining an 8% reserve level.
- The City's total long-term debt showed a net decrease of \$2,446,523 in comparison with the prior year. The net decrease resulted from updated actuarial valuations for the insurance estimates (\$2.4 million increase) and normal decreases due to payments of principal (\$3.7 million), combined with a decrease in compensated absences of approximately \$800,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components 1) **Government-wide** financial statements; 2) **Fund** financial statements and 3) **Notes** to basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of City finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all City assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, community development, highways and streets, public works, parks and recreation, and public safety. The business-type activities of the City include the water, sewer, parking, storm drain, airport, bus, golf and community center operations.

Component units are included in our basic financial statements and consist of legally separate entities for which the City is financially accountable and that have substantially the same board as the City Council, or provide services entirely to the City. Examples are the Redevelopment Agency of the City of Modesto and the Modesto Public Financing Authority.

Management's Discussion and Analysis (continued)

The government-wide financial statements can be found on pages 17-19 of this report.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the City can be divided into three categories: *governmental funds*, *proprietary funds* and *fiduciary funds*.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City reports 18 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, the Capital Grants Fund and the Capital Facilities Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The governmental funds financial statements can be found on pages 20-23 of this report

Proprietary funds are maintained two ways. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, Parking, Storm Drain, Airport, Bus, Golf and Community Center operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Fleet Management, Central Services, Information and Technology Services, Insurance, Employee Benefits Management and Building Services functions. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. Internal services benefiting business-type functions have been allocated as "internal balances".

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Water and Sewer funds are considered to be major funds of the City. The City's six internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The proprietary funds financial statements can be found on pages 24-27 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds except for agency funds.

The fiduciary fund financial statements can be found on page 28 of this report.

Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 29-53 of this report.

Management’s Discussion and Analysis (continued)

Required Supplementary Information is also presented. The City adopts an annual appropriated budget. Budgetary comparison schedules for the major governmental funds have been provided to demonstrate compliance with this budget.

Required supplementary information can be found on pages 56-58 of this report.

The *combining and individual fund statements and schedules* referred to earlier provide information for nonmajor governmental, enterprise and internal service funds and are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 62 –98 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$702,468,163 at the close of the most recent fiscal year.

	Net Assets					
	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	235,175,812	\$197,507,688	75,157,357	\$54,304,523	310,330,169	\$251,812,211
Capital assets	362,971,175	355,069,868	284,722,417	281,752,904	647,693,592	636,822,772
Total assets	598,143,987	552,577,556	359,879,774	336,057,427	958,023,761	888,634,983
Current and other liabilities	15,574,156	14,240,830	6,429,320	5,886,911	22,003,476	20,127,741
Long-term liabilities	167,533,635	167,935,092	66,018,487	68,063,553	233,552,122	235,998,645
Total liabilities	183,107,791	182,175,922	72,447,807	73,950,464	255,555,598	256,126,386
Net assets:						
Invested in capital assets, net of related debt	296,401,824	288,391,776	220,881,691	216,558,150	517,283,515	504,949,926
Restricted net assets	120,937,678	88,725,341			120,937,678	88,725,341
Unrestricted net assets	(2,303,306)	(6,715,483)	66,550,276	45,548,813	64,246,970	38,833,330
Total net assets	415,036,196	\$370,401,634	287,431,967	\$262,106,963	702,468,163	\$632,508,597

The largest portion of the City’s net assets, \$517,283,515 (74 percent), reflects its investment in capital assets (e.g. land, buildings, improvements, furnishings and equipment, buses and fare boxes, pipelines, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another significant portion of the City’s net assets represents *unrestricted net assets* of \$64,246,970 (9 percent), which may be used to meet the City’s ongoing obligations to citizens and creditors.

The remaining balance of the City’s net assets of \$120,937,678 (17 percent) represents resources that are subject to external restrictions on how they may be used.

At the end of the 2006 fiscal year, the City reported positive balances in all three categories of net assets for the City as a whole.

The City’s net assets increased by \$69,959,566 during the current fiscal year. Approximately sixty-four percent of this increase is attributable to governmental activities.

Management’s Discussion and Analysis (continued)

The following table indicates the changes in net assets for governmental and business-type activities, as well as comparative data for the prior year.

	Changes in Net Assets					
	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 39,789,386	\$ 43,486,604	\$ 79,482,231	\$ 67,250,435	\$119,271,617	\$110,737,039
Operating grants and contributions	11,892,511	13,736,453	8,317,889	7,525,367	20,210,400	21,261,820
Capital grants and contributions	38,484,548	22,799,320	10,467,873	8,498,408	48,952,421	31,297,728
General revenues:						
Taxes	52,816,226	46,294,592	207,749	260,064	53,023,975	46,554,656
Intergovernmental revenue not restricted for specific purposes	48,685,311	44,695,547			48,685,311	44,695,547
Unrestricted investment earnings	3,255,401	4,463,080	2,504,291	1,819,870	5,759,692	6,282,950
Settlements and recoveries			3,784,295	7,396,627	3,784,295	7,396,627
Miscellaneous	2,827,161	3,792,340			2,827,161	3,792,340
Total revenues	197,750,544	179,267,936	104,764,328	92,750,771	302,514,872	272,018,707
Expenses:						
General government	15,529,735	15,273,174			15,529,735	15,273,174
Community development	12,241,213	14,105,411			12,241,213	14,105,411
Highways and streets	26,025,311	23,721,458			26,025,311	23,721,458
Public works	6,491,062	5,263,984			6,491,062	5,263,984
Parks and recreation	11,733,698	13,334,330			11,733,698	13,334,330
Public safety	74,500,043	71,239,341			74,500,043	71,239,341
Interest on long-term debt	5,178,130	4,987,911			5,178,130	4,987,911
Parking			1,287,450	1,162,479	1,287,450	1,162,479
Water			29,989,775	30,691,348	29,989,775	30,691,348
Sewer			22,716,100	22,422,268	22,716,100	22,422,268
Storm drain			5,795,746	6,111,317	5,795,746	6,111,317
Compost			941,919		941,919	
Airport			1,342,645	1,131,889	1,342,645	1,131,889
Bus			12,119,311	11,074,907	12,119,311	11,074,907
Golf			2,461,470	2,354,759	2,461,470	2,354,759
Community center			2,465,644	2,323,169	2,465,644	2,323,169
Total expenses	151,699,192	147,925,609	79,120,060	77,272,136	230,819,252	225,197,745
Increase in net assets before transfers and special item	46,051,352	31,342,327	25,644,268	15,478,635	71,695,620	46,820,962
Transfers	(1,416,790)	(1,306,914)	1,416,790	1,306,914		
Special item			(1,736,054)	(1,938,606)	(1,736,054)	(1,938,606)
Change in net assets	44,634,562	30,035,413	25,325,004	14,846,943	69,959,566	44,882,356
Net assets - beginning	370,401,634	340,366,221	262,106,963	247,260,020	632,508,597	587,626,241
Net assets – ending	\$415,036,196	\$370,401,634	\$287,431,967	\$262,106,963	\$702,468,163	\$632,508,597

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Management’s Discussion and Analysis (continued)

Management’s Discussion and Analysis (continued)

Governmental activities. Governmental activities increased the City’s net assets by \$44,634,562, accounting for 64 percent of the total growth in net assets of the City. Charges for services are down about \$3.7 million, mainly in Community Development and Highways and Streets due to lower building and construction revenues. Taxes (mainly Utility Users, Property and Business License taxes) increased about \$6.3 million over 2005, due to rising tax *bases*; tax *rates* remained the same. Intergovernmental revenues (primarily sales tax) were up about \$4.0 million. However, the largest increase was in capital grants and contributions, with \$30 million coming from Community Facilities District (CFD) bonds issued in 2006. These CFD bonds have no City commitment, so the debt is not reported as long-term debt and the proceeds are recorded as revenues in these financial statements (see Note III. B).

Expenses in total are up \$3.8 million, or .3%, due to salary and wage increases (3-3.5%) and increased public retirement funding rates. Highways and Streets also included large projects for resurfacing Briggsmore Avenue from Oakdale to Claus Roads, and the Pelandale Ave./SR99 interchange.

Business-type activities. Business-type activities increased the City’s net assets by \$25,325,004. As detailed in the schedule on page 12, the Water, Sewer, Storm Drain, Compost and Airport enterprises posted net incomes during the period. Net losses were experienced by Parking, Bus, Golf and Community Center operations. Depreciation expense, which is the major cause of these net losses, is not included in these funds’ budgets or revenue-setting processes.

Charges for services are up about \$12.2 million, due in part to a 20% City Council-approved water rate increase that became effective on July 1, 2005. Settlements and recoveries revenue decreased \$3.6 million, as PCE settlements slowed pending the outcome of litigation in 2006 (see Note II. L). Finally, expenses across the board are up, primarily due to general increases in salaries and benefits, and the rise in utilities, fuel and materials costs.

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

As noted earlier, the City uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The general government functions are contained in the general, special revenue, capital projects, and debt service funds. The focus of the City’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City’s financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

At June 30, 2006, the City’s governmental funds reported combined fund balances of \$149,662,117, an increase of \$30,620,541 from the prior year. Approximately 71% of the combined fund balances \$106,790,850 constitutes *unreserved fund balance*, which is available to meet the City’s current and future needs. The remainder of fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed: 1) to pay debt service (8,255,446); 2) to reflect advances to other funds, loans receivable and deposits that are long-term that do not represent available spendable resources (\$15,253,461); 3) to liquidate contractual commitments of the period (\$15,116,878); and 4) to meet Redevelopment Agency low and moderate income housing set-aside requirements (\$4,245,482).

The General Fund is the chief operating fund of the City. At June 30, 2006, unreserved fund balance of the General Fund was \$20,607,134 while total fund balance was \$23,309,515. As a measure of the General Fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 20 percent of total fund expenditures, while total fund balance represents 22 percent of that same amount. The prior year ratios were 18% and 20%, respectively. The use of the fund balance reserves was planned and budgeted during the year.

Revenues of governmental funds totaled \$194,420,231 in fiscal year 2005-2006, which represents an increase of 14.3% from fiscal year 2004-2005.

Expenditures of governmental funds totaled \$161,262,932 in fiscal year 2005-2006, representing an increase of 3.5% over the prior year.

The following table presents governmental fund revenues from various sources, with comparisons to the prior year:

Revenues Classified by Source – Governmental Funds

Revenues by Source	FY 2006		FY 2005		Increase (decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Taxes	52,816,596	27.2%	\$ 46,295,678	27.2%	6,520,918	14.1%
Licenses and permits	146,854	0.1%	128,754	0.1%	18,100	14.1%
Intergovernmental	64,759,658	33.3%	73,889,063	43.5%	(9,129,405)	-12.4%
Charges for services	37,802,149	19.4%	41,660,016	24.5%	(3,857,867)	-9.3%
Special assessments	65,909	0.0%	107,696	0.1%	(41,787)	-38.7%
Interest and rent	3,755,169	1.9%	3,146,452	1.9%	608,717	19.3%
Net increase (decrease) in fair value	103,036	0.1%	186,515	0.1%	(83,479)	-44.8%
Fines and forfeits	1,675,926	0.9%	1,646,472	1.0%	29,454	1.8%
Contribution from property owners	30,473,773	15.7%			30,473,773	100.0%
Miscellaneous	2,821,161	1.5%	2,991,745	1.7%	(170,584)	-5.7%
Total	\$194,420,231	100.0%	\$170,052,391	100.0%	\$24,367,840	14.3%

- Taxes –Utility Users taxes, Property taxes, Redevelopment Agency Tax Increment (an allocation of property taxes) and Business license taxes all increased over the prior year (\$2, \$3.1, \$.6, and \$.6 million, respectively), while the other tax categories showed only slight increases.
- Intergovernmental – State sales taxes and motor vehicle license fees make up over half of these revenues. Sales tax was up \$3 million, but vehicle license fees were down \$1.4 million because 2005 included a one-time receipt of \$3.2 million due from the State of California for payments withheld in prior years. The balance of the overall decline is due to lower grant revenues because several large capital projects were completed in the prior year.
- Charges for services – Included in this category are the Capital Facilities and Community Facility District Fees charged to mitigate the impact of new development on City infrastructure needs. These fees decreased \$3.8 million from the prior year, due to an overall slowing of new construction.
- Contributions from property owners – This source is new this year, and represents the proceeds of bonds issued by the Community Facility Districts which will be repaid by district charges to property owners. The City has no commitment for the repayment of these bonds.

The following table presents expenditures by function compared to prior year amounts.

Expenditures by Function	FY 2006		FY 2005		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
General government	14,111,535	8.8%	\$ 11,819,603	7.6%	2,291,932	19.4%
Community development	12,296,072	7.6%	12,832,640	8.2%	(536,568)	-4.2%
Highways and streets	14,357,041	8.9%	12,152,087	7.8%	2,204,954	18.1%
Public works	5,647,023	3.5%	5,053,030	3.2%	593,993	11.8%
Parks and recreation	11,662,263	7.2%	12,021,937	7.7%	(359,674)	-3.0%
Public safety	74,527,875	45.9%	70,882,176	45.5%	3,645,699	5.1%
Capital outlay	21,563,774	13.3%	24,412,735	15.7%	(2,848,961)	-11.7%
Debt Service-principal retirement	1,901,827	1.2%	1,666,764	1.1%	235,063	14.1%
Debt Service-interest charges	4,576,780	2.8%	4,425,980	2.8%	150,800	3.4%
Debt Service-other	618,742	0.4%	553,645	0.4%	65,097	11.8%
Total	\$161,262,932	100.0%	\$155,820,597	100.0%	\$5,442,334	3.5%

The following provides an explanation of the expenditures by function that changed significantly over the prior year.

Management’s Discussion and Analysis (continued)

- General government –Expenditures increased about \$2.3 million, or 19.4% over the prior year. \$1.2 million was for outside legal counsel for new litigation and \$900k was an allocation to the workers compensation insurance internal service fund.
- Highways and streets – Expenditures increased \$2.2 million or 18.1%, including \$1.2 million in the Capital Facility Fees fund.
- Public safety –Expenditures increased about \$3 million, or 5.1% over the prior year. An increase in employer-paid PERS retirement contributions and cost of living increases contributed significantly toward this increase.
- Capital outlay –The decrease of \$2.8 million reflects the completion of the replacement of the 9th Street Bridge and Kansas/Needham Overpass in the prior year.

Other financing sources and uses are presented below to illustrate changes from the prior year:

	Other Financing Sources (Uses)			
	Governmental Funds			
	FY 2006	FY 2005	Increase/(Decrease)	
			Amount	Percent
Transfers in	\$17,724,718	\$17,962,442	(237,724)	-1.3%
Transfers out	(20,267,476)	(19,644,937)	(622,539)	-3.2%
Sale of assets	6,000	928,595	(922,595)	100.00%
Net financing sources (uses)	\$(2,536,758)	\$ (753,900)	\$(1,782,858)	236.5%

- Transfers - The City uses interfund transfers to: (1) move revenues from the funds that collect them in accordance with statutory and/or budgetary requirements, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due.

The net transfers from governmental funds for 2006 were \$2,543,028, compared to \$1,682,495, in the prior year. This net transfer is to the proprietary funds, and consists mainly of the operating subsidy to Community Center operations and funding to the Fleet internal services fund for vehicle and equipment replacement.

The annual totals for both transfers in and out vary, depending on the nature of the activities that are undertaken each year.

The current year excess of revenues and other financing sources over expenditures and other financing uses is presented in the following table:

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Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

	Major Funds				Nonmajor Funds			Total
	General Fund	Capital Grants Fund	Capital Facility Fees Fund	Community Facility Districts	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	
Revenues	\$114,810,175	\$2,854,861	\$13,208,912	\$35,553,805	\$22,508,256	\$ 2,763,248	\$2,720,974	\$194,420,231
Expenditures	(104,287,942)	(6,917,486)	(9,334,329)	(6,758,111)	(26,308,813)	(1,438,612)	(6,217,639)	(161,262,932)
Other financing sources/ (uses), net	(7,627,777)	2,295,683	10,494	(234,194)	717,011	(1,590,073)	3,892,098	(2,536,758)
Net change in fund balances	2,894,456	(1,766,942)	3,885,077	28,561,500	(3,083,546)	(265,437)	395,433	30,620,541
Fund balance July 1	20,415,059	(2,669,258)	38,222,036	13,573,867	30,525,477	11,114,382	7,860,013	119,041,576
Fund balance June 30	\$23,309,515	\$(4,436,200)	\$42,107,113	\$42,135,367	\$27,441,931	\$10,848,945	\$8,255,446	\$149,662,117

Management’s Discussion and Analysis (continued)

The fund balance of the City’s General Fund increased by \$2,894,456 during the fiscal year. Total revenues increased \$8.4 million, while expenditures increased \$4.7 million over the prior year.

The Capital Grants Fund’s fund balance deficit is due to the timing difference that exists between the realization of expenditures on reimbursable grant projects and the actual receipt of funding from the granting agency.

Capital Facility Fee revenues decreased \$1.6 million from the prior year, while expenditures on capital projects increased by \$5.6 million. Yet, revenues still exceeded expenditures by \$3.9 million.

Community Facility Districts became a major fund in 2006 because of the receipt \$30 million from bonds issued during the year, as previously discussed. Regular CFD charges were \$1.4 million less than 2005, but expenditures increased almost \$2 million. Significant expenditures on capital projects are expected to occur within the next 3 years.

Proprietary funds. The City’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The following table shows actual revenues, expenses and results of operations of enterprise funds for the current fiscal year:

	Major Funds		Nonmajor Funds						Total	
	Water	Sewer	Storm Parking	Storm Drain	Compost	Airport	Bus	Golf		Community Center
Operating revenues	\$42,639,348	\$23,083,280	\$1,176,061	\$5,277,304	\$1,317,105	\$577,688	\$2,645,622	\$2,222,738	\$543,085	\$79,482,231
Operating expenses	(28,672,955)	(20,809,387)	(1,279,104)	(5,889,410)	(950,637)	(1,326,453)	(12,171,868)	(2,159,640)	(2,484,552)	(75,744,006)
Operating income (loss)	13,966,393	2,273,893	(103,043)	(612,106)	366,468	(748,765)	(9,526,246)	63,098	(1,941,467)	3,738,225
Non-operating revenues (expenses), net	318,834	1,007,528	5,448	22,010	(9,189)	419,117	8,655,787	(228,937)	502,918	10,693,516
Income (loss) before capital contributions, transfers and special items	14,285,227	3,281,421	(97,595)	(590,096)	357,279	(329,648)	(870,459)	(165,839)	(1,438,549)	14,431,741
Contributions, transfers and special items	3,345,787	2,215,159		1,327,331	696,690	1,327,301	467,053	65,288	704,000	10,148,609
Net income (loss)	\$17,631,014	\$5,496,580	\$(97,595)	\$737,235	\$1,053,969	\$997,635	\$(403,406)	\$(100,551)	\$(734,549)	\$24,580,350

The Water, Sewer, Storm Drain, Compost and Airport enterprises posted net incomes during the period. It is important to note that while the Water and Sewer funds show rather healthy operating results, capital improvement expenditures and debt service principal payments incurred during the year are not reflected in the expenditure totals shown above. Net losses were experienced by the other enterprise funds. Golf and Community Center normally receive annual operating subsidies from the General fund, but these subsidies do not cover depreciation expenses, resulting in net losses overall. Also, the Golf fund did not receive a subsidy in 2006. Revenues in the Water utility fund rose during the year due to an average 15% rate increase, as well as normal growth in the customer base. Compost operations were previously part of the Sewer enterprise fund because of the use of bio-solids in the compost mixture. Since that nexus has been significantly reduced, compost operations are now reported as a stand-alone enterprise fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the major governmental funds are presented as Required Supplementary Information, beginning on page 56 of this report.

While the City Council amended the budget several times, the differences between the original budget and the final amended budget for the General Fund were relatively minor. The estimated revenues increased about \$7.6 million,

Management’s Discussion and Analysis (continued)

while total appropriations were increased \$4.6 million, or about 4.4%. These amendments, generally, were to adjust the actual beginning balances and carryovers after closing the prior fiscal year, and to reflect adjustments to current estimates based on the periodic monitoring of revenue and expenditures throughout the year.

Revenues came in \$4 million more than estimates, primarily in Motor Vehicle License fees (\$3 million) due to budgetary uncertainties with the State’s “triple flip” restructuring. Also, interest revenues came in about \$700,000 more than estimated, due to higher returns on investments.

Expenditures, overall, were \$3.3 million under budget, primarily due to efforts of departments to realize savings, and certain purchases being deferred to future periods.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounted to \$636,822,772 (net of accumulated depreciation). The total increase in the City’s investment in capital assets for the current period was 1.7 percent.

Capital assets, net of depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year:

	Governmental activities		Business-type activities		Total		Increase (Decrease) Percent Change
	2006	2005	2006	2005	2006	2005	
Land	\$ 22,982,481	\$22,081,279	\$26,539,639	\$26,001,514	\$49,522,120	\$48,082,793	3.3%
Buildings	21,142,099	19,313,523	48,322,570	50,762,320	69,464,669	70,075,843	-0.9%
Improvements	16,668,974	16,990,103	59,863,277	64,197,749	76,532,251	81,187,852	-5.7%
Furnishings and equipment	8,059,702	7,550,416	2,893,008	3,154,512	10,952,710	10,704,928	2.3%
Equipment pool	15,232,410	14,245,320			15,232,410	14,245,320	6.9%
Streets	234,966,127	233,954,645			234,966,127	233,954,645	0.4%
Signalization	6,583,733	6,700,751			6,583,733	6,700,751	-1.7%
Bridges	25,239,107	25,024,283			25,239,107	25,024,283	0.9%
Buses and fare box ss			8,197,997	8,914,629	8,197,997	8,914,629	-8.0%
Pipelines			110,263,919	107,571,640	110,263,919	107,571,640	2.5%
Construction in progress	12,096,542	9,209,548	28,642,007	21,150,540	40,738,549	31,360,088	34.2%
Total	\$362,971,175	\$355,069,868	\$284,722,417	\$281,752,904	\$647,693,592	\$636,822,772	1.7%

Major capital asset events during the current fiscal year included the following:

- Construction in progress – Work continued on the Virginia Corridor Pedestrian/Bicycle trail on the old Union Pacific railroad right of way, as well as other parks development such as Merle Park, Maddux Youth Center and a joint fire/police/recreation facility at Marshall Park.
- Equipment – The Fire department purchased a new ladder truck costing \$700,000.

The City’s infrastructure assets are recorded at historical cost in the government-wide financial statements. Depreciation expense is recorded using the straight-line method, based on estimated useful life of the asset. Additional information on the City’s capital assets can be found in note II.B on pages 39-40 of this report.

Long-term debt

At June 30, 2006, the City had total long-term liabilities outstanding of \$233,552,122, net of unamortized discounts and deferred amounts on refunding, as compared to \$235,998,645 in the prior year. This amount was comprised of \$62,505,000 of lease revenue bonds, \$46,275,078 of certificates of participation, \$36,842,020 of revenue bonds payable, \$61,616,953 of estimated compensated absences, \$16,331,110 of claims liability, \$2,601,674 of loans payable, \$2,177,761 of developer advances, \$667,492 of capital leases, and \$4,535,034 of notes payable. During the year, retirement of debt and other reductions amounted to \$18,832,635, and new debt and other additions totaled \$16,386,112. The additions were related to new estimates for compensated absences and claims liabilities (\$8.9 and

Management’s Discussion and Analysis (continued)

\$7.5 million, respectively). Additional information on the City’s long-term debt can be found in note I.I.C on pages 39-43 of this report.

Modesto maintains an Employee Benefits internal service fund (EBF) to pay a portion of retiree health benefits and other employee related expenses. While the City has yet to implement GASB Statement No. 45 related to Other Post Employment Benefits, the City has consistently included an estimate of its retiree health care obligation from sick-leave conversion in its compensated absences liability. As of June 30, 2006, this amounts to approximately \$54.6 million of the \$61.6 million listed above. This contributes significantly to the EBF’s unfunded liability of more than \$45 million. Additional information on the City’s EBF can be found in Notes II-H and III-G.

Economic Factors and Next Year’s Budget and Rates

- *Consumer Price Index* - The national CPI has been relatively stable during the past six years. In 2000, the CPI-Western Urban was 3.5 %. In June 2006, the CPI-Western Urban increased 4.1%.
- *Taxable Sales* - Taxable sales growth has ranged from 11% to 5.7% during the last couple of years. In future years, annual taxable sales growth is projected at 4.4%.
- *Building Permit Activity* - Building permit activity, which had been extremely robust for several years, has leveled off with 5,797 total permits in 2004, 5,892 in 2005 and 5,968 for the year ended June 30, 2006. The average construction value of these permits decreased from about \$57,000 to \$50,000.
- *Utility Service Charges* - Water utility rates were increased an average of 15% effective July 1, 2006. This is one in a series of increases adopted by the City Council and is intended to fund major capital improvements to the water system.

All of these factors were considered in preparing the City’s budget for fiscal year 2006.

During the current fiscal year, unreserved fund balance in the General Fund increased by \$3,047,129, to \$20,507,134. Of this amount, \$5.9 million is designated for specific purposes, including \$5.8 million appropriated in the fiscal year 2006-07 budget. The unreserved/undesignated balance of \$14,706,248 presents 14.1% of total General Fund outflows, versus the City Council’s target of 8%. The budget adopted for fiscal year 2006-2007 maintains this target reserve level.

Requests for Information

This financial report is designed to provide a general overview of the City’s finances for all those with an interest in the City’s financial condition. Questions concerning any of the information provided in this report and requests for additional financial information should be addressed to the City of Modesto, Attention: Finance Department, P.O. Box 642, Modesto, CA 95353.

CITY OF MODESTO
STATEMENT OF NET ASSETS
June 30, 2006

BASIC FINANCIAL STATEMENTS

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 179,383,700	\$ 59,095,752	\$ 238,479,452
Accounts receivable, net	1,665,060	426,296	2,091,356
Interest receivable	920,077	393,977	1,314,054
Utility billings receivable, net	856,362	8,291,254	9,147,616
Taxes receivable	11,094,539	3,940	11,098,479
Due from governments, net	11,100,278	3,635,812	14,736,090
Notes receivable, net	13,270,036		13,270,036
Prepaid expenses	780,000	1,003,000	1,783,000
Property held for resale		630,000	630,000
Internal balances	(837,201)	837,201	
Inventories	516,919		516,919
Unamortized costs of debt issuance		840,125	840,125
Investments in joint ventures	16,423,042		16,423,042
Capital assets:			
Land and construction in progress	35,079,023	55,181,646	90,260,669
Other capital assets, net of accumulated depreciation	<u>327,892,152</u>	<u>229,540,771</u>	<u>557,432,923</u>
Total assets	<u>598,143,987</u>	<u>359,879,774</u>	<u>958,023,761</u>
<u>LIABILITIES</u>			
Accounts payable	7,610,606	2,415,957	10,026,563
Accrued salaries and benefits	1,341,285	227,808	1,569,093
Approved loans payable	589,219		589,219
Interest payable	1,244,326	633,918	1,878,244
Unearned revenues	2,728,304	2,124,426	4,852,730
Refundable deposits	2,060,416	1,027,211	3,087,627
Long-term liabilities:			
Due within one year	9,960,789	3,000,479	12,961,268
Due in more than one year	<u>157,572,846</u>	<u>63,018,008</u>	<u>220,590,854</u>
Total liabilities	<u>183,107,791</u>	<u>72,447,807</u>	<u>255,555,598</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	296,401,824	220,881,691	517,283,515
Restricted for:			
Capital projects	78,526,510		78,526,510
Housing and community development	18,188,683		18,188,683
Other purposes	21,114,567		21,114,567
Unrestricted	<u>804,612</u>	<u>66,550,276</u>	<u>67,354,888</u>
Total net assets	<u>\$ 415,036,196</u>	<u>\$ 287,431,967</u>	<u>\$ 702,468,163</u>

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

FUNCTIONS/PROGRAMS:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 15,529,735	\$ 4,179,505			\$ (11,350,230)		\$ (11,350,230)
Community development	12,241,213	9,466,082		\$ 30,473,773	27,698,642		27,698,642
Highways and streets	26,025,311	12,104,089	\$ 4,699,992	5,762,921	(3,458,309)		(3,458,309)
Public works	6,491,062	1,986,957	316,384		(4,187,721)		(4,187,721)
Parks and recreation	11,733,698	4,928,366	3,222,811	2,247,854	(1,334,667)		(1,334,667)
Public safety	74,500,043	7,124,387	3,653,324		(63,722,332)		(63,722,332)
Interest on long-term debt	5,178,130				(5,178,130)		(5,178,130)
Total governmental activities	<u>151,699,192</u>	<u>39,789,386</u>	<u>11,892,511</u>	<u>38,484,548</u>	<u>(61,532,747)</u>		<u>(61,532,747)</u>
Business-type activities:							
Parking	1,287,450	1,176,061				\$ (111,389)	(111,389)
Water	29,989,775	42,639,348		4,156,357	16,805,930	16,805,930	16,805,930
Sewer	22,716,100	23,083,280		3,343,231	3,710,411	3,710,411	3,710,411
Storm Drain	5,795,746	5,277,304		1,132,034	613,592	613,592	613,592
Compost	941,919	1,317,105		30,070	405,256	405,256	405,256
Airport	1,342,645	577,688	50,351	1,327,385	612,779	612,779	612,779
Bus	12,119,311	2,645,622	8,267,538	478,796	(727,355)	(727,355)	(727,355)
Golf	2,461,470	2,222,738			(238,732)	(238,732)	(238,732)
Community Center	2,465,644	543,085			(1,922,559)	(1,922,559)	(1,922,559)
Total business-type activities	<u>79,120,060</u>	<u>79,482,231</u>	<u>8,317,889</u>	<u>10,467,873</u>	<u>19,147,933</u>	<u>19,147,933</u>	<u>19,147,933</u>
Total	\$ <u>230,819,252</u>	\$ <u>119,271,617</u>	\$ <u>20,210,400</u>	\$ <u>48,952,421</u>	<u>(61,532,747)</u>	<u>19,147,933</u>	<u>(42,384,814)</u>
General revenues:							
Taxes:							
Utility users tax					17,583,690		17,583,690
Property taxes, levied for general purposes					14,318,747		14,318,747
Property taxes, generated by and allocated to the airport						166,641	166,641
Tax increments for redevelopment agency					4,450,836		4,450,836
Transient occupancy tax					2,181,467		2,181,467
Franchise tax					3,693,307		3,693,307
Business license tax, levied for general purposes					10,374,157		10,374,157
Business license tax, levied for downtown improvement district					214,022		214,022
Business license tax, generated by and allocated to the airport						41,108	41,108
Intergovernmental revenue not restricted to specific programs:							
Sales tax					29,627,835		29,627,835
Motor vehicle license fee					14,986,883		14,986,883
Other					4,070,593		4,070,593
Unrestricted investment earnings					3,255,401	2,504,291	5,759,692
Miscellaneous					2,827,161		2,827,161
Transfers, net					(1,416,790)	1,416,790	
Settlements and recoveries						3,784,295	3,784,295
Special item - PCE legal fees						(1,736,054)	(1,736,054)
Total general revenues, transfers and special item					<u>106,167,309</u>	<u>6,177,071</u>	<u>112,344,380</u>
Change in net assets					<u>44,634,562</u>	<u>25,325,004</u>	<u>69,959,566</u>
Net assets, July 1					<u>370,401,634</u>	<u>262,106,963</u>	<u>632,508,597</u>
Net assets, June 30					\$ <u>415,036,196</u>	\$ <u>287,431,967</u>	\$ <u>702,468,163</u>

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2006**

**CITY OF MODESTO
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
June 30, 2006**

	General	Capital Grants	Capital Facility Fees	Community Facilities Districts	Other Governmental	Total Governmental
ASSETS						
Cash and cash equivalents	\$ 9,141,367	\$ 257	\$ 44,019,271	\$ 13,977,058	\$ 21,994,093	\$ 89,132,046
Cash and cash equivalents with fiscal agent				29,091,868	11,072,496	40,164,364
Receivables:						
Accounts	354,635	9,341	33		466,993	831,002
Interest	272,623		210,696	58,998	158,201	700,518
Utilities, net	824,856				31,506	856,362
Taxes	10,485,306			104,390	504,843	11,094,539
Due from governments	548,231	5,416,376	84,108		5,012,876	11,061,591
Due from other funds	5,572,000					5,572,000
Notes receivable, net	92,283				13,177,753	13,270,036
Prepaid expenses/expenditures					780,000	780,000
Restricted assets:						
Cash and cash equivalents	1,845,018			214,297		2,059,315
Advances to other funds	1,644,193				148,451	1,792,644
Total assets	\$ 30,780,512	\$ 5,425,974	\$ 44,314,108	\$ 43,446,611	\$ 53,347,212	\$ 177,314,417
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 2,241,841	\$ 623,716	\$ 748,685	\$ 684,018	\$ 1,795,856	\$ 6,094,116
Accrued salaries and benefits	1,116,500			4,553	135,797	1,256,850
Approved loans payable					589,219	589,219
Due to other funds		4,443,000			1,129,000	5,572,000
Deferred revenues	364,061	4,795,458	17,434	408,376	2,798,250	8,383,579
Payable from restricted assets:						
Refundable deposits	1,845,119			214,297	1,000	2,060,416
Advances from other funds	1,903,476		1,440,876		351,768	3,696,120
Total liabilities	7,470,997	9,862,174	2,206,995	1,311,244	6,800,890	27,652,300
Fund balances:						
Reserved	2,702,381	1,337,898	1,992,255	3,231,123	33,607,610	42,871,267
Unreserved:						
Designated, reported in:						
General fund	5,900,886					5,900,886
Special revenue funds					12,314,680	12,314,680
Capital projects funds			40,114,858	38,904,244	(492,592)	78,526,510
Undesignated, reported in:						
General fund	14,706,248					14,706,248
Special revenue funds					1,116,624	1,116,624
Capital projects funds		(5,774,098)				(5,774,098)
Total fund balances	23,309,515	(4,436,200)	42,107,113	42,135,367	46,546,322	149,662,117
Total liabilities and fund balances	\$ 30,780,512	\$ 5,425,974	\$ 44,314,108	\$ 43,446,611	\$ 53,347,212	\$ 177,314,417

The notes to basic financial statements are an integral part of this statement.
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Total fund balances - total governmental funds \$ 149,662,117

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

General capital assets:

Nondepreciable	\$ 34,257,990	
Depreciable	78,434,583	
Accumulated depreciation on general capital assets	(36,249,289)	
Infrastructure:		
Depreciable	465,959,564	
Accumulated depreciation on infrastructure	<u>(199,170,597)</u>	343,232,251

Other long-term assets are not available to pay for current-period expenditures and, therefore, are:

Deferred in the governmental funds, or	\$ 5,655,275	
Investments in joint ventures	<u>16,423,042</u>	22,078,317

Internal service funds are used by management to charge the costs of activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.

(9,277,625)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable and other long-term debt	\$ (89,414,538)	
Accrued interest	<u>(1,244,326)</u>	(90,658,864)

Net assets of governmental activities \$ 415,036,196

The notes to basic financial statements are an integral part of this statement.
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CITY OF MODESTO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year ended June 30, 2006

CITY OF MODESTO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
Year Ended June 30, 2006

	General	Capital Grants	Capital Facility Fees	Community Facility Districts	Other Governmental	Total Governmental
REVENUES:						
Taxes	\$ 47,349,236				\$ 5,467,360	\$ 52,816,596
Licenses and permits	96,081				50,773	146,854
Intergovernmental	48,205,287	\$ 2,854,861	\$ 112,128		13,587,382	64,759,658
Charges for services	14,953,869		12,186,244	\$ 4,615,308	6,046,728	37,802,149
Special assessments levied	65,909					65,909
Interest and rent	1,217,293		884,879	423,364	1,229,633	3,755,169
Net increase in fair value of investments	16,814		25,661	33,735	26,826	103,036
Fines and forfeits	877,376				798,550	1,675,926
Contribution from property owners				30,473,773		30,473,773
Miscellaneous	2,028,310			7,625	785,226	2,821,161
Total revenues	<u>114,810,175</u>	<u>2,854,861</u>	<u>13,208,912</u>	<u>35,553,805</u>	<u>27,992,478</u>	<u>194,420,231</u>
EXPENDITURES:						
Current:						
General government	13,336,716		96,077		678,742	14,111,535
Community development	5,146,011			1,884,276	5,265,785	12,296,072
Highways and streets		603,259	1,572,273		12,181,509	14,357,041
Public works	1,719,587				3,927,436	5,647,023
Parks and recreation	11,471,198	158,085	14,544		18,436	11,662,263
Public safety	72,205,341		6,413		2,316,121	74,527,875
Capital outlay	398,112	6,156,142	7,187,022	4,873,835	2,948,663	21,563,774
Debt service:						
Principal retirement	9,916		421,468		1,470,443	1,901,827
Interest	1,061		36,532		4,539,187	4,576,780
Other					618,742	618,742
Total expenditures	<u>104,287,942</u>	<u>6,917,486</u>	<u>9,334,329</u>	<u>6,758,111</u>	<u>33,965,064</u>	<u>161,262,932</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>10,522,233</u>	<u>(4,062,625)</u>	<u>3,874,583</u>	<u>28,795,694</u>	<u>(5,972,586)</u>	<u>33,157,299</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	2,111,925	2,295,683	969,002	65,806	12,282,302	17,724,718
Transfers out	(9,739,702)		(964,508)	(300,000)	(9,263,266)	(20,267,476)
Sale of Assets			6,000			6,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(7,627,777)</u>	<u>2,295,683</u>	<u>10,494</u>	<u>(234,194)</u>	<u>3,019,036</u>	<u>(2,536,758)</u>
NET CHANGE IN FUND BALANCES	2,894,456	(1,766,942)	3,885,077	28,561,500	(2,953,550)	30,620,541
FUND BALANCES, July 1	20,415,059	(2,669,258)	38,222,036	13,573,867	49,499,872	119,041,576
FUND BALANCES, June 30	<u>\$ 23,309,515</u>	<u>\$ (4,436,200)</u>	<u>\$ 42,107,113</u>	<u>\$ 42,135,367</u>	<u>\$ 46,546,322</u>	<u>\$ 149,662,117</u>

The notes to basic financial statements are an integral part of this statement.

Net change in fund balances - total governmental funds \$ 30,620,541

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 21,563,774	
Depreciation expense	<u>(14,984,083)</u>	6,579,691

In the statement of activities, only the gain or loss on the sales of capital assets is reported, whereas in the governmental funds, the proceeds from such sales increase financial resources. Thus, the change in net assets differs from the change in fund balances by the cost of the assets sold.

(1,595,152)

Developer donations of infrastructure assets are not included in the fund statements. Thus, the change in net assets differs from the change in fund balance by the value of these asset donations.

1,529,376

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred revenue	\$ 2,397,741	
Change in investment in joint venture	<u>(1,519,073)</u>	878,668

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Principal retirement		1,901,827
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in accrued interest		28,933
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.

4,690,678

Change in net assets of governmental activities	\$	<u><u>44,634,562</u></u>
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The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2006**

	Enterprise				Internal Service
	Water	Sewer	Enterprise	Total Enterprise	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 23,549,341	\$ 23,764,487	\$ 6,247,047	\$ 53,560,875	\$ 48,027,975
Cash and cash equivalents with fiscal agent	273,350	3,621,532	612,784	4,507,666	
Receivables:					
Accounts:	1,440	58,709	366,147	426,296	834,058
Interest	124,354	208,228	61,395	393,977	219,559
Utilities, net	5,292,161	2,440,681	558,412	8,291,254	
Taxes	3,940			3,940	
Due from governments		127,064	3,508,748	3,635,812	38,687
Prepaid expenses	1,003,000			1,003,000	
Inventories					516,919
Property held for resale			630,000	630,000	
Advances to other funds					1,903,476
Total current assets	<u>30,247,586</u>	<u>30,220,701</u>	<u>11,984,533</u>	<u>72,452,820</u>	<u>51,540,674</u>
Noncurrent assets:					
Restricted assets-cash and cash equivalents	664,110	363,101		1,027,211	
Unamortized costs of issuance	240,613	599,512		840,125	
Land and construction in progress	10,241,729	26,615,981	18,323,936	55,181,646	821,033
Other capital assets, net of accumulated depreciation	<u>65,827,962</u>	<u>104,251,720</u>	<u>59,461,089</u>	<u>229,540,771</u>	<u>18,917,891</u>
Total assets	<u>107,222,000</u>	<u>162,051,015</u>	<u>89,769,558</u>	<u>359,042,573</u>	<u>71,279,598</u>
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 818,584	\$ 341,524	\$ 1,255,849	\$ 2,415,957	\$ 1,516,490
Accrued salaries and benefits	68,500	99,803	59,505	227,808	84,435
Interest payable	275,213	302,907	55,798	633,918	
Current portion - compensated absences					2,769,104
Current portion - claims liability					5,156,560
Current portion - long-term debt	977,764	1,650,000	275,955	2,903,719	26,587
Current portion - developer advances	96,760			96,760	
Deferred revenues			2,124,426	2,124,426	
Total current liabilities	<u>2,236,821</u>	<u>2,394,234</u>	<u>3,771,533</u>	<u>6,402,588</u>	<u>9,553,176</u>
Noncurrent liabilities:					
Payable from restricted assets - refundable deposits	664,110	363,101		1,027,211	
Compensated absences					58,847,850
Claims liability					11,174,550
Long-term debt:					
Revenue bonds payable		35,192,020		35,192,020	
Loan payable	1,958,276			1,958,276	
Notes payable					144,446
Obligations under capital leases			151,633	151,633	
Certificates of participation	17,985,078		5,650,000	23,635,078	
Developer advances	2,081,001			2,081,001	
Total noncurrent liabilities	<u>22,688,465</u>	<u>35,555,121</u>	<u>5,801,633</u>	<u>64,045,219</u>	<u>70,166,846</u>
Total liabilities	<u>24,925,286</u>	<u>37,949,355</u>	<u>9,573,166</u>	<u>72,447,807</u>	<u>79,720,022</u>
NET ASSETS					
Invested in capital assets, net of related debt	55,148,573	94,025,681	71,707,437	220,881,691	19,567,891
Unrestricted	<u>27,148,141</u>	<u>30,075,979</u>	<u>8,488,955</u>	<u>65,713,075</u>	<u>(28,008,315)</u>
Total net assets	<u>\$ 82,296,714</u>	<u>\$ 124,101,660</u>	<u>\$ 80,196,392</u>	<u>286,594,766</u>	<u>\$ (8,440,424)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				837,201	
Net assets of business-type activities				<u>\$ 287,431,967</u>	

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
Year ended June 30, 2006**

	Enterprise				Internal Service
	Water	Sewer	Enterprise	Total Enterprise	
OPERATING REVENUES:					
Charges for services	\$ 42,639,348	\$ 23,057,564	\$ 13,450,725	\$ 79,147,637	\$ 73,979,591
Sales					2,616,588
Cost of sales					(2,604,232)
Miscellaneous		25,716	308,878	334,594	
Total operating revenues	<u>42,639,348</u>	<u>23,083,280</u>	<u>13,759,603</u>	<u>79,482,231</u>	<u>73,991,947</u>
OPERATING EXPENSES:					
Salaries and wages	3,921,478	4,991,009	3,574,322	12,486,809	4,072,026
Contractual services	1,716,729	2,791,417	10,808,264	15,316,410	1,013,441
Utilities	1,703,202	1,048,853	576,197	3,328,252	473,011
Maintenance and supplies	3,425,200	2,542,441	3,660,229	9,627,870	4,085,997
Water purchases	10,674,717			10,674,717	
Insurance	133,175	245,008	176,119	554,302	11,054,260
Claims expense					7,458,436
Employee benefits	1,427,839	1,852,398	1,290,449	4,570,686	37,751,321
Administration services	2,186,919	1,425,147	1,599,526	5,211,592	1,492,365
Allocated indirect administrative costs	1,049,489	760,932	684,216	2,494,637	264,010
Other	50,641	124,429	235,925	410,995	160,718
Depreciation	2,383,566	5,027,753	3,656,417	11,067,736	2,838,477
Total operating expenses	<u>28,672,955</u>	<u>20,809,387</u>	<u>26,261,664</u>	<u>75,744,006</u>	<u>70,664,062</u>
OPERATING INCOME (LOSS)	<u>13,966,393</u>	<u>2,273,893</u>	<u>(12,502,061)</u>	<u>3,738,225</u>	<u>3,327,885</u>
NONOPERATING REVENUES (EXPENSES)					
Operating grants			8,317,889	8,317,889	
Gain (Loss) on disposition of capital assets	(241,380)	(46,939)	(24,043)	(312,362)	(241,883)
Tax revenue			207,749	207,749	
Tax expense	(84,556)	(91,215)	(17,286)	(193,057)	
Interest income	487,165	694,320	161,180	1,342,665	895,959
Net increase in fair value of investments	14,009	32,123	7,089	53,221	20,310
Rental income	33,060	39,182	1,036,163	1,108,405	
Settlements and recoveries	1,334,259	2,450,036		3,784,295	
Interest expense	(1,209,884)	(2,034,714)	(321,587)	(3,566,185)	(11,541)
Amortization of costs of issuance	(13,839)	(35,265)		(49,104)	
Total nonoperating revenues (expenses)	<u>318,834</u>	<u>1,007,528</u>	<u>9,367,154</u>	<u>10,693,516</u>	<u>662,845</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>14,285,227</u>	<u>3,281,421</u>	<u>(3,134,907)</u>	<u>14,431,741</u>	<u>3,990,730</u>
Capital contributions	4,156,357	3,343,231	2,968,285	10,467,873	318,634
Transfers in		608,400	1,741,437	2,349,837	1,712,361
Transfers out	(95,385)	(715,603)	(122,059)	(933,047)	(586,393)
Special item	(715,185)	(1,020,869)		(1,736,054)	
CHANGE IN NET ASSETS	<u>17,631,014</u>	<u>5,496,580</u>	<u>1,452,756</u>	<u>24,580,350</u>	<u>5,435,332</u>
NET ASSETS, July 1	<u>64,665,700</u>	<u>118,605,080</u>	<u>78,743,636</u>	<u>(13,875,756)</u>	
NET ASSETS, June 30	<u>\$ 82,296,714</u>	<u>\$ 124,101,660</u>	<u>\$ 80,196,392</u>	<u>\$ (8,440,424)</u>	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				744,654	
Change in net assets of business-type activities				<u>\$ 25,325,004</u>	

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year ended June 30, 2006

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 41,033,042	\$ 23,086,747	\$ 14,635,268	\$ 78,755,057	\$ 1,076,798
Receipts from interfund services provided	797,367	119,091	23,910	940,368	72,377,540
Payments to suppliers	(18,027,267)	(6,229,721)	(13,430,505)	(37,687,493)	(16,163,026)
Payment of insurance claims					(5,089,127)
Payments to employees	(5,331,913)	(6,812,624)	(4,847,597)	(16,992,134)	(42,611,729)
Payments for interfund services used	(3,541,710)	(4,078,294)	(3,924,272)	(11,544,276)	(2,200,479)
Net cash provided (used) by operating activities	<u>14,929,519</u>	<u>6,085,199</u>	<u>(7,543,196)</u>	<u>13,471,522</u>	<u>7,389,977</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Operating grants received			6,593,915	6,593,915	
Taxes received			207,749	207,749	
Settlements and recoveries	1,334,259	2,450,036		3,784,295	
Transfers in		608,400	1,438,124	2,046,524	1,712,361
Transfers out	(95,385)	(1,643,481)	(122,059)	(1,860,925)	(586,393)
Repayments of advances to other funds					96,524
Net cash provided (used) by noncapital financing activities	<u>1,238,874</u>	<u>1,414,955</u>	<u>8,117,729</u>	<u>10,771,558</u>	<u>1,222,492</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(5,170,271)	(1,126,014)	(1,904,104)	(8,200,389)	(4,264,019)
Principal repayments	(1,033,670)	(990,000)	(262,899)	(2,286,569)	(45,588)
Interest paid	(1,123,749)	(1,926,462)	(323,310)	(3,373,521)	(11,541)
Capital grants received			1,550,637	1,550,637	
Connection fees for capital purposes	3,029,293	705,614		3,734,907	
Net cash used by capital and related financing activities	<u>(4,298,397)</u>	<u>(3,336,862)</u>	<u>(939,676)</u>	<u>(8,574,935)</u>	<u>(4,321,148)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	445,467	660,350	165,747	1,271,564	875,832
Net increase in the fair value of investments	14,009	32,123	7,089	53,221	20,310
Net cash provided by investing activities	<u>459,476</u>	<u>692,473</u>	<u>172,836</u>	<u>1,324,785</u>	<u>896,142</u>
Net increase (decrease) in cash and cash equivalents	12,329,472	4,855,765	(192,307)	16,992,930	5,138,677
CASH AND CASH EQUIVALENTS, JULY 1	<u>12,157,329</u>	<u>22,893,355</u>	<u>7,052,138</u>	<u>42,102,822</u>	<u>42,889,298</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 24,486,801</u>	<u>\$ 27,749,120</u>	<u>\$ 6,859,831</u>	<u>\$ 59,095,752</u>	<u>\$ 48,027,975</u>
RECONCILIATION TO STATEMENT OF NET ASSETS:					
Cash and cash equivalents	\$ 23,549,341	\$ 23,764,487	\$ 6,247,047	\$ 53,560,875	\$ 48,027,975
Cash and cash equivalents with fiscal agent	273,350	3,621,532	612,784	4,507,666	
Restricted assets-cash and cash equivalents	664,110	363,101		1,027,211	
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 24,486,801</u>	<u>\$ 27,749,120</u>	<u>\$ 6,859,831</u>	<u>\$ 59,095,752</u>	<u>\$ 48,027,975</u>

(continued)

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)
Year ended June 30, 2006

	Enterprise				Internal Service
	Water	Sewer	Other Enterprise	Total Enterprise	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 13,966,393	\$ 2,273,893	\$ (12,502,061)	\$ 3,738,225	\$ 3,327,885
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,383,566	5,027,753	3,656,417	11,067,736	2,838,477
Rental income	33,060	39,182	1,036,163	1,108,405	
Taxes paid	(84,556)	(91,215)	(17,084)	(192,855)	
Special item	(715,185)	(1,020,869)		(1,736,054)	
Change in assets and liabilities:					
(Increase) in accounts receivable	(1,440)	109,052	(38,880)	68,732	(537,609)
(Increase) in utilities receivable	(1,002,841)	(73,545)	(9,538)	(1,085,924)	
(Increase) in taxes receivable	(569)			(569)	
Decrease in notes receivable					3,096
(Increase) in prepaid expenses	(61,825)			(61,825)	
(Increase) in inventories					(141,322)
(Decrease) in accounts payable and accrued expenses	232,661	(257,704)	402,985	377,942	321,619
Increase in accrued salaries and benefits	17,404	30,783	17,174	65,361	31,873
Increase in compensated absences					(823,351)
(Decrease) in claims liability					2,369,309
Increase in deferred revenues			(88,372)	(88,372)	
Increase (decrease) in refundable deposits	162,851	47,869		210,720	
Total adjustments	<u>963,126</u>	<u>3,811,306</u>	<u>4,958,865</u>	<u>9,733,297</u>	<u>4,062,092</u>
Net cash provided (used) by operating activities	<u>\$ 14,929,519</u>	<u>\$ 6,085,199</u>	<u>\$ (7,543,196)</u>	<u>\$ 13,471,522</u>	<u>\$ 7,389,977</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:					
Capital assets transferred in	\$ 862,587	\$ 45,682	\$ 749,502	\$ 1,657,771	\$ 318,634
Developer infrastructure contributions	264,477	2,591,935	370,166	3,226,578	

The notes to basic financial statements are an integral part of this statement.

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The notes to basic financial statements are an integral part of this statement.

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CITY OF MODESTO
STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUNDS
 June 30, 2006

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 2,546,703
Cash and cash equivalents held with fiscal agent	4,512,890
	\$ 7,059,593
LIABILITIES	
Due to special district bondholders	\$ 5,763,312
Deposits held as agent for others	1,296,281
	\$ 7,059,593

CITY OF MODESTO
NOTES TO BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. THE FINANCIAL REPORTING ENTITY

The City of Modesto (the City) 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, drinking water, wastewater collection and treatment, storm drainage, public transit, recreation and social services, public improvements, community development, planning and zoning, and general administrative services.

These financial statements present the financial status of the City and its component units. The component units discussed in the following paragraphs are included in the City's reporting entity because the City is financially accountable for their operations.

1. The Redevelopment Agency of the City of Modesto (the Agency) was established by the City as a separate legal entity in accordance with state law. The purpose of the Agency is to encourage new investment and reinvestment within legally designated redevelopment areas in partnership with property owners.
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.
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.
4. The City of Modesto has established several Community Facilities Districts to provide funding and reimbursement mechanisms for public facilities and services required by each District Specific Plan. These Districts are the vehicles used to ensure that all landowners in the Districts contribute to the cost of public improvements. There are currently eight active Districts, which are combined for presentation in these financial statements. Individual component unit financial statements are prepared for each District.

Although these component units are legally separate from the City, they are reported on a blended basis as part of the primary government because their boards consist of all seven members of the City Council. Component unit financial statements may be obtained from the City's Finance Department.

The joint ventures and jointly governed organization described in Note III - E are not considered part of the reporting entity because the City is not financially accountable for their operations.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that

are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. BASIS OF PRESENTATION, BASIS OF ACCOUNTING, AND MEASUREMENT FOCUS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest expenditures 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.

Substantially all property taxes, taxpayer-assessed taxes (such as sales and use, utility users, business license, transient occupancy, franchise fees, and gas taxes), interest, special assessments levied, state and federal grants, and charges for current services are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Revenues from licenses, permits, and fines and forfeits are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Grants Fund accounts for receipts and disbursements of a variety of Governmental Fund capital grants.

The Capital Facility Fees Fund accounts for special fees collected on new building permits to be used for construction of growth related projects, including police department expansion, fire department expansion, expressway loop, street lights, parks, new traffic signals, city hall expansion, wastewater treatment, streets, public transportation, and air quality improvements.

The Community Facilities Districts Fund accounts for the construction of public improvements deemed to benefit properties against which special taxes are levied.

The City reports the following major proprietary funds:

The Water Fund accounts for all revenues collected by the City for the purpose of financing the construction, operation, and maintenance of the City water distribution system. Revenues are derived from water service charges and various installation fees.

The Sewer Fund accounts for revenues collected by the City for the purpose of financing the construction, operation, and maintenance of the City sewer system. Revenues include, but are not limited to, sewer service charges and sewer lateral charges.

Additionally, the City reports the following fund types:

Internal service funds account for fleet management, central services, technology and information services, insurance, employee benefits management, and building services provided to other departments or agencies of the City on a cost-reimbursement basis.

Agency funds account for cash and investments held by the City as agent for various assessment districts, governmental entities and non-public organizations. Agency funds cannot be major funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide – business-type activities and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are exchange or exchange-like transactions between functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. The Water and Sewer Funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Cash and Cash Equivalents

Cash and investments (including restricted assets) held in the City's investment pool are reported as cash and cash equivalents on the statement of net assets and balance sheet because funds can spend cash at any time without prior notice or penalty. All investments with fiscal agents are also considered cash equivalents because they are highly liquid and have maturities of 3 months or less at the time of purchase. Investments are stated at fair value. Valuations are obtained by using quotations obtained from independent published sources.

2. Restricted Assets - Cash and Cash Equivalents

Refundable deposits of the General Fund and the Community Facilities Districts Capital Projects Fund are classified as restricted assets – cash and cash equivalents on the governmental funds balance sheet because their use is restricted for repayment of those refundable deposits. Refundable deposits in the Water and Sewer funds are also classified as restricted assets on the proprietary funds statement of net assets.

3. Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at the end of the fiscal year are reported as either "due from/due to other funds" (amounts due within one year), or "advances to/from other funds" (non-current portions of interfund lending/borrowing transactions). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Advances to other funds are offset by a fund balance reserve in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All property taxes are collected and allocated by the County of Stanislaus to the various taxing entities. Property taxes are determined annually as of March 1 and attach as an enforceable lien on real property as of January 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The City participates in the County "Teeter Plan" method of property tax distribution. Under the Teeter Plan, the County remits property taxes to the City based on assessments, not on collections, according to the following schedule: 55 percent in December, 40 percent in April, and 5 percent at the end of the fiscal year. Property tax is recognized when it is available and measurable. The City considers property tax as available if it is received within 60 days after year-end.

Revenue from taxpayer-assessed taxes (sales and use, business license, transient occupancy, utility users, gas, and franchise fees) are accrued in the governmental funds when they are both measurable and available. The City considers these revenues available if they are received during the period when settlement of prior fiscal year accounts payable occurs. Historically, the majority of these taxes are received within 60 days of the fiscal year end; therefore, revenue from taxpayer-assessed taxes is accrued if it is received by August 31.

Grant and entitlement revenues are recorded as receivables in the funds when they are susceptible to accrual (i.e., when all eligibility requirements have been met). The corresponding governmental fund revenues are recorded when they become available, with the differences recorded as deferred revenue. The corresponding proprietary fund revenues are recorded as nonoperating revenues when the receivables are recorded. Some grant and entitlement revenues are not susceptible to accrual, in which case the corresponding revenues are recorded when received. The total amount due from governments for grants, entitlements, and shared receivables and revenues at June 30, 2006 is \$14,736,090.

Utility service accounts receivable are reported net of \$383,084 allowance for doubtful collections and include unbilled receivables using actual amounts billed in July for June services. Accounts receivable are reported net of \$1,061,498 allowance for doubtful collections, and are based on miscellaneous receivables from the City's invoice system as well as other receivables accrued at year end.

4. Inventories

Inventories of material and supplies held by proprietary funds are stated at average cost.

5. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an

initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation is recorded using the straight line method over the estimated useful lives of the assets, which are 75 years for pipelines, 30 years for buildings, 20 years for improvements, 12 years for buses, 10 years for furnishings and equipment, 2 to 10 years for vehicles, 30 to 50 years for streets, 20 years for signalization, and 50 years for bridges. Operating expenses include depreciation on all depreciable capital assets.

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.

6. Compensated Absences

All earned vacation, holiday, and compensating time, and a portion of accumulated sick leave payable upon termination or retirement, are accrued in the Employee Benefits Management Internal Service Fund as compensated absences. Estimated sick leave termination payments have been calculated using the Governmental Accounting Standards Board Statement 16 vesting method. Under this method, a liability is accrued for a portion of the sick leave balances of all employees who are currently eligible, or are assumed to become eligible in the future, to receive a payment for sick leave upon termination, as well as amounts set aside to pay future health care premiums. As of June 30, 2006, the total estimated liability for all compensated absences, including sick leave, is \$61,616,953. The estimated current portion of \$2,769,103 is funded by charges to all operating funds. The estimated long-term portion is \$58,847,850.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. OTHER SIGNIFICANT ACCOUNTING POLICIES

1. Employee Benefits

The City established the Employee Benefits Management Internal Service Fund to account for all compensated absences and non-insurance benefits. Insurance benefits for current employees are paid from the Insurance Internal Service Fund. The Employee Benefits Management Fund is reimbursed based on actual benefits paid and leave taken, through payroll charges to the City's operating funds. Leave earned but not taken is being funded over time by budgeted charges to the operating funds.

2. Interfund Transactions

The City transfers resources among funds in the course of normal operations. Interfund service provided and used, such as equipment pool rental, are accounted for as revenues and 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 are reported as transfers.

II. DETAILED NOTES

A. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is used by all funds. Each fund's portion of the City's cash and investment pool is displayed on the balance sheet and proprietary and fiduciary fund statements of net assets as "cash and cash equivalents." Each fund is allocated interest on average monthly cash balances held by the funds throughout the year. A majority of the interest from the Fleet Management Internal Service Fund is credited to the General Fund in accordance with the City's policy. Certain deposits held in trust are displayed on the governmental funds balance sheet and the proprietary funds statement of net assets as "restricted assets - 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 projects costs.

Investments Authorized by the California Government Code and the City's Investment Policy

The City's investment policy and the California Government Code allow the City to invest in the following types of instruments, and the table also identifies certain provisions of the California Government Code, or the City's investment policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
City of Modesto Bonds	5 years	N/A	None	None
U.S. Treasury Obligations	5 years	N/A	None	None
State of California Securities	5 years	AAA	None	None
California Municipal Securities	5 years	AAA	None	None
Federal Agency Securities	5 years	N/A	None	None
Bankers' Acceptances	180 days	N/A	40%	10% or \$1 million
Commercial Paper	270 days	Top rating category	25%	10%
Certificates of Deposit	1 year	N/A	20% of surplus	None
Negotiable Certificates of Deposit	5 years	AA	30%	None
Repurchase Agreements	90 days	Top rating category	None	None
Reverse Repurchase Agreements	92 days	N/A	20%	None
Medium Term Corporate Notes	5 years	AA -	30%	None
Money Market Funds	N/A	Top rating category	None	None
California Local Agency Investment Fund	N/A	N/A	None	None
Mortgage and Asset-Backed Securities	5 years	AA	20% of surplus	None

Investments are stated at fair value. The City's investment in the Local Agency Investment Fund (LAIF) is \$44,118,475. The value of the pool shares in LAIF, which may be withdrawn on demand, is determined on an amortized cost basis, which is not materially different than the fair value of the City's portion in the pool. The total amount invested by all public agencies in LAIF is \$63,366,260,064. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinance, bond indentures or State statute. All current bond indentures authorize the same investments as the City's investment policy. In addition some bond indentures authorize investments in guaranteed investment contracts with maturity dates of September 1, 2033 and November 1, 2016 and a repurchase agreement with a maximum maturity of May 27, 2013.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The following table summarizes the City's interest rate risk, based on maturity dates of various investments:

Investment Type	Total	Remaining Time to Maturity			
		Less Than 1 Year	1 – 2 Years	2 – 3 Years	Over 5 Years
U.S. Treasury Notes	\$24,465,131	\$4,943,750	\$16,509,790	\$3,011,591	
Federal agency securities					
Bonds	20,265,938	11,671,874	8,594,064		
Notes	64,154,962	32,592,295	11,075,574	20,487,093	
Discount notes	5,941,255	5,941,255			
Commercial Paper	38,739,006	38,739,006			
LAIF	44,118,475	44,118,475			
Cash in banks (overdraft)	(1,212,329)	(1,212,329)			
Held by trustee:					
Money market funds	3,254,702	3,254,702			
Commercial Paper	5,360,534	5,360,534			
U.S. Treasury Bill	1,684,559	1,684,559			
U.S. Treasury Notes	1,296,313	1,296,313			
Federal Agency discount Notes	13,661,439	13,661,439			
Federal agency securities notes	16,536,319	13,394,169	3,142,150		
Repurchase agreements	1,977,051				\$1,977,051
Guaranteed investment contracts	5,295,690				5,295,690
Total	\$245,539,045	\$175,446,042	\$39,321,578	\$23,498,684	\$7,272,741

Maturity dates for callable notes are based on call dates.

Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the rating as of June 30, 2006 for each investment type:

Investment Type	Total	Exempt from Disclosure	AAA and A-1+	Not Rated
U.S. Treasury Notes	\$24,465,131	\$24,465,131		
Federal agency securities	90,362,155		\$90,362,155	
Commercial Paper	38,739,006		38,739,006	
LAIF	44,118,475			44,118,475
Cash in banks (overdraft)	(1,212,329)	(1,212,329)		
Held by trustee:				
Money market funds	3,254,702		3,254,702	
Commercial Paper	5,360,534		5,360,534	
U.S. Treasury Bill	1,684,559	1,684,559		
U.S. Treasury Notes	1,296,313	1,296,313		
Federal Agency notes	13,661,439		13,661,439	
Federal agency securities notes	16,536,319		16,536,319	
Repurchase agreements	1,977,051			\$1,977,051
Guaranteed investment contracts	5,295,690			5,295,690
Total	\$245,539,045	\$26,233,674	\$167,914,155	\$51,391,216

Concentration of Credit Risk

The City's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total entity-wide investments are as follows at June 30, 2006:

Issuer	Investment Type	Reported Amount	Percent of Portfolio
Fannie Mae (FNMA)	Federal agency securities	\$35,714,087	15.0%
Freddie Mac (FHLMC)	Federal agency securities	53,751,134	22.5%
Federal Home Loan Bank	Federal agency securities	31,094,639	13.0%

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of governmental fund investments, fund level investments were as follows at June 30, 2006:

Issuer	Investment Type	Reported Amount
Community Facilities Districts:		
Fannie Mae (FNMA)	Federal agency securities	\$ 6,688,076
Freddie Mac (FHLMC)	Federal agency securities	14,024,225
Federal Home Loan Bank	Federal agency securities	2,889,469
Merrill Lynch	Commercial paper	2,338,729
Other Governmental Funds:		
AIGMFL Investment Agreement	Guaranteed investment contract	4,981,284
Lehman Government Securities	Repurchase agreement	1,977,051

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of enterprise funds were for the Sewer Enterprise Fund as follows at June 30, 2006:

Issuer	Investment Type	Reported Amount
Fannie Mae (FNMA)	Federal agency securities	\$3,453,839

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of Agency Fund investments were as follows at June 30, 2006:

Issuer	Investment Type	Reported Amount
Freddie Mac (FHMLC)	Federal agency securities	\$1,587,025
Fannie Mae (FNMA)	Federal agency securities	1,555,125
Credit Suisse First Boston	Commercial paper	700,571

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institution in the City's name.

The custodial credit risk for investments is the risk that, in the event of the failures of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's investment policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

B. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$22,081,279	\$1,439,327	\$ 538,125	\$22,982,481
Construction in progress	9,209,548	2,886,994		12,096,542
Total capital assets, not being depreciated	31,290,827	4,326,321	538,125	35,079,023
Capital assets, being depreciated:				
Buildings	28,504,623	2,724,322		31,228,945
Improvements other than buildings	36,813,148	1,075,864		37,889,012
Furnishings and equipment	16,253,004	2,029,250	320,837	17,961,417
Equipment pool	26,101,661	3,609,642	1,666,132	28,045,171
Streets	414,200,120	12,032,915	253,303	425,979,732
Signalization	13,399,019	827,281		14,226,300
Bridges	25,499,161	254,371		25,753,532
Total capital assets, being depreciated	560,770,736	22,553,645	2,240,272	581,084,109
Less accumulated depreciation for:				
Buildings	(9,191,100)	(895,746)		(10,086,846)
Improvements other than buildings	(19,823,045)	(1,396,993)		(21,220,038)
Furnishings and equipment	(8,702,588)	(1,418,489)	219,359	(9,901,715)
Equipment pool	(11,856,341)	(2,359,360)	1,402,940	(12,812,761)
Streets	(180,245,475)	(10,768,130)		(191,013,605)
Signalization	(6,698,268)	(944,299)		(7,642,567)
Bridges	(474,878)	(39,547)		(514,425)
Total accumulated depreciation	(236,991,695)	(17,822,561)	1,622,299	(253,191,957)
Total capital assets, being depreciated, net	323,779,041	4,731,084	617,973	327,892,152
Governmental activities capital assets, net	\$355,069,868	\$9,057,405	\$1,156,098	\$362,686,175
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$26,001,514	\$ 538,125		26,539,639
Construction in progress	21,150,540	7,763,333	\$271,906	28,642,007
Total capital assets, not being depreciated	47,152,054	8,301,498	271,906	55,181,646
Capital assets, being depreciated:				
Buildings	82,823,385	84,540		82,907,925
Improvements other than buildings	136,472,897	1,281,460		134,754,357
Furnishings and equipment	5,743,215	228,086		5,971,301
Buses and fareboxes	15,116,742	104,445		15,221,187
Pipelines	127,554,420	4,309,126		131,863,546
Total capital assets, being depreciated	367,710,659	6,007,657		373,718,316
Less accumulated depreciation for:				
Buildings	(32,061,065)	(2,524,290)		(34,585,355)
Improvements other than buildings	(72,275,148)	(5,615,932)		(77,891,080)
Furnishings and equipment	(2,588,703)	(489,590)		(3,078,293)
Buses and fareboxes	(6,202,113)	(821,077)		(7,023,190)
Pipelines	(19,982,780)	(1,616,847)		(21,599,627)
Total accumulated depreciation	(133,109,809)	(11,067,736)		(144,177,545)
Total capital assets, being depreciated, net	234,600,850	(5,060,079)		229,540,771
Business-type activities capital assets, net	\$281,752,904	\$3,241,419	\$271,906	\$284,722,417

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 97,218
Community development	83,778
Highways and streets, including depreciation of general infrastructure assets	11,818,154
Public works	981,022
Parks and recreation	359,275
Public safety	1,644,637
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	2,838,477
Total depreciation expense – governmental activities	\$17,822,561
Business-type activities:	
Parking	\$ 388,499
Water	2,383,566
Sewer	5,027,753
Storm Drain	577,784
Compost	65,227
Airport	411,413
Bus	1,125,709
Golf	311,818
Community center	775,967
Total depreciation expense – business-type activities	\$11,067,736

C. LONG-TERM DEBT

Loans Payable

Governmental activities:

Loan payable to the California Energy Commission for the purpose of reimbursing the City for costs of replacing incandescent bulbs for traffic signals with Light Emitting diodes (LED's); interest at 3%; semi-annual installments on December 22 and June 22, in the amount of \$20,776 , including interest, through June 22, 2007. \$ 40,634

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay master plan costs incurred by the City's Redevelopment Agency for the Kansas Avenue Business Park Project; no obligation to begin repayments until project is complete and revenue stream begins; final payment due in 2015 if not repaid sooner. 405,000

Total governmental activities loans payable \$ 445,634

Business-type activities:

Water Enterprise Fund:

Loan payable to the State of California Department of Water Resources, assumed from Del Este Water Company at acquisition, for purposes of upgrading the water delivery system; interest at 3.2%; semi-annual installments on April 1 and October 1 of \$132,360, including interest, through October 1, 2015. \$ 2,156,040

Annual debt service requirements to maturity for loans payable are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 40,634	\$917	\$ 197,764	\$ 66,955
2008			203,976	60,743
2009			210,745	53,974
2010			217,380	47,339
2011			224,343	40,376
2012-2016	405,000		1,101,832	89,404
Total	\$445,634	\$917	\$2,156,040	\$358,791

Certificates of Participation

Governmental activities:

1993 Refunding Certificates of Participation (Community Center Project); serial certificates with annual maturities on November 1, in amounts from \$835,000 to \$1,040,000; interest rates from 5.4% - 5.6%; term certificates at 5.6% in the amount of \$4,740,000 maturing November 1, 2014, and in the amount of \$12,235,000 at 5.0% maturing November 1, 2023, with annual payments of \$1,090,000 to \$1,610,000 beginning in 2011. \$ 21,655,000

Business-type activities:

Golf Enterprise Fund:

1993 Refunding Certificates of Participation (Golf Course Project); serial certificates with annual maturities on November 1, in amounts from \$205,000 to \$235,000; interest rates from 5.4% to 5.5%; term certificates at 5.6% in the amount of \$1,390,000 due November 1, 2014, and in the amount of \$3,585,000 at 5.0% due November 1, 2023, with annual payments ranging from \$250,000 to \$480,000 beginning in 2010. \$ 5,855,000

Water Enterprise Fund:

1997 Refunding Certificates of Participation (Water Utility System Project); serial certificates with annual maturities on October 1, in amounts from \$780,000 to \$1,050,000; interest rates from 4.625% to 5.0%; term certificates at 5.4% in the amount of \$6,145,000 maturing on October 1, 2017, and in the amount of \$7,965,000 at 5.43% maturing on October 1, 2022, with annual payments from \$1,015,000 to \$1,765,000 beginning in 2013. 20,450,000

Total principal balances – business-type activities 26,305,000

Less:
Unamortized bond discount – Water Enterprise Fund (385,551)
Deferred amount on refunding – Water Enterprise Fund (1,299,371)

Total business-type activities certificates of participation \$ 24,620,078

Annual debt service requirements to maturity for certificates of participation are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 835,000	\$ 1,111,365	\$ 985,000	\$ 1,313,655
2008	885,000	1,064,925	1,030,000	1,265,125
2009	935,000	1,015,318	1,080,000	1,213,460
2010	985,000	962,517	1,135,000	1,158,241
2011	1,040,000	906,310	1,195,000	1,099,103
2012-2016	6,080,000	3,574,330	7,005,000	4,476,789
2017-2021	6,295,000	1,968,125	9,060,000	2,427,601
2022-2024	4,600,000	352,750	4,815,000	283,981
Total	\$21,655,000	\$10,955,640	\$26,305,000	\$13,237,955

Lease Revenue Bonds – Governmental activities:

1997 Lease Revenue Bonds (John Thurman Field Renovation Project); term certificates bearing interest at 6.125% maturing November 1, 2016, with mandatory annual redemption of amounts from \$165,000 to \$305,000 on November 1. \$ 2,500,000

1998 Lease Revenue Bonds (Capital Improvements and Refinancing Project); serial certificates with annual maturities on September 1, in amounts from \$380,000 to \$910,000; interest payments at 4.1% to 4.8%; term certificates totaling \$55,305,000, maturing in 2016, 2020, 2024, 2029, and 2033, bearing interest rates of 4.75% to 5.125%, with annual payments beginning in 2014. Of the total principal, \$18,405,000 is payable through a reimbursement agreement with the Redevelopment Agency. 60,005,000

Total lease revenue bonds \$ 62,505,000

Annual debt service requirements to maturity for lease revenue bonds are as follows:

Year Ending June 30,	Principal	Interest
2007	\$ 545,000	\$ 3,124,228
2008	580,000	3,097,520
2009	635,000	3,068,427
2010	685,000	3,036,508
2011	795,000	3,000,224
2012-2016	5,835,000	14,231,419
2017-2021	8,335,000	12,386,365
2022-2026	12,675,000	9,855,349
2027-2031	18,575,000	6,011,083
2032-2034	13,845,000	1,088,678
Total	\$62,505,000	\$58,899,801

Revenue Bonds – Business-type activities:

Sewer Enterprise Fund:

Wastewater Treatment Facility Revenue Bonds, Series 2005 Series A and B; Series A (non-taxable) interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$575,000 to \$3,230,000, with interest rates from 3.0% to 5.25%; Series B (taxable) interest payable on November 1 and May 1; serial certificates with annual maturities on November 1, in amounts from \$1,075,000 to \$1,115,000, with interest rates from 4.14% to 4.40%. \$ 38,245,000

Plus: Unamortized bond premium 2,172,605

Less: Deferred amount on refunding (3,575,585)

Total business-type activities revenue bonds \$ 36,842,020

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30,	Principal	Interest
2007	\$ 1,650,000	\$1,786,563
2008	1,710,000	1,722,230
2009	1,660,000	1,663,875
2010	1,710,000	1,613,325
2011	1,765,000	1,543,550
2012-2016	10,290,000	6,262,625
2017-2021	13,165,000	3,410,544
2022-2023	6,295,000	334,819
Total	\$38,245,000	\$18,337,531

Notes Payable – Governmental activities:

Note payable to the Federal Housing and Development Department for the purpose of constructing the Neighborhood Center at Marshall Park and the expansion of the Maddux Youth Center; to be repaid using future Community Development Block Grant revenue; interest rates from 2.31% to 6.01%; semi-annual installments on August 1 and February 1 through August 2024.

\$4,364,000

Fleet Management Internal Service Fund:

Note payable for the acquisition of property related to the Police Fleet Shop; variable interest rate with a minimum of 6% and a maximum of 9%; monthly payments of \$3,010, including interest, through February 2012.

171,034

Total notes payable

\$4,535,034

Annual debt service requirements to maturity for these notes payable are as follows:

Year Ending June 30,	Principal	Interest
2007	\$ 169,588	\$ 238,940
2008	178,226	232,373
2009	187,968	224,759
2010	196,816	216,184
2011	207,778	206,685
2012-2016	1,026,658	881,955
2017-2021	1,286,000	572,603
2022-2025	1,282,000	157,947
Total	\$4,535,034	\$2,731,446

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Loans payable	\$ 485,077		\$ 39,443	\$ 445,634	\$ 40,634
Certificates of participation	22,455,000		800,000	21,655,000	835,000
Lease revenue bonds	63,000,000		495,000	62,505,000	545,000
Notes payable	4,696,076		161,042	4,535,034	169,588
Obligations under capital leases	896,833		451,929	444,904	444,904
Compensated absences	62,440,305	\$8,927,676	9,751,028	61,616,953	2,769,103
Claims liability	13,961,801	7,458,436	5,089,127	16,331,110	5,156,560
Governmental activities long-term liabilities	\$167,935,092	\$16,386,112	\$16,787,569	\$167,533,635	\$9,960,789
Business-type activities:					
Loan payable	\$ 2,347,602		\$191,562	\$ 2,156,040	\$ 197,764
Certificates of participation	27,240,000		935,000	26,305,000	985,000
Unamortized discounts	(407,726)		(22,175)	(385,551)	
Deferred amount on refunding	(1,374,107)		(74,736)	(1,299,371)	
Revenue bonds	39,235,000		990,000	38,245,000	1,650,000
Unamortized premium	2,300,405		127,800	2,172,605	
Deferred amount on refunding	(3,847,977)		(272,392)	(3,575,585)	
Capital lease	290,487		67,899	222,588	70,955
Developer advances	2,279,869		102,108	2,177,761	96,760
Business-type activities long-term liabilities	\$68,063,553		\$2,045,066	\$66,018,487	\$3,000,479

Principal balances are reported on the government-wide and enterprise funds statements of net assets net of unamortized issuance discounts and deferred amounts on refunding.

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$171,034 of internal service funds obligations under notes payable are included in the above amounts. Also, the compensated absences and claims liability balances relate to the internal service funds, and as such they are liquidated by the internal service funds.

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D. OBLIGATIONS UNDER CAPITAL LEASES

Governmental Funds:

The City has acquired ballfield parking lot lighting and land for a park under capital lease agreements. The related liability is included in obligations under capital leases under governmental activities. The following is a schedule of the future minimum lease payments on the capital lease as of June 30, 2006:

Year Ending June 30,	
2007	\$463,803
Total minimum lease payments	463,803
Less: amount representing interest	<u>(18,899)</u>
Present value of minimum lease payments	<u>\$444,904</u>

Assets subject to the above capital leases valued at \$2,062,962, net of \$34,787 accumulated depreciation, have been presented under governmental activities. Rental expenses incurred under operating leases are not material.

Enterprise Funds

Two wheel loaders, valued at \$371,458, net of \$44,520 accumulated depreciation, are being leased under a capital lease arrangement. The following is a schedule of the future minimum lease payments on this capital lease as of June 30, 2006:

Year Ending June 30,	
2007	\$ 80,971
2008	80,972
2009	<u>80,972</u>
Total minimum lease payments	242,915
Less: amount representing interest	<u>(20,327)</u>
Present value of minimum lease payments	<u>\$222,588</u>

E. DEVELOPER ADVANCES

The Del Este Water Company (Del Este) entered into various agreements with developers under which infrastructure components were either constructed on behalf of Del Este or cash was advanced to the company to construct the infrastructure. Agreements in existence at the time of the City's acquisition of Del Este were assumed by the City. The terms of repayment call for no interest, with principal paid over a 40-year period. As of June 30, 2006, the total outstanding balance due under the agreements is \$2,177,761. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2006, the amount of \$96,760 due during fiscal year 2007, has been reported as "current portion-developer advances" on the Proprietary Funds statement of net assets. The remaining \$2,081,001 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

F. INTERFUND BALANCES

Interfund balances as of June 30, 2006 consist of the following:

<u>Due to General Fund from:</u>	
Capital Grants Fund	\$4,443,000
Non Major Special Revenue Funds	1,129,000
Total due to/due from	<u>\$5,572,000</u>
<u>Advances from General Fund to:</u>	
Capital Facility Fees Fund	\$1,292,425
Other governmental funds	351,768
Total advances from General Fund	<u>1,644,193</u>
Advances from other governmental funds to Capital Facility Fees Fund	148,451
Advances from internal service funds to General Fund	<u>1,903,476</u>
Total advances from/advances to	<u>\$3,696,120</u>

All balances reported as "due to/due from" are short-term loans to cover temporary fund cash shortages as of June 30, 2006, and were repaid early in fiscal year 2007. Balances reported as "advance to/advance from" were for capital projects expenditures and are either in the process of being repaid or have scheduled repayments in future years. \$3,411,626 of advances are not currently scheduled for repayment during 2007.

G. RESERVES AND DESIGNATIONS OF FUND BALANCES

The City's reserves and designations at June 30, 2006 are comprised of the following:

	General	Capital Grants	Capital Facility Fees	Community Facility Districts	Other Governmental
Reserved for:					
Encumbrances	\$965,905	\$1,337,898	\$1,992,255	\$3,231,123	\$7,589,697
Loan programs and prepaids	92,283				13,368,534
Interfund advances	1,644,193				148,451
Set-aside requirement					4,245,482
Debt service					8,255,446
Total reserved	\$2,702,381	\$1,337,898	\$1,992,255	\$3,231,123	\$33,607,610
Designated for:					
Pending projects			\$40,114,858	\$38,904,244	\$14,930,006
Subsequent year expenditures	\$5,900,886				
Total designated	\$5,900,886		\$40,114,858	\$38,904,244	\$14,930,006

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 loan programs - Amounts equal to the outstanding housing program and small business notes receivable are reserved in the Housing and Community Development Fund Special Revenue Fund, General Fund and the Redevelopment Agency Capital Projects Fund.
3. Reserve for interfund advances - The City reserves an amount in each fund equal to the advances to other funds.
4. Reserve for Redevelopment Agency set-aside requirement - The portion of fund balance relating to State required low-to-moderate income housing set-aside, has been reserved in the Redevelopment Agency Capital Projects Fund.
5. Reserve for debt service - The total fund balances of the debt service funds are reserved for future debt service requirements.
6. Designation for pending projects - Designations for pending projects are established to fund projects approved but not yet appropriated.
7. Designation for subsequent year expenditures - Designations for subsequent year expenditures represent that portion of fund balance set aside for fiscal year 2006/07.

H. DEFICIT FUND EQUITY

The Capital Grants Capital Projects Fund has a deficit fund balance of \$4,436,200. Recognition of deferred revenue is expected to cure this deficit.

The Golf Enterprise Fund has a net assets deficit of \$1,474,655, due to a change in accounting policy several years ago, as well as revenues not keeping up with expenses. The City originally classified the 1993 Refunding Certificates of Participation as debt of the governmental funds, with construction proceeds transferred to the Golf Enterprise Fund when the certificates were issued. However, since the Golf Fund is paying, and is expected to continue paying, the entire debt service cost, it was decided that the balance of the debt should be recorded in the Golf fund. The Golf fund also is struggling due to competition and lagging revenues. Depreciation expense further contributes to the deficit.

The Employee Benefits Management Internal Service Fund has a net assets deficit of \$45,402,585. It exists partially because the total compensated absences balance previously classified as debt of the governmental funds was included in this fund at its inception several years ago, and has never been fully funded. In addition, the City normally contracts for an actuarial valuation of the sick leave liability on an annual basis. Because the City will be required to implement GASB 45, which will change the way post-retirement benefits are presented, it was decided that for this fiscal year the sick leave would again be estimated. The City is continuing to charge a higher benefit rate to help reduce this deficit. In addition, one-time revenues having to do with employee benefits are deposited to this fund.

I. INTERFUND TRANSFERS

The following is a schedule of interfund transfers.

Transfers to:	Transfers from:								Total
	General Fund	Capital Grants	Capital Facility Fees	Community Facility Districts	Other Govern mental	Sewer	Other Enterprise	Internal Service	
General Fund			\$565,772		\$6,120,902	\$608,400	\$1,059,288	\$1,386,150	\$9,739,702
Capital Facility Fees	\$345,000	\$112,542		\$60,755	120,000			326,211	964,508
Community Facility District			300,000						300,000
Other Governmental	1,480,779	2,183,141			5,583,817		15,529		9,263,266
Water	95,385								95,385
Sewer	171,932			5,051			538,620		715,603
Other Enterprise	18,829		103,230						122,059
Internal Service					458,393		128,000		586,393
Grand Total	\$2,111,925	\$2,295,683	\$969,002	\$65,806	\$12,282,302	\$608,400	\$1,741,437	\$1,712,361	\$21,786,916

In general, the City uses interfund transfers to (1) move revenues from the funds that collect them to the funds that statute or budget requires to expend them, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due.

J. NOTES RECEIVABLE

The notes receivable in the Other Governmental Funds of \$13,177,753, net of \$73,182, allowance 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 or 5 percent and, with a few exceptions, require no repayment of principal until the loans reach maturity.

The General Fund notes receivable of \$92,283 consist of small business loans. These notes were determined to be ineligible for federal grant funds; therefore, the General Fund purchased them from the Housing and Community Development Special Revenue Fund.

K. APPROVED LOANS PAYABLE

The approved loans payable in the Housing and Community Development Special Revenue Fund of \$589,219 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.

L. SPECIAL ITEMS

These expenses in the Water and Sewer Enterprise funds represent legal costs incurred in pursuit of mitigating damages from the manufacturers of perchlorethylene, or PCE, a common chemical used in the dry cleaning industry. This chemical has seeped into the groundwater through sewer lines when improperly disposed, and threatens the City's groundwater supplies. Modesto has been proactive in attempting to recover damages and future cleanup costs from the dry cleaners and their insurers, and has also instituted litigation with the manufacturers. In the current year the City received \$3,784,295 in insurance recoveries and settlements from some of the smaller defendants.

III. OTHER INFORMATION

A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The City maintains the Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for the following risks up to the maximum amount per claim as follows: workers' compensation \$750,000; liability \$1,000,000; employee disability \$216,000; and dental care \$1,200. In July 1995, the City dropped its self-insured health plan, and now offers a variety of commercial plans to its employees. The City purchases commercial insurance for property loss, airport liability, and for claims in excess of the preceding self-insured coverage amounts.

For liability claims, the City is one of twelve members of the Authority for California Cities Excess Liability (ACCEL) risk pool. This pool covers City claims between \$1,000,000 and \$4,000,000. The purpose of the pool is to spread the adverse effect of losses among the member agencies. The City contributes its pro rata share of anticipated losses to the pool. Should actual losses among participants be greater than anticipated, the City will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, the City will be refunded its pro rata share of the excess. Commercial insurance covers claims over \$5,000,000 in two excess layers of \$10,000,000 each, for an additional \$20,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past five fiscal years.

All operating funds participate in the program and make payments to the Insurance Fund based on historical cost and/or actuarial estimates of the amounts needed to pay prior and current year claims, and to allow accrual of estimated incurred but not reported claims and allocated loss adjustment expenses. Insurance premiums to

commercial insurers are also processed through the Insurance Fund. The total claims liability at June 30, 2006 is \$16,331,110 consisting of \$13,267,000 workers' compensation, \$2,599,000 general liability, \$305,535 dental, \$114,060 disability, and \$45,515 vision. Workers' compensation and general liability claims liabilities are estimated on an actuarial basis. The current portion of the total claims liability is estimated to be \$5,156,560 and the balance of \$11,174,550 is reported as a long-term liability on the statement of net assets. These claim estimates are based on the requirements of Governmental Accounting Standards Board Statement 10, and include estimated claims incurred but not yet reported and allocated loss adjustment expenses as of June 30, 2006. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2005 and June 30, 2006 were:

	Claims Liability July 1	Current-Year Claims and Changes in Estimates	Current-Year Claim Payments	Claims Liability June 30
2004-05	\$16,089,306	\$2,874,266	\$(5,001,771)	\$13,961,801
2005-06	\$13,961,801	\$7,458,436	\$(5,089,127)	\$16,331,110

B. COMMUNITY FACILITIES DEBT WITHOUT CITY COMMITMENT

Special assessment and community facilities districts have been established in various areas of the City to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements; these assessments are payable solely by the property owners over the term of the debt issued to finance the improvements. The City is not legally obligated to pay these debts or be the purchaser of last resort of foreclosed properties in the special assessment districts, nor is it obligated to advance City funds to repay this debt in the event of default by any property owners. The City functions as an agent for the property owners by collecting assessments and forwarding collections to trustees for payment to bond holders. At June 30, 2006, the balance of these districts' outstanding debt was as follows:

	Issue	Outstanding Amount
Village One #2 Community Facilities District		\$31,085,000
Fairview Village Community Facilities District		\$4,960,000

C. CONDUIT DEBT OBLIGATIONS

From time to time, the City has issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial, commercial, health care, and multiple-family housing facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from developer payments on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are considered conduit debt obligations and are not reported as liabilities in the accompanying financial statements.

As of June 30, 2006 there were seven series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing and health care facility bond issues, issued between 1993 and 2002, was \$44,960,000.

D. 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 effect on the financial statements beyond the amounts accrued in the Insurance Internal Service Fund.

The City receives funding from a number of federal, state and local grant programs, principally the Federal Highway Administration, Community Development Block Grants, and Federal Transit Administration grants.

These programs are subject to financial and compliance review by the grantors. Accordingly, the City's compliance with applicable grant requirements will be determined at some future date. 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 basic financial statements. Receipt of these federal, state and local grant revenues is not assured in the future.

The City has commitments of \$28,547,529 of June 30, 2006 for contracts awarded but not completed and other outstanding purchase orders. This amount consists of \$965,905 in the General Fund, \$1,337,898 in the Capital Grants Fund, \$1,992,256 in the Capital Facility Fees Fund, \$3,231,123 in the Community Facilities Districts Funds, \$7,589,697 in other governmental funds, \$11,563,255 in the enterprise funds, and \$1,867,391 in the internal service funds. Commitments of the governmental funds are recorded as fund balance reserves for encumbrances on the balance sheet. As of June 30, 2006, there are major contracts and other purchase orders outstanding for the 9th Street bridge replacement, various new parks, storm drain improvements, water and sewer system improvements, a sewer emergency repair, major street improvements, and the purchase of replacement trucks for the City fleet.

E. JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

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 the County Board of Supervisors, 2 members from the Modesto City Council, and 1 member from the Ceres City Council. 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 capital assets of TRRP based on the percentage of cumulative contributions paid. The City's contribution to TRRP was \$132,4861 for the fiscal year ended June 30, 2006. As of June 30, 2006 the City's investment in this joint venture was \$1,032,840, and is included in governmental activities on the statement of net assets. Financial statements for TRRP are prepared by the City of Modesto Finance Department.

Stanislaus Drug Enforcement Agency

Stanislaus County (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 the fiscal year ended June 30, 2006 was \$608,266, consisting of a \$209,038 cash contribution and in-kind services valued at \$399,228. The City's investment in this joint venture was estimated to be \$416,016as of June 30, 2006, based on the most recent available information. This amount is reported in governmental activities in the statement of net assets. Financial statements of the SDEA are prepared by the City of Modesto Finance Department.

City-County Capital Improvements and Financing Agency

The City and Stanislaus County formed the City-County Capital Improvements and Financing Agency (Agency) to provide for the design, construction, ownership, operation, management and financing of a City-County administration center located in Modesto's downtown redevelopment area. The governing body is a commission consisting of 2 members of the City Council, 2 members of the County Board of Supervisors, the County Chief Executive Officer, and the City Manager. The commission is responsible for developing an annual budget and determining the annual contribution rates, subject to approval by both the City and the County. The Stanislaus County Auditor Controller was the fiscal administrator during the construction phase, which was finalized at the end of June 2003. Since then, the City of Modesto has been the fiscal administrator. For the fiscal year ended June 30, 2006, the City's contribution to the Agency was \$631,986. The City's equity interest in the Agency is

\$14,974,186, equal to its fixed asset contributions to date net of depreciation, and is reported in governmental activities as investments in joint ventures in the Statement of Net Assets. Financial statements of the Agency will be available from the Agency after the initial audit of the Agency's books has been completed.

Stanislaus Waste-to-Energy Financing Agency

The City participates with Stanislaus County in the Stanislaus Waste-to-Energy Financing Agency (Agency). The Agency was created to provide financing for a facility that 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 members each from the County Board of Supervisors and the Modesto City Council. As of June 30, 2006, the City has no equity interest. Stanislaus County Treasurer's office prepares the Agency's financial statements.

Regional Fire Training Center

The City has entered into an agreement with the Yosemite Community College District (YCCD) and Stanislaus County for the use and management of the regional fire training center at Modesto Junior College. The executive board consists of the YCCD Chancellor, the President of Modesto Junior College, the City Manager of the City of Modesto, and the Chief Executive Officer of Stanislaus County. The YCCD is responsible for accounting and for monitoring the center's budget. All three entities share in the operating costs. Initial construction costs were paid by the YCCD from borrowed funds, with the City and County reimbursing a portion of these costs in exchange for future use of the center. The City has paid its share of the construction costs in full. Title to the constructed asset is held by the YCCD; therefore, the City has no equity interest.

F. TREATMENT AND DELIVERY AGREEMENT

In 1992, the City entered into a treatment and delivery agreement with the Modesto Irrigation District (MID) and the Del Este Water Company (Del Este). The City assumed Del Este's interest and obligations under the agreement when it acquired Del Este in July 1995. Under the agreement, MID built and operates a surface water treatment plant on the Tuolumne River for the purpose of providing a long-term source of domestic treated water for the City. MID is the sole owner of the project, and has all management and operations responsibility. In exchange for the treated water, the City has agreed to pay: all debt service on bonds issued by MID for the construction of the project; a raw water charge as set forth in the agreement; project operation, administration, and maintenance costs; and insurance on the project. Gross revenues of the City's Water Fund are irrevocably pledged for the punctual payment of the MID debt service and all obligations of the City under any parity debt. Current parity debt of the City consists of the 1997 Water System Improvement Project Refunding Certificates of Participation, and the California Safe Drinking Water Act loan (Note II-C). The minimum annual amount payable to MID, consisting of the debt service component only, is \$6,690,994. The treatment plant completed all tests and began commercial operations on May 15, 1995, at which time the City began paying for raw water and operations. The total cash paid to MID during the fiscal year ended June 30, 2006 was \$10,736,542, which is reported as "water purchases" expense on the proprietary funds statement of revenues, expenses and changes in net assets in the amount of \$10,674,717, and as prepaid expense of \$1,003,000. Prior year prepaid expense of \$941,175 reduced the amount of cash paid during the current fiscal year. The total outstanding on the MID bonds is \$76,710,000.

G. POST-RETIREMENT HEALTH CARE BENEFITS

In addition to the pension benefits described below in Note III-H, the City provides health care benefits to employees who retire from the City, under contractual agreements with all employee groups. All full-time employees, except firefighters who receive a cash payout, are eligible to set aside a percentage of accumulated sick leave upon retirement, to be used for payment of future health care premiums to a choice of four insurance plans. The City has no obligation to pay premiums for retirees with no accumulated sick leave. The estimated liability for current retirees' future premiums is \$14,534,598 as of June 30, 2006. The estimated current portion of \$1,659,707 is fully funded. The long-term portion \$12,874,891 is partially funded, with the balance being funded over time by charges to the City's operating funds. The current and long-term portions are reported in the Employee Benefits Management Fund as part of the compensated absences liability balances.

H. DEFINED BENEFIT PENSION PLAN

Plan Description

The City contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan, which acts as a common investment and administrative agent for participating public entities in California. CalPERS provides retirement and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814. An annual financial report for the City's portion of the plan is not available.

Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary, of which the City pays the majority on behalf of the employees. The City is required to contribute at an actuarially determined rate; the current rate is 9.029% of annual covered payroll for non-safety employees and 25.370% for safety employees. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost

For 2006, the City's annual pension cost of \$11,748,699 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual merit or seniority salary increases that vary by length of service, and (c) no post-retirement benefit increases. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the City's CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). The City's CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2005 was 32 years for both the miscellaneous and safety plans.

THREE-YEAR TREND INFORMATION FOR PERS – ALL PLANS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	\$4,348,620	100%	-
6/30/05	\$8,276,570	100%	-
6/30/06	\$11,748,699	100%	-

SCHEDULE OF FUNDING PROGRESS FOR PERS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Accrued Liability (A – B)	Funded Ratio (A/B)	Covered Payroll (C)	Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]
6/30/03:						
Misc.	\$194,253,457	\$198,259,563	\$(4,006,106)	98.0%	\$39,440,399	10.2%
Safety	208,797,417	237,995,854	(29,198,437)	87.7%	25,316,473	(115.3)%
6/30/04:						
Misc.	\$204,261,809	\$212,669,957	\$(8,408,148)	96.0%	\$41,083,600	20.5%
Safety	221,621,121	257,554,567	(35,933,446)	86.0%	29,085,514	(123.5)%
6/30/05:						
Misc.	\$218,307,677	\$231,079,054	\$12,771,377	94.5%	\$62,221,273	30.2%
Safety	239,178,942	273,741,974	34,563,032	87.4%	30,117,501	114.8%

I. SUBSEQUENT EVENTS

- On November 2, 2006, the City issued \$46,275,000 of Water Revenue Certificates of Participation. The proceeds of the certificates will be used to finance the acquisition and construction of various additions, betterments, extensions and improvements to the City's water system. The proceeds will also be used to fund a parity reserve fund and to provide for payment of the interest estimated to accrue on the certificates through October 1, 2007.
- On December 14, 2006, the City issued \$16,535,000 of Wastewater Revenue Bonds. The proceeds of the bonds will be used to finance the planning, design, acquisition, construction and improvement of its wastewater treatment and conveyance facilities. The proceeds will also be used to fund a parity reserve fund and pay the costs of issuance.
- In the 1950's and 1960's, the City operated a landfill facility outside the city limits. This facility was closed in 1968, to the standards in effect at that time. Testing has indicated that methane emissions in the area have recently exceeded State standards. The City is in the process of engaging a consultant to 1) assess the cause and magnitude of these methane emissions, and 2) develop and recommend a plan of mitigation. Potential costs of mitigation are not known at this time.

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF MODESTO
SCHEDULE OF REVENUES - BUDGET (GAAP BASIS)
AND ACTUAL - GENERAL FUND
Year ended June 30, 2006**

**CITY OF MODESTO
SCHEDULE OF EXPENDITURES BY FUNCTION - BUDGET
(GAAP BASIS) AND ACTUAL - GENERAL FUND
Year ended June 30, 2006**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
TAXES:				
Utility users tax	\$ 16,694,128	\$ 16,694,128	\$ 17,584,060	\$ 889,932
Property tax	12,840,000	15,128,738	14,318,747	(809,991)
Transient occupancy tax	2,217,721	2,217,721	2,181,467	(36,254)
Franchise tax	2,677,701	2,751,373	2,890,805	139,432
Business license tax	10,078,122	10,078,122	10,374,157	296,035
Total taxes	44,507,672	46,870,082	47,349,236	479,154
LICENSES AND PERMITS	154,440	154,440	96,081	(58,359)
INTERGOVERNMENTAL:				
Sales tax	22,204,353	22,204,353	22,287,940	83,587
In-lieu sales tax	6,888,771	7,339,967	7,339,967	
Motor vehicle license fees	10,385,000	12,044,703	14,986,883	2,942,180
State	1,913,000	2,420,678	2,605,856	185,178
County	148,600	148,600	245,808	97,208
Federal	295,000	308,804	86,129	(222,675)
Other intergovernmental	511,657	630,007	652,704	22,697
Total intergovernmental	42,346,381	45,097,112	48,205,287	3,108,175
CHARGES FOR SERVICES:				
General government	3,024,636	3,024,636	3,099,666	75,030
Community development	3,879,109	3,954,109	3,528,268	(425,841)
Public works	945,609	1,052,418	1,054,087	1,669
Parks and recreation	1,922,645	1,939,233	1,853,623	(85,610)
Public safety	1,466,014	1,858,195	2,268,970	410,775
Other current charges for services	263,000	263,000	263,000	
Indirect cost recovery	2,890,495	2,890,495	2,886,255	(4,240)
Total charges for services	14,391,508	14,982,086	14,953,869	(28,217)
SPECIAL ASSESSMENT	156,000	156,000	65,909	(90,091)
INTEREST AND RENT	512,530	559,963	1,217,293	657,330
NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS			16,814	16,814
FINES AND FORFEITURES	609,000	941,000	877,376	(63,624)
MISCELLANEOUS:				
Mandated cost recovery		100,000	227,254	127,254
Other	556,893	1,967,286	1,801,056	(166,230)
Total miscellaneous	556,893	2,067,286	2,028,310	(38,976)
Total revenues	\$ 103,234,424	\$ 110,827,969	\$ 114,810,175	\$ 3,982,206

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
General government:				
City council	\$ 213,253	\$ 213,253	\$ 194,297	\$ 18,956
Personnel/training	1,424,308	1,542,847	1,382,206	160,641
City manager	1,186,362	1,262,041	1,115,329	146,712
City attorney	1,806,534	3,043,626	2,898,489	145,137
City clerk/auditor	508,834	542,057	476,692	65,365
Finance	5,860,772	6,322,477	5,845,693	476,784
Other		1,205,702	1,457,450	(251,748)
Total general government	11,000,063	14,132,003	13,370,156	761,847
Community development	5,525,049	5,849,006	5,201,794	647,212
Public works:				
Engineering and Transportation Dept:				
Construction administration/permits	735,457	799,127	688,819	110,308
Engineering administration	1,024,723	1,157,164	1,030,768	126,396
Total public works	1,760,180	1,956,291	1,719,587	236,704
Parks and recreation:				
Operations and Maintenance Dept:				
Service and maintenance	5,820,624	5,918,250	5,173,051	745,199
Graffiti abatement	297,697	297,697	294,357	3,340
Community Services & Neighborhood Connection:				
Administration	783,575	815,162	741,999	73,163
Planning and development	514,749	461,549	448,734	12,815
Culture	1,288,596	1,318,798	1,280,629	38,169
Recreation division	2,930,130	3,015,585	2,983,009	32,576
Facilities	644,804	696,790	638,250	58,540
Total parks and recreation	12,280,175	12,523,831	11,560,029	963,802
Public safety:				
Fire protection	23,960,376	23,989,693	23,865,064	124,629
Police protection	48,510,517	49,159,177	48,560,335	598,842
Total public safety	72,470,893	73,148,870	72,425,399	723,471
Total expenditures by department	103,036,360	107,610,001	104,276,965	3,333,036
Debt service:				
Principal retirement	9,917	9,917	9,916	1
Interest	1,061	1,061	1,061	
Total debt service	10,978	10,978	10,977	1
Total expenditures	\$ 103,047,338	\$ 107,620,979	\$ 104,287,942	\$ 3,333,037

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The notes to required supplementary information are an integral part of this schedule
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The notes to required supplementary information are an integral part of this schedule
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**CITY OF MODESTO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006**

BUDGETARY INFORMATION - The City follows these procedures annually in establishing the budgetary data reflected in the budgetary comparison schedules:

1. 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 at specially scheduled sessions, which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.
3. Prior to July 1, the budget is legally adopted through passage of an ordinance. This budget is reported as the Original Budget in the budgetary comparison schedules.
4. During the fiscal year, changes to the adopted budget may be authorized, as follows:
 - a. Items requiring City Council action - appropriation of fund balance reserves; transfers of appropriations between funds; appropriation of any non-departmental revenue; new interfund loans or advances; and creation of new capital projects or increases to existing capital projects.
 - b. Items delegated to the City Manager - transfers between departments within funds; appropriation of unbudgeted departmental revenues; and approval of transfers that increase salary and benefit appropriations.
 - c. Items delegated to the Finance Director - approval authority over any changes in or transfers from budgeted allocations for Internal Service Fund charges.
 - d. Items delegated to Department Heads - allocation of departmental appropriations to line item level.
5. Formal budgetary accounting is employed as a management tool for all funds. Annual budgets are legally adopted and amended as required for the general, special revenue, enterprise and internal service funds. Project length budgets are adopted for the capital projects funds. All budgets are prepared on a basis consistent with generally accepted accounting principles (GAAP), and budgetary comparisons for the general and major special revenue funds are presented on this basis in the required supplementary information. A debt service payment schedule for the debt service funds is also approved as part of the budget process.
6. Budget amounts are reflected after all authorized amendments and revisions. This budget is reported as the Final Budget in the budgetary comparison schedules.
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 an entire department having multiple organizations within the same fund (e.g., Operations and Maintenance), or an entire fund (e.g., Downtown Improvement District). All departments and funds completed the year within their legally authorized expenditures. Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded to reserve the applicable appropriations, is employed in the governmental funds.

The City does, however, honor the contracts represented by year-end encumbrances and the subsequent year's appropriations provide authority to complete these transactions.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

Nonmajor Governmental Funds

Nonmajor Special Revenue Funds

Special Revenue Funds include funds which are restricted as to use by the Federal or State governments, and special purpose funds established by authority of the City Council. Nonmajor Special Revenue Funds include:

OPERATING GRANTS FUND – To account for a variety of governmental fund operating grants, including law enforcement grants.

LOCAL TRANSPORTATION FUND – To account for revenues and expenditures of Local Transportation Fund allocations for streets, urban trails, and non-motorized facilities. Allocations for the City bus system are reported directly in the Bus Enterprise Fund.

TRAFFIC SAFETY FUND – To account for receipts and expenditures of traffic safety fines.

SPECIAL GAS TAX STREET IMPROVEMENT FUND – To account for State-collected, locally-shared gas tax monies. These funds may be used for all street purposes including construction, purchase of rights-of-way, and maintenance.

DOWNTOWN IMPROVEMENT DISTRICT FUND – To account for the fiscal activities of Business Improvement Area A of the City of Modesto.

HOUSING AND COMMUNITY DEVELOPMENT FUND – To account for grants and other monies received and disbursed for projects developed and administered under the Housing and Community Development Act of 1974.

STRATEGIC PLANNING AND DEVELOPMENT FUND – Established to provide a funding source for future village planning, general plan update and other large expenses related to planning and development. This fund was originally financed with an apportionment of the PERS rebate related to AB702. Subsequent funding has been provided by transfers from the General Fund. Future funding will be provided by fees imposed on private development.

Nonmajor Capital Projects Funds

Capital Projects 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. Nonmajor Capital Projects Funds include:

SPECIAL FUND FOR CAPITAL OUTLAYS – To account for capital outlay authorized by the City Council. No monies placed in this fund are to be disbursed except for this purpose unless authorized by a vote of the people.

PARKS FUND – To account for a discretionary transfer of General Fund property tax revenue to provide for the development of parks within the City, as directed by the City Council.

McHENRY MANSION RESTORATION FUND – To account for donations and other revenues received and appropriated for the purpose of restoring the McHenry Mansion.

REDEVELOPMENT AGENCY FUND – To account for the construction of capital projects financed by the Redevelopment Agency of the City of Modesto.

IMPROVEMENT DISTRICTS FUND – To account for the construction of public improvements deemed to benefit properties against which special assessments are levied.

Nonmajor 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. Nonmajor Debt Service Funds include:

REDEVELOPMENT AGENCY FUND – To account for certificates of participation issued to finance the acquisitions and construction of the Modesto Centre Plaza.

PUBLIC FINANCING AUTHORITY FUND – To account for payment of debt issued to finance projects authorized by the Modesto Public Financing Authority.

CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	Special Revenue							Capital Projects				
	Operating Grants	Local Transportation	Traffic Safety	Special Gas Tax Street Improvement	Downtown Improvement District			Housing and Community Development	Strategic Planning and Development	Special Fund for Capital Outlays	Parks	McHenry Mansion Restoration
ASSETS												
Cash and cash equivalents	\$ 691,189	\$ 353	\$ 200,667	\$ 6,300,726	\$ 57,188	\$ 2,382,261	\$ 1,641,097	\$ 1,913,617	\$ 1,406,735	\$ 6,352	\$ 6,141,457	\$ 27,597
Cash and cash equivalents with fiscal agent						3,793,980						
Receivables:												
Accounts	386,283					80,710						
Interest	6,232	15,965		31,225	2,409	6,750	7,160	5,816	4,833	191	15,757	
Utilities, net	8,364			23,142								
Taxes				206,773								
Due from governments	930,967	3,088,176		556,156		437,577						
Notes receivable, net						12,245,270					932,483	
Prepaid expenses/deposits											780,000	
Advances to other funds								148,451				
Total assets	\$ 2,023,035	\$ 3,104,494	\$ 200,667	\$ 7,118,022	\$ 59,597	\$ 18,946,548	\$ 1,648,257	\$ 2,067,884	\$ 1,411,568	\$ 6,543	\$ 7,869,697	\$ 27,597
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable	\$ 160,709	\$ 31,310	\$ 27,727	\$ 611,927		\$ 158,519	\$ 16,231	\$ 146,425	\$ 30		\$ 7,524	\$ 27,597
Accrued salaries and benefits	57,912			67,758		10,127						
Due to other funds		1,129,000										
Approved loans payable						589,219						
Deferred revenues	619,951	1,934,910		243,389								
Refundable deposits											1,000	
Advances from other funds									351,768			
Total liabilities	838,572	3,095,220	27,727	923,074		757,865	16,231	146,425	351,798		8,524	27,597
Fund balances:												
Reserved for:												
Encumbrances	74,591	2,522		962,607		17,407	1,297,449	4,880,926			354,195	
Loan programs and prepaids						11,656,051					1,712,483	
Interfund advances								148,451				
Set-aside requirement											4,245,482	
Debt service												
Unreserved/designated for:												
Pending projects			172,940	5,232,341	\$ 59,597	6,515,225	334,577		1,059,770	\$ 6,543	1,549,013	
Unreserved/undesignated	1,109,872	6,752						(3,107,918)				
Total fund balances	1,184,463	9,274	172,940	6,194,948	59,597	18,188,683	1,632,026	1,921,459	1,059,770	6,543	7,861,173	
Total liabilities and fund balances	\$ 2,023,035	\$ 3,104,494	\$ 200,667	\$ 7,118,022	\$ 59,597	\$ 18,946,548	\$ 1,648,257	\$ 2,067,884	\$ 1,411,568	\$ 6,543	\$ 7,869,697	\$ 27,597

(continued)

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CITY OF MODESTO
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)
June 30, 2006

	Debt Service		Total
	Redevelopment Agency	Public Financing Authority	
ASSETS			
Cash and cash equivalents	\$ 1,224,854		\$ 21,994,093
Cash and cash equivalents with fiscal agent	1,979,630	\$ 5,298,886	11,072,496
Receivables:			
Accounts			466,993
Interest	61,863		158,201
Utilities, net			31,506
Taxes	298,070		504,843
Due from governments			5,012,876
Notes receivable, net			13,177,753
Prepaid expenses/deposits			780,000
Advances to other funds			148,451
Total assets	\$ 3,564,417	\$ 5,298,886	\$ 53,347,212
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 607,857		\$ 1,795,856
Accrued salaries and benefits			135,797
Due to other funds			1,129,000
Approved loans payable			589,219
Deferred revenues			2,798,250
Refundable deposits			1,000
Advances from other funds			351,768
Total liabilities	607,857		6,800,890
Fund balances:			
Reserved for:			
Encumbrances			7,589,697
Loan programs			13,368,534
Interfund advances			148,451
Set-aside requirement			4,245,482
Debt service	2,956,560	\$ 5,298,886	8,255,446
Unreserved/designated for:			
Pending projects			14,930,006
Unreserved/undesignated			(1,991,294)
Total fund balances	2,956,560	5,298,886	46,546,322
Total liabilities and fund balances	\$ 3,564,417	\$ 5,298,886	\$ 53,347,212

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CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2006

	Special Revenue						Capital Projects					
	Operating Grants	Local Transportation	Traffic Safety	Special Gas Tax Street Improvement	Downtown Improvement District		Housing and Community Development	Strategic Planning and Development				
REVENUES:												
Taxes				\$ 802,502	\$ 214,022							\$ 2,268,387
Licenses and permits	\$ 44,000			6,773								
Intergovernmental	1,943,352	\$ 2,711,734		5,614,266		\$ 3,151,545		\$ 166,485				
Charges for services	3,111,846			1,585,804		97,545	\$ 1,226,000	4,878	\$ 20,655			
Interest and rent	36,552	19,618		74,855	1,265	300,545	40,385	75,352	21,820	\$ 140	122,703	
Net increase (decrease) in fair value of investments	6,592	705		1,144	36	11,029	994	988	531	4	2,676	
Fines and forfeits	5,280		\$ 793,270									
Miscellaneous	495,355			78,391		21,687	111,164	31,500	47,129			
Total revenues	<u>5,642,977</u>	<u>2,732,057</u>	<u>793,270</u>	<u>8,163,735</u>	<u>215,323</u>	<u>3,582,351</u>	<u>1,378,543</u>	<u>279,203</u>	<u>90,135</u>	<u>144</u>	<u>2,393,766</u>	
EXPENDITURES:												
Current:												
General government	678,742											
Community development					200,743	2,940,389	1,266,621				830,436	\$ 27,596
Highways and streets		20,779		12,160,034				696				
Public works	3,784,471							142,965				
Parks and recreation	10,152								8,284			
Public safety	1,955,764		360,357									
Capital outlay:												
General government												
Community development						429,126		14,411				
Highways and streets		377,428		1,302,346								
Public works		1,658										
Parks and recreation	321,134							93,947	141,863			
Public safety	88,336							178,414				
Debt service:												
Principal retirement				39,443		136,000						
Interest				2,110		233,180						
Other												
Total expenditures	<u>6,838,599</u>	<u>399,865</u>	<u>360,357</u>	<u>13,503,933</u>	<u>200,743</u>	<u>3,738,695</u>	<u>1,266,621</u>	<u>430,433</u>	<u>150,147</u>		<u>830,436</u>	<u>27,596</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,195,622)</u>	<u>2,332,192</u>	<u>432,913</u>	<u>(5,340,198)</u>	<u>14,580</u>	<u>(156,344)</u>	<u>111,922</u>	<u>(151,230)</u>	<u>(60,012)</u>	<u>144</u>	<u>1,563,330</u>	<u>(27,596)</u>
OTHER FINANCING SOURCES (USES):												
Transfers in	1,349,628			5,157,376				91,755	898,293			
Transfers out		(2,322,918)	(1,130,000)	(574,189)		(1,462,886)	(300,000)	(850,579)	(330,330)		(1,399,212)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,349,628</u>	<u>(2,322,918)</u>	<u>(1,130,000)</u>	<u>4,583,187</u>		<u>(1,462,886)</u>	<u>(300,000)</u>	<u>(758,824)</u>	<u>567,963</u>		<u>(1,399,212)</u>	
NET CHANGE IN FUND BALANCES	<u>154,006</u>	<u>9,274</u>	<u>(697,087)</u>	<u>(757,011)</u>	<u>14,580</u>	<u>(1,619,230)</u>	<u>(188,078)</u>	<u>(910,054)</u>	<u>507,951</u>	<u>144</u>	<u>164,118</u>	<u>(27,596)</u>
FUND BALANCES, July 1	1,030,457			870,027	6,951,959	19,807,913	1,820,104	2,831,513	551,819	6,399	7,697,055	27,596
FUND BALANCES, June 30	<u>\$ 1,184,463</u>	<u>\$ 9,274</u>	<u>\$ 172,940</u>	<u>\$ 6,194,948</u>	<u>\$ 59,597</u>	<u>\$ 18,188,683</u>	<u>\$ 1,632,026</u>	<u>\$ 1,921,459</u>	<u>\$ 1,059,770</u>	<u>\$ 6,543</u>	<u>\$ 7,861,173</u>	<u>\$</u>

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CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (Continued)
Year ended June 30, 2006

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - OPERATING GRANTS SPECIAL REVENUE FUND
Year ended June 30, 2006

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	Debt Service		
	Redevelopment Agency	Public Financing Authority	Total
REVENUES:			
Taxes	\$ 2,182,449		\$ 5,467,360
Licenses and permits			50,773
Intergovernmental			13,587,382
Charges for services			6,046,728
Interest and rent	268,774	\$ 267,624	1,229,633
Net increase (decrease) in fair value of investments	2,127		26,826
Fines and forfeits			798,550
Miscellaneous			785,226
Total revenues	<u>2,453,350</u>	<u>267,624</u>	<u>27,992,478</u>
EXPENDITURES:			
Current:			
General government			678,742
Community development			5,265,785
Highways and streets			12,181,509
Public works			3,927,436
Parks and recreation			18,436
Public safety			2,316,121
Capital outlay:			
General government			14,411
Community development			429,126
Highways and streets			1,679,774
Public works			1,658
Parks and recreation			556,944
Public safety			266,750
Debt service:			
Principal retirement	800,000	495,000	1,470,443
Interest	1,155,110	3,148,787	4,539,187
Other	610,706	8,036	618,742
Total expenditures	<u>2,565,816</u>	<u>3,651,823</u>	<u>33,965,064</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(112,466)</u>	<u>(3,384,199)</u>	<u>(5,972,586)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	1,399,212	3,386,038	12,282,302
Transfers out	<u>(893,152)</u>		<u>(9,263,266)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>506,060</u>	<u>3,386,038</u>	<u>3,019,036</u>
NET CHANGE IN FUND BALANCES	393,594	1,839	(2,953,550)
FUND BALANCES, July 1	2,562,966	5,297,047	49,499,872
FUND BALANCES, June 30	<u>\$ 2,956,560</u>	<u>\$ 5,298,886</u>	<u>\$ 46,546,322</u>

	Budget			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Licenses and permits	\$ 50,000	\$ 50,000	\$ 44,000	\$ (6,000)
Intergovernmental	3,629,019	4,724,725	1,943,352	(2,781,373)
Charges for services	2,959,169	3,132,208	3,111,846	(20,362)
Interest and rent - interest			36,552	36,552
Net increase in fair value of investments			6,592	6,592
Fines and forfeits	300	300	5,280	4,980
Miscellaneous	362,665	377,065	495,355	118,290
Total revenues	<u>7,001,153</u>	<u>8,284,298</u>	<u>5,642,977</u>	<u>(2,641,321)</u>
EXPENDITURES:				
General government	1,178,630	1,244,990	678,742	566,248
Public works	4,093,257	4,525,644	3,784,471	741,173
Parks and recreation	53,740	577,020	331,286	245,734
Public safety	3,474,801	4,029,091	2,044,100	1,984,991
Total expenditures	<u>8,800,428</u>	<u>10,376,745</u>	<u>6,838,599</u>	<u>3,538,146</u>
DEFICIENCY OF REVENUES (UNDER) EXPENDITURES	<u>(1,799,275)</u>	<u>(2,092,447)</u>	<u>(1,195,622)</u>	<u>896,825</u>
OTHER FINANCING SOURCES:				
Transfers in	1,353,211	1,353,211	1,349,628	(3,583)
NET CHANGE IN FUND BALANCE	(446,064)	(739,236)	154,006	893,242
FUND BALANCES, JULY 1	1,030,457	1,030,457	1,030,457	
FUND BALANCES, JUNE 30	<u>\$ 584,393</u>	<u>\$ 291,221</u>	<u>\$ 1,184,463</u>	<u>\$ 893,242</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - LOCAL TRANSPORTATION SPECIAL REVENUE FUND
Year ended June 30, 2006

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - TRAFFIC SAFETY SPECIAL REVENUE FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 3,357,708	\$ 3,357,708	\$ 2,711,734	\$ (645,974)
Interest and rent - interest			19,618	19,618
Net increase in fair value of investments			705	705
Total revenues	<u>3,357,708</u>	<u>3,357,708</u>	<u>2,732,057</u>	<u>(625,651)</u>
EXPENDITURES:				
Highways and streets	1,520,879	1,520,879	398,207	1,122,672
Parks and recreation	1,658	1,658	1,658	
Total expenditures	<u>1,522,537</u>	<u>1,522,537</u>	<u>399,865</u>	<u>1,122,672</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,835,171</u>	<u>1,835,171</u>	<u>2,332,192</u>	<u>497,021</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(2,377,000)	(2,285,094)	(2,322,918)	(37,824)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,377,000)</u>	<u>(2,285,094)</u>	<u>(2,322,918)</u>	<u>(37,824)</u>
NET CHANGE IN FUND BALANCE	(541,829)	(449,923)	9,274	459,197
FUND BALANCES, JULY 1				
FUND BALANCE (DEFICITS), JUNE 30	<u>\$ (541,829)</u>	<u>\$ (449,923)</u>	<u>\$ 9,274</u>	<u>\$ 459,197</u>

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Motor vehicle fines	\$ 825,000	\$ 825,000	\$ 793,270	\$ (31,730)
EXPENDITURES:				
Public safety		502,738	360,357	142,381
EXCESS OF REVENUES OVER EXPENDITURES	<u>825,000</u>	<u>322,262</u>	<u>432,913</u>	<u>(174,111)</u>
OTHER FINANCING USES:				
Transfers out	(1,130,000)	(1,130,000)	(1,130,000)	
NET CHANGE IN FUND BALANCE	(305,000)	(807,738)	(697,087)	(174,111)
FUND BALANCES, JULY 1	870,027	870,027	870,027	
FUND BALANCES, JUNE 30	<u>\$ 565,027</u>	<u>\$ 62,289</u>	<u>\$ 172,940</u>	<u>\$ (174,111)</u>

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CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - SPECIAL
GAS TAX STREET IMPROVEMENT SPECIAL REVENUE FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental:				
State grants	\$ 3,693,720	\$ 4,359,444	\$ 4,476,986	\$ 117,542
Federal grants	782,603	782,603	1,137,280	354,677
Other grants	100	100		(100)
Total intergovernmental revenues	<u>4,476,423</u>	<u>5,142,147</u>	<u>5,614,266</u>	<u>472,119</u>
Taxes	700,000	788,961	802,502	13,541
Licenses and permits	10,724	10,724	6,773	(3,951)
Charges for services	1,302,713	1,581,713	1,585,804	4,091
Interest and rent			74,855	74,855
Net decrease in fair value of investments			1,144	1,144
Miscellaneous	21,328	49,165	78,391	29,226
Total revenues	<u>6,511,188</u>	<u>7,572,710</u>	<u>8,163,735</u>	<u>591,025</u>
EXPENDITURES:				
Current:				
Highway and streets	13,354,741	14,735,748	13,462,380	1,273,368
Debt service:				
Principal retirement	39,443	39,443	39,443	
Interest	2,110	2,110	2,110	
Total expenditures	<u>13,396,294</u>	<u>14,777,301</u>	<u>13,503,933</u>	<u>1,273,368</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(6,885,106)</u>	<u>(7,204,591)</u>	<u>(5,340,198)</u>	<u>1,864,393</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	5,128,227	5,128,227	5,157,376	29,149
Transfers out	(86,882)	(87,082)	(574,189)	(487,107)
TOTAL OTHER FINANCING SOURCES (USES)	<u>5,041,345</u>	<u>5,041,145</u>	<u>4,583,187</u>	<u>(457,958)</u>
NET CHANGE IN FUNDS BALANCE	(1,843,761)	(2,163,446)	(757,011)	1,406,435
FUND BALANCES, JULY 1	<u>6,951,959</u>	<u>6,951,959</u>	<u>6,951,959</u>	
FUND BALANCES, JUNE 30	<u>\$ 5,108,198</u>	<u>\$ 4,788,513</u>	<u>\$ 6,194,948</u>	<u>\$ 1,406,435</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - DOWNTOWN
IMPROVEMENT DISTRICT SPECIAL REVENUE FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes - business license tax	\$ 210,000	\$ 210,000	\$ 214,022	\$ 4,022
Interest and rent - interest	500	500	1,265	765
Net increase in fair value of investments			36	36
Total revenues	<u>210,500</u>	<u>210,500</u>	<u>215,323</u>	<u>4,823</u>
EXPENDITURES - community development				
Downtown improvement district administration:				
Professional and contractual services	160,260	165,260	166,239	(979)
Materials and supplies	7,500	7,500	7,092	408
Other	28,000	28,000	27,412	588
Total expenditures	<u>195,760</u>	<u>200,760</u>	<u>200,743</u>	<u>17</u>
NET CHANGE IN FUND BALANCE	14,740	9,740	14,580	4,840
FUND BALANCES, JULY 1	<u>45,017</u>	<u>45,017</u>	<u>45,017</u>	
FUND BALANCES, JUNE 30	<u>\$ 59,757</u>	<u>\$ 54,757</u>	<u>\$ 59,597</u>	<u>\$ 4,840</u>

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CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - HOUSING
AND COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental - federal grants	\$ 4,332,932	\$ 4,646,202	\$ 3,151,545	\$ (1,494,657)
Charges for services	127,496	127,496	97,545	(29,951)
Interest and rent - interest	400,000	420,000	300,545	(119,455)
Net increase in fair value of investments			11,029	11,029
Miscellaneous			21,687	21,687
Total revenues	<u>4,860,428</u>	<u>5,193,698</u>	<u>3,582,351</u>	<u>(1,611,347)</u>
EXPENDITURES - community development				
Housing program	2,764,933	2,625,203	1,925,183	700,020
Removal of architectural barriers	2,539,173	2,999,689	1,444,332	1,555,357
Debt service:				
Principal retirement	136,000	136,000	136,000	
Interest	233,180	233,180	233,180	
Total expenditures	<u>5,673,286</u>	<u>5,994,072</u>	<u>3,738,695</u>	<u>2,255,377</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(812,858)</u>	<u>(800,374)</u>	<u>(156,344)</u>	<u>644,030</u>
OTHER FINANCING USES:				
Transfers out		(1,624,669)	(1,462,886)	161,783
TOTAL OTHER FINANCING SOURCES (USES)		<u>(1,624,669)</u>	<u>(1,462,886)</u>	<u>161,783</u>
NET CHANGE IN FUND BALANCE	(812,858)	(2,425,043)	(1,619,230)	805,813
FUND BALANCES, JULY 1	<u>19,807,913</u>	<u>19,807,913</u>	<u>19,807,913</u>	
FUND BALANCES, JUNE 30	<u>\$ 18,995,055</u>	<u>\$ 17,382,870</u>	<u>\$ 18,188,683</u>	<u>\$ 805,813</u>

CITY OF MODESTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - STRATEGIC
PLANNING AND DEVELOPMENT SPECIAL REVENUE FUND
Year ended June 30, 2006

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 1,294,509	\$ 1,294,509	\$ 1,226,000	\$ (68,509)
Interest and rent - interest			40,385	40,385
Net increase in fair value of investments			994	994
Miscellaneous	111,114	111,114	111,164	50
Total revenues	<u>1,405,623</u>	<u>1,405,623</u>	<u>1,378,543</u>	<u>(27,080)</u>
EXPENDITURES:				
Community development		3,272,595	1,266,621	2,005,974
Total expenditures		<u>3,272,595</u>	<u>1,266,621</u>	<u>2,005,974</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,405,623	(1,866,972)	111,922	1,978,894
OTHER FINANCING USES:				
Transfers out	(300,000)	(300,000)	(300,000)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>(300,000)</u>	<u>(300,000)</u>	<u>(300,000)</u>	
NET CHANGE IN FUND BALANCE	1,105,623	(2,166,972)	(188,078)	1,978,894
FUND BALANCES, JULY 1	<u>1,820,104</u>	<u>1,820,104</u>	<u>1,820,104</u>	
FUND BALANCES, JUNE 30	<u>\$ 2,925,727</u>	<u>\$ (346,868)</u>	<u>\$ 1,632,026</u>	<u>\$ 1,978,894</u>

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Nonmajor Enterprise Funds

Enterprise Funds are established to account for activities that render services on a user-charge basis to the general public. Nonmajor Enterprise Funds include:

PARKING FUND – Revenues in this fund consist of charges for off-street parking and the downtown parking garage, as well as in-lieu parking fees. The revenue is used to develop and maintain parking facilities.

STORM DRAIN FUND – To account for storm drain improvements, operations and maintenance. The activities of the fund include street cleaning, rock well maintenance, and compliance with Federal and State water quality standards on storm water discharge.

COMPOST FUND – To account for tip fees charged at the City’s composting facility for processing various compostable materials and the sale of compost product. Excess revenues over expenses are set aside to protect the enterprise against market fluctuations, and to provide for capital improvements to the facility infrastructure.

AIRPORT FUND – To account for all airport operations as stipulated in the City-Stanislaus County agreement of January 1968. Amounts received from the Federal government, State of California, and Stanislaus County, requiring matching amounts by the City, are recorded in this fund and are appropriated to finance approved capital projects.

BUS FUND – Pursuant to the terms of a Federal grant agreement, the City has agreed to provide mass transportation service. All operating, maintenance, and capital expenditures are appropriated in this fund. Buses are operated by a private contractor under the terms of a supervisory agreement with the City. A separate contract agreement provides Dial-a-Ride service for the elderly and handicapped.

GOLF FUND – Revenues in this fund consist of fees charged for using the City’s golf courses. The revenue is used to improve, operate, and maintain golf courses.

COMMUNITY CENTER FUND – Accounted for in this fund are all amounts collected for the purpose of operating and maintaining the Modesto Centre Plaza Community Center. Revenues include room rental, catering fees, ticket sales, and other charges for using the center.

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CITY OF MODESTO
COMBINING STATEMENT OF NET ASSETS - NON MAJOR ENTERPRISE FUNDS
June 30, 2006

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>	<u>Airport</u>	<u>Bus</u>	<u>Golf</u>	<u>Community Center</u>	<u>Total</u>
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 1,067,156	\$ 883,536	\$ 366,544	\$ 1,390,515	\$ 1,846,214	\$ 253,324	\$ 439,758	\$ 6,247,047
Cash and cash equivalents with fiscal agent						612,784		612,784
Receivables:								
Accounts	8,825	5,930	263,172	11,621	6,026	16,607	53,966	366,147
Interest	3,442	37,951	822	4,412	9,148	5,394	226	61,395
Utilities, net		558,412						558,412
Due from governments		4,538		422,629	3,080,432	1,149		3,508,748
Property held for resale	630,000							630,000
Total current assets	<u>1,709,423</u>	<u>1,490,367</u>	<u>630,538</u>	<u>1,829,177</u>	<u>4,941,820</u>	<u>889,258</u>	<u>493,950</u>	<u>11,984,533</u>
Capital assets:								
Land and construction in progress	3,142,479	1,818,415		3,697,735	5,405,525	494,938	3,764,844	18,323,936
Other capital assets, net of accumulated depreciation	8,003,588	15,658,887	658,317	5,612,652	14,627,250	3,259,831	11,640,564	59,461,089
Total assets	<u>12,855,490</u>	<u>18,967,669</u>	<u>1,288,855</u>	<u>11,139,564</u>	<u>24,974,595</u>	<u>4,644,027</u>	<u>15,899,358</u>	<u>89,769,558</u>
LIABILITIES								
Current liabilities:								
Accounts payable	30,572	102,789	3,704	398,288	683,643	3,540	33,313	1,255,849
Accrued salaries and benefits	4,400	18,549	3,641	6,199	16,104		10,612	59,505
Interest payable			4,953			50,845		55,798
Current portion - long-term debt			70,955			205,000		275,955
Deferred revenues		(9,684)		13,425	1,911,388	209,297		2,124,426
Total current liabilities	<u>34,972</u>	<u>111,654</u>	<u>83,253</u>	<u>417,912</u>	<u>2,611,135</u>	<u>468,682</u>	<u>43,925</u>	<u>3,771,533</u>
Noncurrent liabilities:								
Obligations under capital leases			151,633					151,633
Certificates of participation						5,650,000		5,650,000
Total liabilities	<u>34,972</u>	<u>111,654</u>	<u>234,886</u>	<u>417,912</u>	<u>2,611,135</u>	<u>6,118,682</u>	<u>43,925</u>	<u>9,573,166</u>
NET ASSETS								
Invested in capital assets, net of related debt	11,146,067	17,477,302	587,362	9,310,387	20,032,775	(2,100,231)	15,405,408	71,859,070
Unrestricted	1,674,451	1,378,713	466,607	1,411,265	2,330,685	625,576	450,025	8,337,322
Total net assets	<u>\$ 12,820,518</u>	<u>\$ 18,856,015</u>	<u>\$ 1,053,969</u>	<u>\$ 10,721,652</u>	<u>\$ 22,363,460</u>	<u>\$ (1,474,655)</u>	<u>\$ 15,855,433</u>	<u>\$ 80,196,392</u>

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CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - NON MAJOR ENTERPRISE FUNDS
Year ended June 30, 2006

	Parking	Storm Drain	Compost	Airport	Bus	Golf	Community Center	Total
OPERATING REVENUES:								
Charges for services	\$ 1,176,061	\$ 5,273,902	\$ 1,317,105	\$ 574,011	\$ 2,352,734	\$ 2,222,736	\$ 534,176	\$ 13,450,725
Miscellaneous		3,402		3,677	292,888	2	8,909	308,878
Total operating revenues	<u>1,176,061</u>	<u>5,277,304</u>	<u>1,317,105</u>	<u>577,688</u>	<u>2,645,622</u>	<u>2,222,738</u>	<u>543,085</u>	<u>13,759,603</u>
OPERATING EXPENSES:								
Salaries and wages	245,229	1,074,081	238,417	322,823	847,030		846,742	3,574,322
Contractual services	251,374	1,651,553	74,483	103,593	7,041,782	1,628,646	56,833	10,808,264
Utilities	104,984	100,190	1,914	93,413	85,250	3,565	186,881	576,197
Maintenance and supplies	74,033	881,600	346,691	99,906	1,877,910	57,740	322,349	3,660,229
Insurance	26,264	7,647	3,065	63,347	17,322	10,012	48,462	176,119
Employee benefits	51,378	436,164	131,585	118,147	324,870		228,305	1,290,449
Administration services	101,249	899,490	83,851	21,463	432,479	50,580	10,414	1,599,526
Allocated indirect administrative costs	26,679	249,352		38,256	277,794	92,135		684,216
Other	9,415	11,549	5,404	54,092	141,722	5,144	8,599	235,925
Depreciation	388,499	577,784	65,227	411,413	1,125,709	311,818	775,967	3,656,417
Total operating expenses	<u>1,279,104</u>	<u>5,889,410</u>	<u>950,637</u>	<u>1,326,453</u>	<u>12,171,868</u>	<u>2,159,640</u>	<u>2,484,552</u>	<u>26,261,664</u>
OPERATING INCOME (LOSS)	<u>(103,043)</u>	<u>(612,106)</u>	<u>366,468</u>	<u>(748,765)</u>	<u>(9,526,246)</u>	<u>63,098</u>	<u>(1,941,467)</u>	<u>(12,502,061)</u>
NONOPERATING REVENUES (EXPENSES)								
Operating grants				50,351	8,267,538			8,317,889
Gain (Loss) on disposition of capital assets		4,912		(28,955)				(24,043)
Tax revenue				207,749				207,749
Tax expense	(16,551)			(735)				(17,286)
Interest income	21,414	16,665	140	25,900	70,450	24,813	1,798	161,180
Net increase in fair value of investments	585	433	3,743	677	1,554	95	2	7,089
Rental income				164,130	316,245	54,670	501,118	1,036,163
Interest expense			(13,072)			(308,515)		(321,587)
Total nonoperating revenues (expenses)	<u>5,448</u>	<u>22,010</u>	<u>(9,189)</u>	<u>419,117</u>	<u>8,655,787</u>	<u>(228,937)</u>	<u>502,918</u>	<u>9,367,154</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(97,595)</u>	<u>(590,096)</u>	<u>357,279</u>	<u>(329,648)</u>	<u>(870,459)</u>	<u>(165,839)</u>	<u>(1,438,549)</u>	<u>(3,134,907)</u>
Capital contributions		1,132,034	30,070	1,327,385	478,796			2,968,285
Transfers in		298,647	666,620		6,882	65,288	704,000	1,741,437
Transfers out		(103,350)		(84)	(18,625)			(122,059)
CHANGE IN NET ASSETS	<u>(97,595)</u>	<u>737,235</u>	<u>1,053,969</u>	<u>997,653</u>	<u>(403,406)</u>	<u>(100,551)</u>	<u>(734,549)</u>	<u>1,452,756</u>
NET ASSETS (DEFICIT), July 1	<u>12,918,113</u>	<u>18,118,780</u>		<u>9,723,999</u>	<u>22,766,866</u>	<u>(1,374,104)</u>	<u>16,589,982</u>	<u>78,743,636</u>
NET ASSETS (DEFICIT), June 30	<u>\$ 12,820,518</u>	<u>\$ 18,856,015</u>	<u>\$ 1,053,969</u>	<u>\$ 10,721,652</u>	<u>\$ 22,363,460</u>	<u>\$ (1,474,655)</u>	<u>\$ 15,855,433</u>	<u>\$ 80,196,392</u>

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CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS
Year ended June 30, 2006

	Parking	Storm Drain	Compost	Airport	Bus	Golf	Community Center	Total
CASH FLOWS FROM OPERATING ACTIVITIES:								
Receipts from customers and users	\$ 1,171,223	\$ 5,244,115	\$ 1,164,719	\$ 759,909	\$ 2,963,721	\$ 2,279,820	\$ 1,051,761	\$ 14,635,268
Receipts from interfund services provided		23,910						23,910
Payments to suppliers	(400,574)	(1,822,347)	(255,998)	101,874	(8,832,946)	(1,697,396)	(523,118)	(13,430,505)
Payments to employees	(293,534)	(1,505,418)	(369,630)	(438,279)	(1,167,767)		(1,072,969)	(4,847,597)
Payments for interfund services used	(196,523)	(1,947,221)	(279,644)	(196,326)	(1,025,498)	(150,447)	(128,613)	(3,924,272)
Net cash provided (used) by operating activities	<u>280,592</u>	<u>(6,961)</u>	<u>259,447</u>	<u>227,178</u>	<u>(8,062,490)</u>	<u>431,977</u>	<u>(672,939)</u>	<u>(7,543,196)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:								
Operating grants received				50,351	6,543,564			6,593,915
Taxes received				207,749				207,749
Transfers in		298,647	363,307		6,882	65,288	704,000	1,438,124
Transfers out		(103,350)		(84)	(18,625)			(122,059)
Net cash provided (used) by noncapital financing activities		<u>195,297</u>	<u>363,307</u>	<u>258,016</u>	<u>6,531,821</u>	<u>65,288</u>	<u>704,000</u>	<u>8,117,729</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:								
Acquisition and construction of capital assets	(2)	(109,720)	(6,569)	(1,230,223)	(478,796)	(6,691)	(72,103)	(1,904,104)
Principal repayments			(67,899)			(195,000)		(262,899)
Interest paid			(13,072)			(310,238)		(323,310)
Capital grants received		96,906		974,935	478,796			1,550,637
Net cash used by capital and related financing activities	<u>(2)</u>	<u>(12,814)</u>	<u>(87,540)</u>	<u>(255,288)</u>	<u>_____</u>	<u>(511,929)</u>	<u>(72,103)</u>	<u>(939,676)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:								
Interest received	20,682	17,804	(1,310)	25,304	76,048	24,805	2,414	165,747
Net increase in the fair value of investments	585	433	3,743	677	1,554	95	2	7,089
Net cash provided by investing activities	<u>21,267</u>	<u>18,237</u>	<u>2,433</u>	<u>25,981</u>	<u>77,602</u>	<u>24,900</u>	<u>2,416</u>	<u>172,836</u>
Net increase (decrease) in cash and cash equivalents	301,857	193,759	537,647	255,887	(1,453,067)	10,236	(38,626)	(192,307)
CASH AND CASH EQUIVALENTS, JULY 1	<u>765,299</u>	<u>689,777</u>	<u>(171,103)</u>	<u>1,134,628</u>	<u>3,299,281</u>	<u>855,872</u>	<u>478,384</u>	<u>7,052,138</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 1,067,156</u>	<u>\$ 883,536</u>	<u>\$ 366,544</u>	<u>\$ 1,390,515</u>	<u>\$ 1,846,214</u>	<u>\$ 866,108</u>	<u>\$ 439,758</u>	<u>\$ 6,859,831</u>
RECONCILIATION TO STATEMENT OF NET ASSETS:								
Cash and cash equivalents	\$ 1,067,156	883,536	366,544	\$ 1,390,515	\$ 1,846,214	\$ 253,324	\$ 439,758	\$ 6,247,047
Cash and cash equivalents with fiscal agent						612,784		612,784
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 1,067,156</u>	<u>\$ 883,536</u>	<u>\$ 366,544</u>	<u>\$ 1,390,515</u>	<u>\$ 1,846,214</u>	<u>\$ 866,108</u>	<u>\$ 439,758</u>	<u>\$ 6,859,831</u>

(continued)

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CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - NON MAJOR ENTERPRISE FUNDS (Continued)
Year ended June 30, 2006

	Parking	Storm Drain	Compost	Airport	Bus	Golf	Community Center	Total
RECONCILIATION OF OPERATING INCOME (LOSS)								
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:								
Operating income (loss)	\$ (103,043)	\$ (612,106)	\$ 366,468	\$ (748,765)	\$ (9,526,246)	\$ 63,098	\$ (1,941,467)	\$ (12,502,061)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:								
Depreciation	388,499	577,784	65,227	411,413	1,125,709	311,818	775,967	3,656,417
Rental income				164,130	316,245	54,670	501,118	1,036,163
Taxes paid	(16,551)			(533)				(17,084)
Change in assets and liabilities:								
(Increase) decrease in accounts receivable	104,534	259	(152,386)	4,464	1,854	(5,163)	7,558	(38,880)
(Increase) in utilities receivable		(9,538)						(9,538)
Increase (decrease) in accounts payable and accrued expenses	13,452	31,813	(20,234)	380,353	15,815	(21)	(18,193)	402,985
Increase in accrued salaries and benefits	3,073	4,827	372	2,691	4,133		2,078	17,174
Increase in deferred revenues	(109,372)			13,425		7,575		(88,372)
Total adjustments	<u>383,635</u>	<u>605,145</u>	<u>(107,021)</u>	<u>975,943</u>	<u>1,463,756</u>	<u>368,879</u>	<u>1,268,528</u>	<u>4,958,865</u>
Net cash provided (used) by operating activities	<u>\$ 280,592</u>	<u>\$ (6,961)</u>	<u>\$ 259,447</u>	<u>\$ 227,178</u>	<u>\$ (8,062,490)</u>	<u>\$ 431,977</u>	<u>\$ (672,939)</u>	<u>\$ (7,543,196)</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Capital assets transferred from other funds	\$	664,962	\$	84,540				\$	749,502
Developer infrastructure contributions		370,166							370,166

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Internal Service Funds

Internal Service Funds are established to finance and account for services and commodities furnished by a designated agency of a governmental unit to other departments of the same governmental unit. Since the services and commodities are supplied exclusively to other departments of a governmental jurisdiction, they are distinguishable from those public services which are rendered to the public in general and which are accounted for in General, Special Revenue, or Enterprise Funds. Internal Service Funds include:

FLEET MANAGEMENT FUND – To provide the maintenance necessary for the City's equipment pool, which serves the needs of all City departments.

CENTRAL SERVICES FUND – To provide office supplies, various maintenance and construction materials, records storage, and mail services to all City departments.

INFORMATION AND TECHNOLOGY SERVICES FUND – To finance and account for the replacement, upgrade and maintenance of the City's network and technology infrastructure, and to develop and implement a coordinated City-wide information technology plan.

INSURANCE FUND – To finance and account for the City's insurance and risk management programs.

EMPLOYEE BENEFITS MANAGEMENT FUND – To account for all compensated absences and other employee benefits. Insurance benefits for current employees are accounted for in the Insurance Fund.

BUILDING SERVICES FUND – To account for the true cost of occupying and maintaining office space, to better reflect the value of that space, and to accumulate amounts for future building repair costs.

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CITY OF MODESTO
COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS
June 30, 2006

	<u>Fleet Management</u>	<u>Central Services</u>	<u>Information & Technology Services</u>	<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 12,073,921	\$ 275,339	\$ 2,217,145	\$ 16,514,047	\$ 16,905,858	\$ 41,665	\$ 48,027,975
Receivables:							
Accounts receivable	8,125			821,403	4,530		834,058
Interest	11,593	1,249	6,681	143,485	56,551		219,559
Inventories		516,919					516,919
Due from governments	38,687						38,687
Advances to other funds	1,903,476						1,903,476
Total current assets	<u>14,035,802</u>	<u>793,507</u>	<u>2,223,826</u>	<u>17,478,935</u>	<u>16,966,939</u>	<u>41,665</u>	<u>51,540,674</u>
Noncurrent assets:							
Land and construction in progress	821,033						821,033
Other capital assets, net of accumulated depreciation	16,272,661	67,480	2,352,511	28,751	5,405	191,083	18,917,891
Total assets	<u>31,129,496</u>	<u>860,987</u>	<u>4,576,337</u>	<u>17,507,686</u>	<u>16,972,344</u>	<u>232,748</u>	<u>71,279,598</u>
LIABILITIES							
Current liabilities:							
Accounts payable	129,980	184,928	66,155	355,307	757,085	23,035	1,516,490
Accrued salaries and benefits	21,540	4,188	32,222	6,965	890	18,630	84,435
Current portion - compensated absences					2,769,104		2,769,104
Current portion - claims liability				5,156,560			5,156,560
Current portion - long-term debt	26,587						26,587
Total current liabilities	<u>178,107</u>	<u>189,116</u>	<u>98,377</u>	<u>5,518,832</u>	<u>3,527,079</u>	<u>41,665</u>	<u>9,553,176</u>
Noncurrent liabilities:							
Compensated absences					58,847,850		58,847,850
Claims liability				11,174,550			11,174,550
Long-term debt:							
Notes payable	144,446						144,446
Total liabilities	<u>322,553</u>	<u>189,116</u>	<u>98,377</u>	<u>16,693,382</u>	<u>62,374,929</u>	<u>41,665</u>	<u>79,720,022</u>
NET ASSETS							
Invested in capital assets, net of related debt	16,922,661	67,480	2,352,511	28,751	5,405	191,083	19,567,891
Unrestricted	13,884,282	604,391	2,125,449	785,553	(45,407,990)		(28,008,315)
Total net assets	<u>\$ 30,806,943</u>	<u>\$ 671,871</u>	<u>\$ 4,477,960</u>	<u>\$ 814,304</u>	<u>\$ (45,402,585)</u>	<u>\$ 191,083</u>	<u>\$ (8,440,424)</u>

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CITY OF MODESTO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
Year ended June 30, 2006

	Fleet Management	Central Services	Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
OPERATING REVENUES:							
Charges for services	\$ 7,953,420	\$ 306,351	\$ 3,546,441	\$ 21,316,594	\$ 38,633,482	\$ 2,223,303	\$ 73,979,591
Sales		2,616,588					2,616,588
Cost of sales		(2,604,232)					(2,604,232)
Total operating revenues	<u>7,953,420</u>	<u>318,707</u>	<u>3,546,441</u>	<u>21,316,594</u>	<u>38,633,482</u>	<u>2,223,303</u>	<u>73,991,947</u>
OPERATING EXPENSES:							
Salaries and wages	1,083,045	200,178	1,437,826	355,025	46,890	949,062	4,072,026
Contractual services	430,497	70,071	250,566	51,811	51,950	158,546	1,013,441
Utilities	8,098	919	273,257	945		189,792	473,011
Maintenance and supplies	2,404,170	41,384	1,353,121	11,468	35,484	240,370	4,085,997
Insurance	52,881	3,516	12,864	10,976,444	364	8,191	11,054,260
Claims expense				7,458,436			7,458,436
Employee benefits	456,818	88,848	517,423	133,042	36,157,104	398,086	37,751,321
Administration services	73,752	6,565	551	1,283,028	46,668	81,801	1,492,365
Allocated indirect administrative costs	264,010						264,010
Other	16,419	566	53,668	30,083	56,031	3,951	160,718
Depreciation	2,433,441	9,598	356,103	8,808	1,562	28,965	2,838,477
Total operating expenses	<u>7,223,131</u>	<u>421,645</u>	<u>4,255,379</u>	<u>20,309,090</u>	<u>36,396,053</u>	<u>2,058,764</u>	<u>70,664,062</u>
OPERATING INCOME (LOSS)	<u>730,289</u>	<u>(102,938)</u>	<u>(708,938)</u>	<u>1,007,504</u>	<u>2,237,429</u>	<u>164,539</u>	<u>3,327,885</u>
NONOPERATING REVENUES (EXPENSES)							
Loss on disposition of capital assets	(171,110)		(70,773)				(241,883)
Interest income	152,100	8,546	39,171	348,395	354,923	(7,176)	895,959
Net increase (decrease) in fair value of investments		212	1,134	9,577	9,604	(217)	20,310
Interest expense	(11,083)		(458)				(11,541)
Total nonoperating revenues (expenses)	<u>(30,093)</u>	<u>8,758</u>	<u>(30,926)</u>	<u>357,972</u>	<u>364,527</u>	<u>(7,393)</u>	<u>662,845</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>700,196</u>	<u>(94,180)</u>	<u>(739,864)</u>	<u>1,365,476</u>	<u>2,601,956</u>	<u>157,146</u>	<u>3,990,730</u>
Capital contributions	304,210					14,424	318,634
Transfers in	251,179		1,461,182				1,712,361
Transfers out	(586,393)						(586,393)
CHANGE IN NET ASSETS	<u>669,192</u>	<u>(94,180)</u>	<u>721,318</u>	<u>1,365,476</u>	<u>2,601,956</u>	<u>171,570</u>	<u>5,435,332</u>
NET ASSETS (DEFICITS), July 1	<u>30,137,751</u>	<u>766,051</u>	<u>3,756,642</u>	<u>(551,172)</u>	<u>(48,004,541)</u>	<u>19,513</u>	<u>(13,875,756)</u>
NET ASSETS (DEFICITS), June 30	<u>\$ 30,806,943</u>	<u>\$ 671,871</u>	<u>\$ 4,477,960</u>	<u>\$ 814,304</u>	<u>\$ (45,402,585)</u>	<u>\$ 191,083</u>	<u>\$ (8,440,424)</u>

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
Year ended June 30, 2006

	Fleet Management	Central Services	Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from customers and users	\$ 153,585	\$ 34,642		\$ 836,081	\$ 13,803		\$ 1,038,111
Receipts from interfund services provided	7,753,023	284,065	\$ 3,546,441	19,955,559	38,615,149	\$ 2,223,303	72,377,540
Payments to suppliers	(2,691,075)	(68,231)	(1,903,045)	(10,999,355)	35,116	(536,436)	(16,163,026)
Payment of insurance claims				(5,089,127)			(5,089,127)
Payments to employees	(1,534,437)	(288,535)	(1,938,570)	(485,190)	(37,023,970)	(1,341,027)	(42,611,729)
Payments for interfund services used	(515,269)	(70,596)	(57,323)	(1,329,363)	(51,852)	(176,076)	(2,200,479)
Net cash provided (used) by operating activities	<u>3,165,827</u>	<u>(108,655)</u>	<u>(352,497)</u>	<u>2,888,605</u>	<u>1,588,246</u>	<u>169,764</u>	<u>7,351,290</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers in	251,179		1,461,182				1,712,361
Transfers out	(586,393)						(586,393)
Repayment of advances to other funds	96,524						96,524
Due to other funds						(125,000)	(125,000)
Net cash provided (used) by noncapital financing activities	<u>(238,690)</u>		<u>1,461,182</u>			<u>(125,000)</u>	<u>1,097,492</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Acquisition and construction of capital assets	(3,341,583)	(24,413)	(898,022)			(1)	(4,264,019)
Proceeds from sale of capital assets	101,024		13,877				114,901
Principal repayments	(25,043)		(20,545)				(45,588)
Interest paid	(11,083)		(458)				(11,541)
Net cash used by capital and related financing activities	<u>(3,276,685)</u>	<u>(24,413)</u>	<u>(905,148)</u>			<u>(1)</u>	<u>(4,206,247)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:							
Interest received	152,100	8,281	38,074	335,828	347,299	(5,750)	875,832
Net increase in the fair value of investments		212	1,134	9,577	9,604	(217)	20,310
Net cash provided by investing activities	<u>152,100</u>	<u>8,493</u>	<u>39,208</u>	<u>345,405</u>	<u>356,903</u>	<u>(5,967)</u>	<u>896,142</u>
Net increase (decrease) in cash and cash equivalents	(197,448)	(124,575)	242,745	3,234,010	1,945,149	38,796	5,138,677
CASH AND CASH EQUIVALENTS, JULY 1	<u>12,271,369</u>	<u>399,914</u>	<u>1,974,400</u>	<u>13,280,037</u>	<u>14,960,709</u>	<u>2,869</u>	<u>42,889,298</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 12,073,921</u>	<u>\$ 275,339</u>	<u>\$ 2,217,145</u>	<u>\$ 16,514,047</u>	<u>\$ 16,905,858</u>	<u>\$ 41,665</u>	<u>\$ 48,027,975</u>

(continued)

CITY OF MODESTO
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)
Year ended June 30, 2006

	Fleet Management	Central Services	Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO							
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:							
Operating income (loss)	\$ 730,289	\$ (102,938)	\$ (708,938)	\$ 1,007,504	\$ 2,237,429	\$ 164,539	\$ 3,327,885
Adjustments to reconcile operating income (loss) to							
net cash provided (used) by operating activities:							
Depreciation	2,433,441	9,598	356,103	8,808	1,562	28,965	2,838,477
Change in assets and liabilities:							
(Increase) decrease in accounts receivable	(8,125)			(524,954)	(4,530)		(537,609)
(Increase) decrease in due from governments	(38,687)						(38,687)
(Increase) in notes receivable					3,096		3,096
Decrease in inventories		(141,400)				78	(141,322)
Increase (decrease) in accounts payable and accrued expenses	43,483	125,594	(16,341)	25,061	173,761	(29,939)	321,619
Increase in accrued salaries and benefits payable	5,426	491	16,679	2,877	279	6,121	31,873
Increase in compensated absences					(823,351)		(823,351)
Decrease in claims liability				2,369,309			2,369,309
Total adjustments	<u>2,435,538</u>	<u>(5,717)</u>	<u>356,441</u>	<u>1,881,101</u>	<u>(649,183)</u>	<u>5,225</u>	<u>4,023,405</u>
Net cash provided (used) by operating activities	<u>\$ 3,165,827</u>	<u>\$ (108,655)</u>	<u>\$ (352,497)</u>	<u>\$ 2,888,605</u>	<u>\$ 1,588,246</u>	<u>\$ 169,764</u>	<u>\$ 7,351,290</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:							
Capital assets transferred in	\$ 304,210					\$ 14,424	\$ 318,634

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AGENCY FUNDS

Agency Funds account for assets held by the City as an agent for individuals, governmental entities and non-public organizations.

Special Districts – To account for collection of special district assessments from property owners and forwarding these collections to trustees for payment to bondholders.

Tuolumne River Regional Park – To account for cash and investments of the Tuolumne River Regional Park, a joint powers agency between the City of Modesto, Stanislaus County and City of Ceres. The agency provides financing, development, and maintenance of the Tuolumne River Regional Park facilities. The cash and investments of the Park are invested as part of the City's investment pool.

City-County Capital Improvements and Financing Agency - To account for cash and investments of the City-County Capital Improvements and Financing Agency, a joint powers agency between the City of Modesto and Stanislaus County. The agency built and maintains a joint City-County government complex in downtown Modesto. The cash and investments of the Agency are invested as part of the City's investment pool.

Stanislaus Drug Enforcement Agency - To account for cash and investments of the Stanislaus Drug Enforcement Agency, a joint powers agency between Stanislaus County and the cities of Modesto, Oakdale, Turlock, Ceres, Hughson, Newman, Patterson, and Waterford. The agency's purpose 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. Cash and investments of the Agency are invested in the City's investment pool.

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CITY OF MODESTO
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS
Year ended June 30, 2006

STATISTICAL SECTION

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
<hr/> <u>Special Districts</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 120,416	\$ 1,357,817	\$ 227,811	\$ 1,250,422
Cash and cash equivalents with fiscal agent	118,313	5,614,107	1,219,530	4,512,890
	<u>\$ 238,729</u>	<u>\$ 6,971,924</u>	<u>\$ 1,447,341</u>	<u>\$ 5,763,312</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 238,729	\$ 6,971,924	\$ 1,447,341	\$ 5,763,312
<hr/> <u>Tuolumne River Regional Park</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 315,698	\$ 444,203	\$ 725,975	\$ 33,926
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 315,698	\$ 444,203	\$ 725,975	\$ 33,926
<hr/> <u>City/County Joint Powers Financing Authority</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 113,595	\$ 1,409,491	\$ 1,428,366	\$ 94,720
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 113,595	\$ 1,409,491	\$ 1,428,366	\$ 94,720
<hr/> <u>Stanislaus Drug Enforcement Agency</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 0	\$ 3,084,151	\$ 1,916,516	\$ 1,167,635
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 0	\$ 3,084,151	\$ 1,916,516	\$ 1,167,635
<hr/> <u>Totals - All Agency Funds</u> <hr/>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 549,709	\$ 6,295,662	\$ 4,298,668	\$ 2,546,703
Cash and cash equivalents with fiscal agent	118,313	5,614,107	1,219,530	4,512,890
	<u>\$ 668,022</u>	<u>\$ 11,909,769</u>	<u>\$ 5,518,198</u>	<u>\$ 7,059,593</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 238,729	\$ 6,971,924	\$ 1,447,341	\$ 5,763,312
Deposits held as agent for others	429,293	4,937,845	4,070,857	1,296,281
	<u>\$ 668,022</u>	<u>\$ 11,909,769</u>	<u>\$ 5,518,198</u>	<u>\$ 7,059,593</u>

Statistical Section

This part of the Comprehensive Annual Financial Report presents detailed information to aid in understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance has changed over time.

1. Net Assets by Component
2. Changes in Net Assets
3. Fund Balances of Governmental Funds
4. Changes in Fund Balance of Governmental Funds

Revenue Capacity

This schedule gives information on the City's most significant local revenue source, the water user charges:

1. Water Utility System – Ten Largest Customers
2. Water revenues by customer class
3. Water rates

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

1. Ratio of Outstanding Debt by Type
2. Computation of Direct and Overlapping Debt
3. Computation of Legal Bonded Debt Margin
4. Bonded Debt Pledged Revenue Coverage, Wastewater Revenue Bonds
5. Continuing Disclosure Requirements:
 - a. Wastewater Revenue Bonds
 - b. Modesto Public Financing Authority Lease Revenue Bonds, Series 1997
 - c. Water Utility System Refunding Revenue Certificates of Participation, and Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

1. Demographic and Economic Statistics
2. Principal Employers

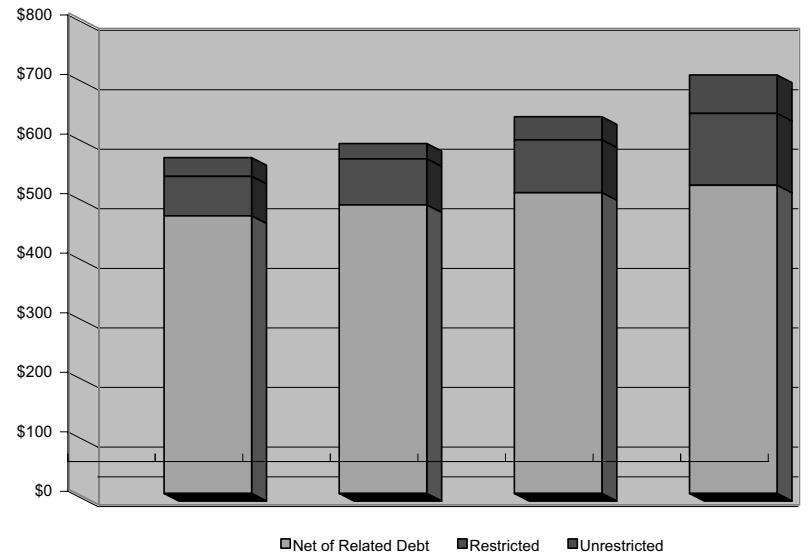
Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

1. Full-Time Equivalent City Government Employees by Function
2. Operating Indicators by Function/Program
3. Capital Asset Statistics by Function/Program

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement No. 34 in 2002; however, for schedules presenting entity-wide information, the City has elected to include information beginning in fiscal year 2003.

CITY OF MODESTO NET ASSETS BY COMPONENT Last Four Fiscal Years (accrual basis of accounting)



	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$259,156,770	\$275,171,096	\$288,391,776	\$296,401,824
Restricted	65,766,576	76,577,126	88,725,341	120,937,678
Unrestricted	2,530,581	(11,382,001)	(6,715,483)	(2,303,306)
Total governmental activities net assets	<u>\$327,453,927</u>	<u>\$340,366,221</u>	<u>\$370,401,634</u>	<u>\$415,036,196</u>
Business-type activities				
Invested in capital assets, net of related debt	\$206,792,699	\$209,230,461	\$216,558,150	\$220,881,691
Restricted	756,245	763,190		
Unrestricted	28,786,201	37,266,369	45,548,813	66,550,276
Total business-type activities net assets	<u>\$236,335,145</u>	<u>\$247,260,020</u>	<u>\$262,106,963</u>	<u>\$287,431,967</u>
Primary government				
Invested in capital assets, net of related debt	\$465,949,469	\$484,401,557	\$504,949,926	\$517,283,515
Restricted	66,522,821	77,340,316	88,725,341	120,937,678
Unrestricted	31,316,782	25,884,368	38,833,330	64,246,970
Total primary government net assets	<u>\$563,789,072</u>	<u>\$587,626,241</u>	<u>\$632,508,597</u>	<u>\$702,468,163</u>

CITY OF MODESTO
CHANGES IN NET ASSETS
Last Four Fiscal Years
(Accrual Basis of Accounting)

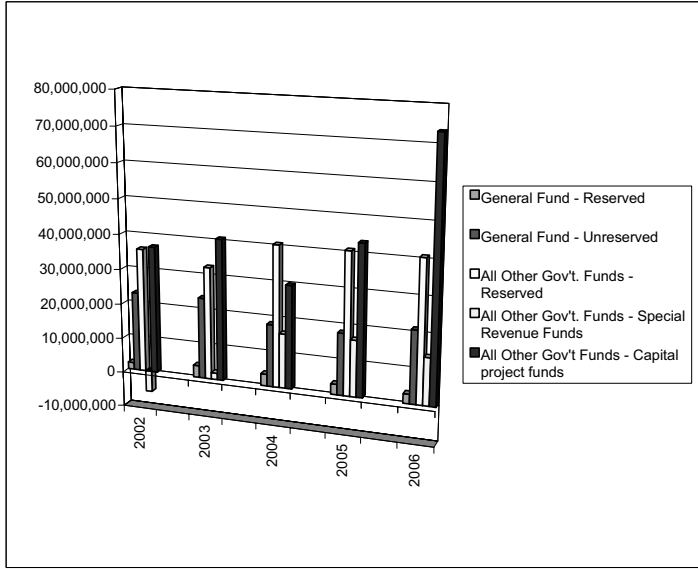
	2003	2004	2005	2006
Expenses				
Governmental Activities:				
General Government	\$12,557,259	\$13,954,909	\$15,273,174	\$15,529,735
Community Development	13,823,955	\$10,517,243	\$14,105,411	\$12,241,213
Highways and streets	19,656,219	23,136,950	23,721,458	26,025,311
Public works	6,843,742	6,458,522	5,263,984	6,491,062
Parks and Recreation	16,723,475	12,682,746	13,334,330	11,733,698
Public safety	64,410,214	68,258,235	71,239,341	74,500,043
Interest on Long Term Debt	4,612,885	4,515,439	4,987,911	5,178,130
Total Governmental Activities Expenses	138,627,749	139,524,044	147,925,609	151,699,192
Business-Type Activities:				
Parking	1,153,145	651,330	1,162,479	1,287,450
Water	30,874,820	27,051,982	30,691,348	29,989,775
Sewer	23,266,170	21,386,084	22,422,268	22,716,100
Storm Drain	5,940,261	5,327,334	6,111,317	5,795,746
Compost				941,919
Airport	971,865	1,120,922	1,131,889	1,342,645
Bus	9,745,477	10,122,176	11,074,907	12,119,311
Golf	2,475,913	2,432,202	2,354,759	2,461,470
Community Center	2,390,517	2,078,752	2,323,169	2,465,644
Total Business-Type Activities Expenses	76,818,168	70,170,782	77,272,136	79,120,060
Total Primary Government Expenses	\$215,445,917	\$209,694,826	\$225,197,745	\$230,819,252
Program Revenues				
Governmental Activities:				
Charges for Services:				
General Government	\$3,453,403	\$3,321,760	\$3,252,732	\$4,179,505
Community Development	11,566,306	9,592,055	11,294,130	9,466,082
Highway and streets	1,303,305	2,005,336	14,081,840	12,104,089
Public Safety	9,173,932	9,267,650	2,024,509	1,986,957
Parks and Recreation	3,835,652	3,992,598	4,821,884	4,928,366
Public Safety	5,925,096	6,794,911	8,011,509	7,124,387
Operating Grants and Contributions	9,413,521	15,975,814	13,736,453	11,892,511
Capital Grants and Contributions	23,297,198	18,368,908	22,799,320	38,484,548
Total Government Activities Program Revenues	67,968,413	69,319,032	80,022,377	90,166,445
Business-Type Activities:				
Charges for Services:				
Parking	824,917	890,263	908,920	1,176,061
Water	28,200,885	31,353,046	31,315,920	42,639,348
Sewer	23,556,044	25,292,995	24,419,607	23,083,280
Storm Drain	5,169,831	5,227,844	5,162,217	5,277,304
Compost				1,317,105
Airport	590,960	559,479	559,215	577,688
Bus	2,137,065	2,077,503	2,264,506	2,645,622
Golf	2,120,689	2,160,223	2,115,712	2,222,738
Community Center	467,229	496,680	504,338	543,085
Operating Grants and Contributions	5,119,474	6,217,613	7,525,367	8,317,889
Capital Grants and Contributions	13,603,460	10,145,892	8,498,408	10,467,873
Total Business-Type Activities Program Revenue	81,790,554	84,421,538	83,274,210	98,267,993
Total Primary Government Program Revenues	\$149,758,967	\$153,740,570	\$163,296,587	\$188,434,438
Net (Expense)/Revenue				
Governmental Activities	(\$70,659,336)	(\$70,205,012)	(\$67,903,232)	(\$61,532,747)
Business-Type Activities	4,972,386	14,250,756	6,002,074	19,147,933
Total Primary Government Net Expense	(\$65,686,950)	(\$55,954,256)	(\$61,901,158)	(\$42,384,814)

CITY OF MODESTO
CHANGES IN NET ASSETS
(continued)
Last Four Fiscal Years
(Accrual Basis of Accounting)

	2003	2004	2005	2006
General Revenues and Other Changes in Net Assets				
Governmental Activities:				
Taxes:				
Utility Users Tax	\$13,732,571	\$14,659,986	\$15,621,566	\$17,583,690
Property taxes, levied for general purposes	10,169,004	11,294,599	11,316,694	14,318,747
Tax increments for redevelopment agency	2,631,695	3,183,871	3,909,452	4,450,836
Transient occupancy tax	2,097,901	2,110,909	2,098,303	2,181,467
Franchise tax	3,360,976	3,455,535	3,420,453	3,693,307
Business license tax, levied for general purposes	9,238,797	9,231,136	9,726,816	10,374,157
Business license tax, levied for downtown improvement district	172,847	190,644	201,308	214,022
Grants and contributions not restricted to specific programs:				
Sales tax	25,887,064	27,151,779	26,589,449	29,627,835
Motor vehicle license fee	11,746,283	9,052,449	16,403,864	14,986,883
Other	922,237	1,204,485	1,702,234	4,070,593
Unrestricted investment earnings	3,645,205	1,004,974	4,463,080	3,255,401
Miscellaneous	2,220,976	2,479,871	3,792,340	2,827,161
Transfers	(1,824,890)	(1,902,932)	(1,306,914)	(1,416,790)
Total Government Activities	84,000,666	83,117,306	97,938,645	106,167,309
Business-Type Activities:				
Taxes:				
Property taxes, generated by and allocated to the airport	166,043	204,091	239,518	166,641
Business license tax, generated by and allocated to the airport	21,816	7,870	20,546	41,108
Unrestricted investment earnings	2,003,214	857,751	1,819,870	2,504,291
Miscellaneous			1,306,914	
Transfers	1,824,890	1,902,932	7,396,627	1,416,790
Settlements and Recoveries				3,784,295
Special item	(4,753,884)	(6,298,525)	(1,938,606)	(1,736,054)
Total Business-Type Activities	(737,921)	(3,325,881)	8,844,869	6,177,071
Total Primary Government	\$83,262,745	\$79,791,425	\$106,783,514	\$112,344,380
Change in Net Assets				
Governmental Activities	\$13,341,330	\$12,912,294	\$30,035,413	\$44,634,562
Business-Type Activities	4,234,465	10,924,875	14,846,943	25,325,004
Total Primary Government	\$17,575,795	\$23,837,169	\$44,882,356	\$69,959,566

Note: *the City has elected to show only four years of data for this schedule.

**CITY OF MODESTO
FUND BALANCES OF GOVERNMENTAL FUNDS
Last Five Fiscal Years
(Modified Accrual Basis of Accounting)**



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	2002	2003	2004	2005	2006
General Fund					
Reserved	\$1,961,061	\$3,393,560	\$3,327,569	\$2,955,054	\$2,702,381
Unreserved	22,512,913	23,008,629	17,651,800	17,460,005	20,607,134
Total General Fund	\$24,473,974	\$26,402,189	\$20,979,369	\$20,415,059	\$23,309,515
All Other Governmental Funds					
Reserved	\$35,241,185	\$31,889,387	\$40,013,124	\$40,160,539	\$40,168,886
Unreserved, reported in:					
Special revenue funds	(6,013,102)	1,844,576	15,398,402	15,931,290	13,431,304
Capital project funds	36,152,800	40,102,394	29,172,787	42,534,688	72,752,412
Total all other governmental funds	\$65,380,883	\$73,836,357	\$84,584,313	\$98,626,517	\$126,352,602

(a) The change in total fund balance for the General Fund and other governmental funds is explained in Management's Discussion and Analysis.

Note: The City has elected to show only five years of data for this schedule.

**CITY OF MODESTO
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
Last Five Fiscal Years
(Modified Accrual Basis of Accounting)**

	Fiscal Year Ended June 30,				
	2002	2003	2004	2005	2006
Revenues					
Taxes	\$37,855,427	\$41,405,014	\$44,185,552	\$46,295,678	\$52,816,596
Licenses, permits and fees	173,348	169,108	250,129	128,754	146,854
Intergovernmental	62,726,570	66,228,880	70,583,373	73,889,063	64,759,658
Charges for services	33,633,119	31,789,634	33,203,507	41,660,016	37,802,149
Special assessments levied	823,091	2,015,090	386,368	107,696	65,909
Interest and rent	3,418,440	3,712,219	2,911,392	3,146,452	3,755,169
Net increase in fair value of investments	647,793	(339,331)	(1,458,065)	186,515	103,036
Fines and forfeits	1,055,966	1,030,389	1,294,193	1,646,472	1,675,926
Contribution from property owners					30,473,773
Miscellaneous	1,111,982	2,220,976	2,479,871	2,991,745	2,821,161
Total Revenues	141,445,736	148,231,979	153,836,320	170,052,391	194,420,231
Expenditures					
Current:					
General government	10,168,110	11,352,860	11,878,443	11,819,603	14,111,535
Community development	7,950,839	13,123,011	10,113,628	12,832,640	12,296,072
Highways and streets	7,994,279	8,559,729	11,568,810	12,152,087	14,357,041
Public works	4,622,232	5,420,867	4,876,115	5,053,030	5,647,023
Parks and recreation	13,969,712	14,848,478	11,374,052	12,021,937	11,662,263
Public safety	52,812,553	56,576,055	62,747,623	70,882,176	74,527,875
Capital outlay	23,082,610	19,031,609	33,092,718	24,412,735	21,563,774
Debt service:					
Principal retirement	1,422,501	3,111,203	1,563,472	1,666,764	1,901,827
Interest	4,621,270	4,580,409	4,502,666	4,425,980	4,576,780
Other	29,611	57,038	18,355	553,645	618,742
Total Expenditures	126,673,717	136,661,259	151,735,882	155,820,597	161,262,932
Excess of revenues over (under) expenditures	14,772,019	11,570,720	2,100,438	14,231,794	33,157,299
Other Financing Sources (Uses)					
Transfers in	18,838,748	14,601,556	19,332,436	17,962,442	17,724,718
Transfers out	(21,098,333)	(15,441,935)	(20,819,979)	(19,644,937)	(20,267,476)
Proceeds of capital lease	2,020,418				
Proceeds of loan payable	191,835	192,759	212,241		
Proceeds of notes payable			4,500,000		
Sale of Assets				928,595	6,000
Total other financing sources (uses)	(47,332)	(647,620)	3,224,698	(753,900)	(2,536,758)
Net Change in fund balances	14,724,687	10,923,100	5,325,136	13,477,894	30,620,541
FUND BALANCES, July 1	75,130,170	89,315,446	100,238,546	105,563,682	119,041,576
FUND BALANCES, June 30	\$89,854,857	\$100,238,546	\$105,563,682	\$119,041,576	\$149,662,117
Debt service as a percentage of noncapital expenditures	0.06198	0.07000	0.05389	0.04884	0.04886

Note: The City has elected to show only five years of data for this schedule.

CITY OF MODESTO
REVENUE CAPACITY - MOST SIGNIFICANT LOCAL REVENUE SOURCE
WATER UTILITY CHARGES
(Fiscal Year ended June 30, 2006)

Ten Largest Customers of Water Utility System, Year Ended 6/30/06

Customer	Business Type	Usage (ccf) (1)	% of Total Usage	Water Sales Revenue (\$)	% of Total Water Sales Revenue
1) Signature Foods	Cannery	503,795	1.45%	\$522,634	1.27%
2) Modesto City Schools	Education	413,695	1.19	504,923	1.23
3) Stanislaus Foods	Cannery	416,744	1.20	441,305	1.07
4) Foster Farms	Dairy Processor	320,805	0.82	328,345	0.80
5) Modesto Irrigation District	Power Company	196,337	0.56	219,219	0.53
6) Stanislaus County	Government	158,775	0.46	208,767	0.51
7) E&J Gallo Winery	Winery	147,772	0.43	169,434	0.41
8) Sylvan Union School District	Education	141,167	0.41	163,366	0.40
9) Yosemite Community College	Community College	129,288	0.37	158,762	0.39
10) Del Monte Foods	Cannery	109,911	0.32	117,906	0.29
Total Top Ten		2,538,289	7.30%	\$2,834,661	6.90%

Total Flat/Metered Revenues (Water Sales)

\$41,107,414

(1) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 6/30/06

Residential - flat rates	\$26,590,878
Commercial, industrial and municipal - metered rates	<u>14,516,536</u>
Total Water Sales	<u>\$41,107,414</u>

Current Water Rates and Charges as of 6/30/06

The average monthly flat rate service charge for residential customers is: \$33.37

Commercial Accounts:

Meter Size	Rate
3/4"	\$10.82
1"	15.34
1 1/2"	26.55
2"	40.06
3"	76.12
4"	116.63
6"	229.14
8"	364.19
10"	521.80
12"	971.95

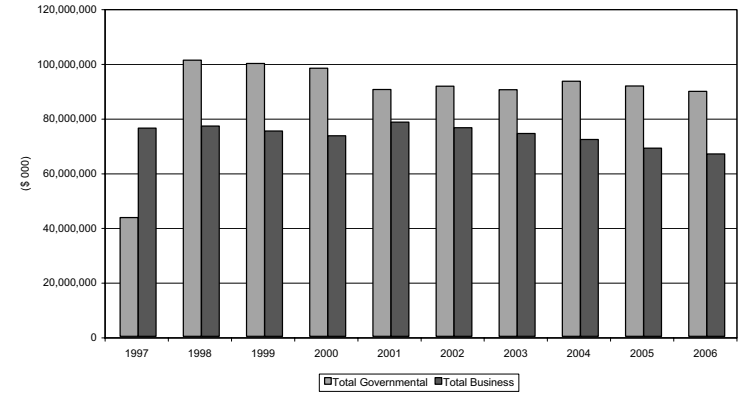
In addition to these minimum charges, commercial accounts are charged \$1.01 per 100 cubic feet of water used.

Water rates for both metered and flat rate services were increased on July 1, 2005.

Source:
City of Modesto-Customer Services

Note: Information about Water Utility Customers was not available for the year ended June 30, 1997

CITY OF MODESTO
RATIO OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years



Legend: Total Governmental (Light Gray), Total Business (Dark Gray)

Governmental Activities

Fiscal Year	Loans Payable	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	Total
1997	\$664,187	\$37,970,000	\$3,600,000		\$1,204,153	\$43,438,340
1998	639,725	34,100,000	64,935,000		1,264,963	100,939,688
1999		33,490,000	64,835,000		1,462,933	99,787,933
2000		32,800,000	64,730,000		514,333	98,044,333
2001		25,280,000	64,615,000		329,594	90,224,594
2002	191,835	24,625,000	64,250,000	\$262,807	2,153,350	91,482,992
2003	348,273	23,935,000	63,865,000	241,880	1,753,685	90,143,838
2004	523,363	23,215,000	63,455,000	4,719,663	1,335,182	93,248,208
2005	485,077	22,455,000	63,000,000	4,696,076	896,833	91,532,986
2006	446,634	21,655,000	62,505,000	4,535,034	444,904	89,588,578

Business-Type Activities

Fiscal Year	Loans Payable	Certificates of Participation	Revenue Bonds	Capital Leases	Total	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
1997	\$3,681,208	\$23,785,000	\$48,665,000	\$28,389	\$76,131,208	\$119,569,548	3.26%	665.13
1998	3,532,306	25,585,000	47,740,000	4,201	76,857,306	177,796,994	4.48%	973.38
1999	3,378,635	24,900,000	46,780,000		75,058,635	174,846,568	4.26%	947.16
2000	3,220,042	24,355,000	45,780,000		73,355,042	171,399,375	3.87%	910.31
2001	3,058,210	30,525,000	44,735,000		78,318,210	168,540,804	3.82%	895.13
2002	2,887,342	29,765,000	43,640,000		76,292,342	167,775,334	3.55%	844.79
2003	2,713,066	28,965,000	42,490,000		74,168,066	164,311,904	3.33%	808.22
2004	2,533,380	28,125,000	41,285,000		71,943,380	165,191,588	3.09%	801.12
2005	2,347,602	27,240,000	39,235,000	290,487	68,822,602	160,355,588	2.87%	772.30
2006	2,156,040	26,305,000	38,245,000	222,588	66,708,040	156,294,618	N/A	751.03

Note: debt amounts are gross outstanding at year end without eliminating any premiums, discounts, or other amortization amounts.

Sources: City of Modesto
State of California, Department of Finance (population)
U.S. Department of Commerce, Bureau of the Census (income)

(a) See Demographic Statistics for personal income and population data.

**CITY OF MODESTO
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
June 30, 2006**

Jurisdiction	Net Debt Outstanding (1)	Percentage Applicable to City of Modesto (2)	Amount Applicable to City of Modesto
Direct debt:			
City of Modesto	\$ <u>0</u>	100%	\$ <u>0</u>
Overlapping General Obligation debt - school districts:			
Ceres Unified District	24,379,806	10.0	2,437,981
Modesto Elementary School District	24,328,337	72.5	17,638,044
Modesto High School District	75,789,875	68.5	51,916,064
Sylvan School District	9,110,000	85.0	7,743,500
Salida Union Elementary District	1,650,000	27.0	445,500
Stanislaus Union School District	3,725,000	33.0	1,229,250
Yosemite Community College District	94,445,000	28.2	26,633,490
Total overlapping debt	<u>233,428,018</u>		<u>108,043,829</u>
Total direct and overlapping debt	\$ <u><u>233,428,018</u></u>		\$ <u><u>108,043,829</u></u>

**CITY OF MODESTO
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2006**

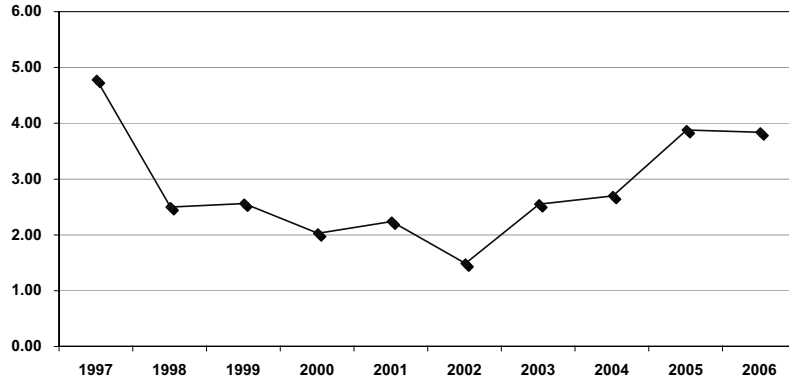
Net assessed value (1)	\$ 12,501,638,097
Plus homeowners' exemption (1)	<u>241,045,263</u>
Gross assessed value (1)	\$ 12,742,683,360
Debt limit - 15% of gross assessed value (2)	\$ 1,911,402,504
Amount of debt applicable to debt limit:	
Total general bonded debt, including special assessment debt	\$ <u>0</u>
Less: Assets in debt service funds available for payment of principal	\$ <u>0</u>
Other deductions: Special assessment debt	<u>0</u>
Total deductions	<u>0</u>
Total amount of debt applicable to debt limit	<u>0</u>
Legal debt margin	\$ <u><u>1,911,402,504</u></u>

NOTES: source of data for School Districts: Stanislaus County Auditor.
 (1) Gross debt outstanding less applicable amounts in debt service funds.
 (2) Determined by ratio of assessed valuation of property subject to taxation in overlapping portion to valuation of all property subject to taxation in the jurisdiction.

Notes: (1) Source of Data: Stanislaus County Auditor; Last Equalized Roll (AC2703, including aircraft)
 (2) Section 43605 California Government Code.

Note: The City has elected to show only one year of data for this schedule

**CITY OF MODESTO
REVENUE BOND COVERAGE
WASTEWATER REVENUE BONDS
Last ten fiscal years**



**CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION
Year Ended June 30, 2006**

Wastewater Revenue Refunding Bonds, Series 2005 A and B

Connection charge information: The Sewer Enterprise imposes connection fees on a on-time basis to new users of the sewer system and to users who significantly expand their usage. The fees have three components:

- Connection charge: \$500 per Equivalent Dwelling Unit for residential units and \$2,000 per acre for commercial and industrial property
- Sub-trunk sewer charge: \$645 per acre
- Connection (lateral) charge: \$33 per linear foot of lot frontage adjacent to the sewer line.

Customer Base by Type of Account

Category	Number of Accounts	% of Total Accounts	% of Customer Revenues
Residential	57,301	95.27%	52.6%
Commercial	2,796	4.65%	15.8%
Industrial	51	0.08%	31.6%
Total	60,148	100.00%	100.00%

Ten Largest Users of Sewer Facilities, Year Ended 6/30/06

User	Sewer Fee Revenue	% of Customer Revenues
1) Stanislaus Foods	\$ 1,516,289	6.84%
2) Signature Fruit	1,339,435	6.04%
3) Del Monte Foods	1,242,836	5.60%
4) E & J Gallo Winery	666,441	3.01%
5) Frito-Lay, Inc.	492,188	2.22%
6) City of Ceres	436,985	1.97%
7) Foster Farms	414,412	1.87%
8) Modesto Tallow	396,231	1.79%
9) Nestle Food Company	161,893	0.73%
10) Conagra Foods	114,730	0.52%
Total (Top Ten Customers)	\$ 6,781,440	30.58%
Total (All Customers)	\$ 22,176,107	

The average single-family residence monthly sewer charge is \$14.26.

Commercial Group	Minimum Charge First 1,680 Cubic Feet	Charge Per 1,000 Gallons Additional
Group 1	\$21.95	\$1.73
Group 2	\$25.29	\$2.04
Group 3	\$31.00	\$2.47
Group 4	\$37.19	\$2.98

Industrial users pay a minimum charge of \$10.00, with additional charges of: \$892.23 per million gallons of flow, \$105.52 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$97.14 per 1,000 pounds of excess suspended solids (SS).

The Annual Budget of the City of Modesto is available from the City of Modesto Finance Department.

Updates of other required disclosures may be found elsewhere in this report, as follows:

Statement of Revenues, Expenses and Changes in Fund Net Assets	Page 25	
Principal Amount of Bonds and Other Parity Debt	Page 41	(Note III-C)
Historical Debt Service Coverage	Page 111	

(continued)

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Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements(3)	Coverage
1997	\$19,239,545	\$11,068,264	\$8,171,281	\$1,721,999	4.75
1998	20,191,250	11,192,431	8,998,819	3,637,239	2.47
1999	20,192,478	11,204,247	8,988,231	3,551,320	2.53
2000	19,490,824	12,380,840	7,109,984	3,549,445	2.00
2001	21,102,892	13,244,750	7,858,142	3,549,180	2.21
2002	22,288,061	17,117,917	5,170,144	3,550,017	1.46
2003	24,623,786	15,664,660	8,959,126	3,551,958	2.52
2004	26,123,771	16,687,958	9,435,813	3,550,120	2.67
2005	25,701,300	16,476,917	9,224,383	3,549,633	2.60
2006	24,695,878	16,044,781	8,651,097	2,916,462	2.97

Notes: (1) Consists of all receipts of the Sewer fund, including charges for services, interest and rental income, connection fees, not dedicated to capital spending purposes.

(2) Total Sewer Fund operating expenses exclusive of depreciation. Beginning with 2005, the portion of transfers out to other funds, if any, that would have otherwise been an operating expense of the the Sewer Fund have been included.

(3) Includes total principal and interest of Wastewater Treatment Facility Revenue Bonds, Series 1993 and 1997, and Refunding Revenue Bonds, Series 1987 and 1996, through 2005. During the 2005 fiscal year, these issues were refunded by Wastewater Refunding Revenue Bonds, Series 2005 A and 2005 B. The first debt service payment on the refunding bonds was November 1, 2005.

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)
Year Ended June 30, 2006

Modesto Public Financing Authority Lease Revenue Bonds, Series 1997
John Thurman Field Renovation Project

Update of Stadium and Insurance Information

In 1997, the City of Modesto renovated and improved the John Thurman Field stadium in order to fulfill its agreement obligations with the Modesto A's minor league professional baseball team and for the A's to continue playing baseball in Modesto. This Project was partially funded by the Series 1997 Lease Revenue Bonds. The improvements met or exceeded the requirements of the Professional Baseball Agreement between Major League Baseball and the National Association of Professional Baseball Leagues, which governs minor league baseball. Stadium improvements included expansion of seating from 2,500 to 4,000; expanded parking capacity, with improved lighting and security; renovation to the club house for both the Modesto Nuts (replaced the Modesto A's) and visiting teams; expansion of outfield dimensions; and addition of a state-of-the-art public address and speaker system. The Modesto A's played their home games in the renovated stadium from opening day, May 7, 1997, through the 2004 season.

In September, 2004, the Colorado Rockies signed a two-year player development contract with Modesto's minor league franchise. This contract assured that the City of Modesto would have minor league baseball at John Thurman Field through the 2006 season. In October 2006, the City of Modesto entered into a ten-year license agreement and a field maintenance agreement with the Modesto Nuts Baseball Club. In order to secure a ten-year commitment from the franchise owners, the City of Modesto agreed to stadium improvements that include a new scoreboard, a banquet/entertainment building, new grounds-crew area, improved picnic area, fieldwork and lighting renovation. Funding for these improvements will come from the Parks Capital Projects Fund and the refinancing of the existing John Thurman Field bonds. The refinancing will allow the city to lower the interest rate on the existing debt and will provide an additional \$2.4 million in new bond proceeds to finance these capital projects.

All insurance required by the Lease Revenue Bond legal documents is currently in full effect. Coverage includes public liability, property damage, fire and extended coverage, and rental interruption insurance.

The Annual Budget of the City of Modesto is available from the City of Modesto Finance Department.

(continued)

CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)
Year Ended June 30, 2006

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation, and
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D

Reserve Account Requirement as of 6/30/06	\$0 (covered by surety bond, issued by Federal Guaranty Insurance Company)
Balance in Parity Reserve Account as of 6/30/06	\$0
Balance in Rate Stabilization Account as of 6/30/06	\$2,846,800

Ten Largest Customers of Water Utility System, Year Ended 6/30/06

Customer	Business Type	Usage (ccf) (1)	% of Total Usage	Water Sales Revenue (\$)	% of Total Sales Revenue
1) Signature Foods	Cannery	503,795	1.45%	\$522,634	1.27%
2) Modesto City Schools	Education	413,695	1.19	504,923	1.23
3) Stanislaus Foods	Cannery	416,744	1.20	441,305	1.07
4) Foster Farms	Dairy Processor	320,805	0.82	328,345	0.80
5) Modesto Irrigation District	Power Company	196,337	0.56	219,219	0.53
6) Stanislaus County	Government	158,775	0.46	208,767	0.51
7) E&J Gallo Winery	Winery	147,772	0.43	169,434	0.41
8) Sylvan Union School District	Education	141,167	0.41	163,366	0.40
9) Yosemite Community College	Community College	129,288	0.37	158,762	0.39
10) Del Monte Foods	Cannery	109,911	0.32	117,906	0.29
Total Top Ten		<u>2,538,289</u>	<u>7.30%</u>	<u>\$2,834,661</u>	<u>6.90%</u>

Total Flat/Metered Revenues (Water Sales)	<u>\$41,107,414</u>
---	---------------------

(1) "ccf" means "hundred cubic feet"

	<u>Water Sales Revenue, Year Ended 6/30/06</u>	
Residential - flat rates		\$26,590,878
Commercial, industrial and municipal - metered rates		<u>14,516,536</u>
Total Water Sales		<u>\$41,107,414</u>

The average monthly flat rate service charge for residential customers is \$33.37.

Current Water Rates and Charges as of 6/30/06- Commercial Accounts

Meter Size	
3/4"	\$10.82
1"	15.34
1 1/2"	26.55
2"	40.06
3"	76.12
4"	116.63
6"	229.14
8"	364.19
10"	521.80
12"	971.95

In addition to these minimum charges, commercial accounts are charge \$1.01 per 100 cubic feet of water used.

Water rates for both metered and flat rate services were increased on July 1, 2005.

(1) Water Fund parity debt obligation, issued by the Modesto Irrigation District Financing Authority, on behalf of the City, and pursuant to the 1992 Treatment and Delivery Agreement between the District and the City. Balance of these bonds as of 6/30/06 is \$76,170,000.

(continued)

**CITY OF MODESTO
CONTINUING DISCLOSURE REQUIREMENTS INFORMATION**

1997 Water Utility System Refinancing Project, Refunding Revenue Certificates of Participation, and Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D

Water Utility System - Debt Service Coverage
Fiscal Year 2006

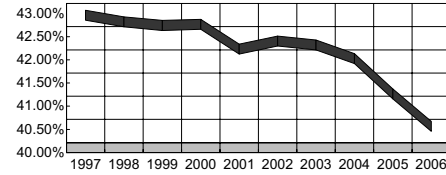
Gross Operating Revenues:	
Charges for services	\$42,639,348
Connection charges	1,728,873
Settlements and recoveries	1,334,259
Interest and rental income	534,234
Deposit to rate stabilization fund	(153,200)
Total Gross Operating Revenues	46,083,514
Operating Expenses:	
Total operating expenses	28,672,955
Less: Depreciation	(2,383,566)
T&DA debt service component paid to MID	(6,690,994)
Plus: Property taxes	84,556
Operating transfers	95,385
Total Operating Expenses	19,778,336
Net Operating Revenues	\$26,305,178
Total Debt Service:	
1997 Refunding Certificates of Participation	1,790,658
Treatment & Delivery Agreement	6,690,994
CDWR Loan	264,654
Total Debt Service	\$8,746,306
Debt Service Coverage (Net Operating Revenues/Total Debt Service)	3.01

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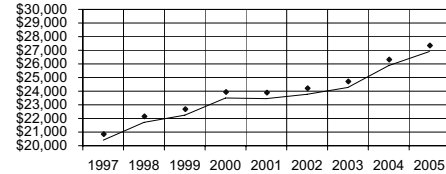
Updates of other required disclosures may be found elsewhere in this report, as follows:

Water Utility System Statement of Net Assets	Page 24	
Water Utility System Revenues and Expenses	Page 25	
Principal Amount of Certificates Outstanding	Page 40	(Note III-C)

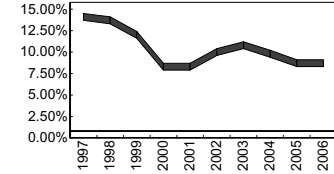
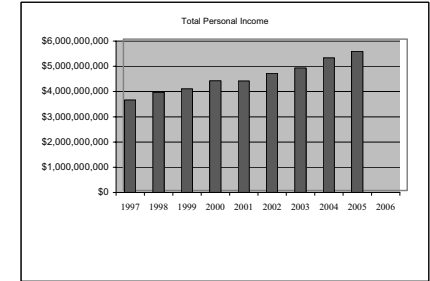
**CITY OF MODESTO
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last ten fiscal years**



■ City Population as a % of County Population



● Per Capita Personal Income



■ Unemployment Rate (%)

Fiscal Year	City Population	Total Personal Income	Per Capita Personal Income	Unemployment Rate (%)	Stanislaus County Population	City Population % of County
1997	179,770	\$3,668,027,080	\$20,404	13.7%	419,480	42.86%
1998	182,660	\$3,966,644,560	21,716	13.3%	427,642	42.71%
1999	184,600	\$4,106,242,400	22,244	11.6%	432,990	42.63%
2000	188,286	\$4,425,097,572	23,502	7.9%	441,364	42.66%
2001	188,286	\$4,417,566,132	23,462	7.9%	446,997	42.12%
2002	198,600	\$4,722,310,800	23,778	9.6%	469,512	42.30%
2003	203,300	\$4,935,310,800	24,276	10.4%	481,604	42.21%
2004	206,200	\$5,337,487,000	25,885	9.4%	491,900	41.92%
2005	207,634	\$5,588,469,110	26,915	8.3%	504,482	41.16%
2006	208,107	N/A	N/A	8.3%	514,370	40.46%

Source: California State Department of Finance
N/A denotes information is not available

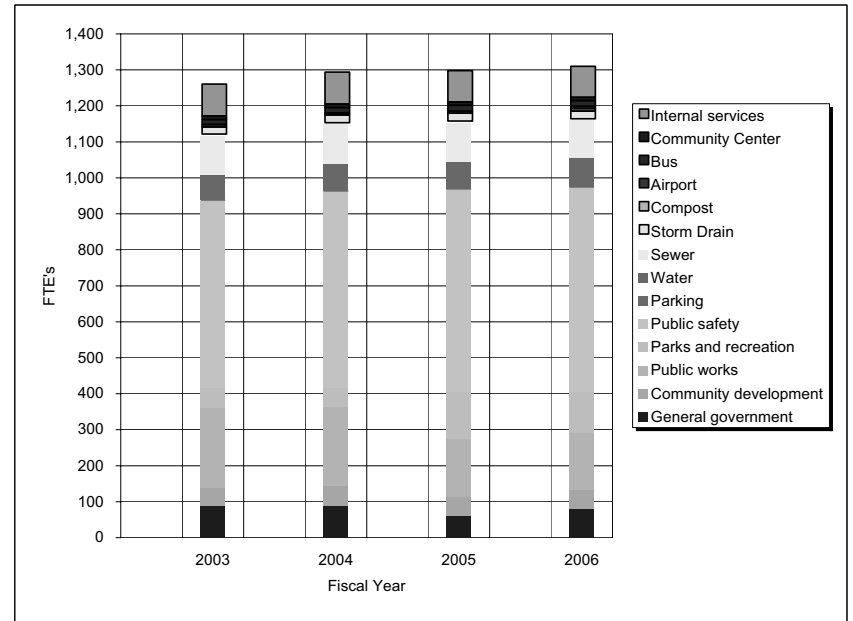
**CITY OF MODESTO
Principal Employers**

Employer	2005-06		Percentage of Total City Employment
	Number of Employees	Rank	
Signature Foods	4,100	1	4.1%
Modesto City Schools	4,000	2	4.0%
E & J Gallo Winery	3,425	3	3.5%
Del Monte Foods	2,600	4	2.6%
Memorial Medical Center	2,600	5	2.6%
Doctors Medical Center	2,300	6	2.3%
Stanislaus Food Products	2,000	7	2.0%
Modesto Junior College	1,866	8	1.9%
City of Modesto	1,691	9	1.7%
ConAgra	1,400	10	1.4%
Subtotal	<u>25,982</u>		26.2%
Total City Employment	99,100		
Total City Population	208,107		

D-63

Source: Stanislaus Economic Development & Workforce Alliance
Note: Information about Principal Employers was not available for the fiscal year 1996-97.

**CITY OF MODESTO
FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION
Last Four Fiscal Years**



Function	2003	2004	2005	2006
General government	88.25	88.25	62.25	79.00
Community development	51.00	56.00	53.00	54.00
Public works	221.80	219.00	159.00	159.50
Parks and recreation	56.25	52.50	130.50	112.50
Public safety	519.00	546.00	563.00	567.75
Parking	2.00	2.00	2.00	2.00
Water	70.00	76.00	76.00	81.00
Sewer	108.00	108.00	107.00	103.00
Storm Drain	20.00	22.00	22.00	22.00
Compost				7.00
Airport	7.00	6.00	6.00	6.00
Bus	14.00	15.00	16.00	16.00
Community Center	9.75	9.25	9.50	9.50
Internal services	88.75	89.00	87.00	86.00
Total	1,255.80	1,289.00	1,206.25	1,305.25

Source: City of Modesto

**CITY OF MODESTO
OPERATING INDICATOR BY FUNCTION**

	<u>2006</u>
Function/Program	
Public safety:	
Fire:	
Fire calls for service	20,200
Primary fire inspections conducted	1,006
Police:	
Police calls for Service	129,225
Law violations:	
Part I and Part II crimes	63,954
Physical arrests (adult and juvenile)	13,054
Traffic violations	23,104
Parking violations	16,874
Public works	
Street resurfacing (miles)	9.98
Potholes repaired (square miles)	30,252
Airport:	
Number of passengers enplaned	23,969
Number of tennant aircraft	201
Number of hangers	109
Number of runways	2
Annual fuel consumption in gallons	998,978
Bus Service:	
Number of buses	43
Number of routes	19
Total route miles	305
Average weekday number of passengers	11,206
Total number of passengers carried	3,629,191
Community Development	
Permits issued in 2005-2006	5,968
Estimated cost of construction	\$298,025,900
Building Inspections made	49,852
Culture and recreation:	
Community Services:	
Recreation class participants	5,291
Solid Waste:	
Recyclables Processed (tons per year)	582

Source: City of Modesto - Various Departments

Note: The City has elected to show only one year of data for this schedule

**CITY OF MODESTO
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**

	<u>2006</u>
Function/Program	
Public safety:	
Fire stations	11
Police stations	1
Police patrol units	98
Public works	
Traffic & Streets	
Miles of streets (1)	672
Street lights	13,358
Traffic Signals	140
Water:	
Miles of water mains	N/A
Fire hydrants	7,060
Storage capacity (thousands of gallons)	N/A
Wastewater:	
Miles of sanitary sewers	480.8
Miles of storm sewers	130.2
Number of treatment plants (2)	2
Treatment capacity (millions of gallons)	70
Community services:	
City parks	75
City parks acreage	1,088
Playgrounds	55
City trails	4
City trails miles	11
Regional park acreage	324
Regional park facilities:	
Golf courses (18 holes)	2
Golf courses (9 holes)	1
Clubhouse and banquet facility	8
Historic house	4
Community gardens	2
Community centers	6
Senior centers	1
Sports centers	1
Performing arts centers	1 (Under construction)
Swimming pools	16
Tennis courts	37
Baseball/softball diamonds	24
Soccer/football fields	22

(1) Information now reported from the City's GIS system and is more accurate.

(2) The City has both a Primary and a Secondary treatment facility.

Source: City of Modesto - Various Departments

Note: N/A denotes information is not available.

Note: The City has elected to show only one year of data for this schedule

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

_____, 2007

Modesto Public Financing Authority
Modesto, California

City of Modesto
Modesto, California

\$62,275,000
Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Modesto Public Financing Authority (the "Authority") of its Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the "Bonds") in the aggregate principal amount of \$62,275,000. The Bonds are issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and an Indenture, dated as of April 1, 2007 (the "Indenture") between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

In connection with the issuance of the Bonds, the City of Modesto (the "City") has leased certain properties to the Authority pursuant to a sublease, dated as of April 1, 2007 (the "Sublease") between the Authority and the City. The Authority has in turn leased such properties to the City pursuant to the terms of a facility lease, dated as of April 1, 2007 (the "Facility Lease") between the City and the Authority. The Bonds are secured as to payment from the Base Rental Payments to be made by the City to the Authority under the Facility Lease and certain other revenues and moneys pledged under the Indenture.

We have examined a certified copy of the record of proceedings relating to the execution and delivery of the Bond and such other documents and records of the Authority and the City as we have deemed necessary for the purpose of this opinion. We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Facility Lease and the Sublease, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

Certain requirements and procedures contained or referred to in the Indenture, the Facility Lease and the Sublease, or other documents pertaining to the Bonds, may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in

such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax exempt obligations. We express no opinion as to the exclusion from gross income for federal income tax purposes of interest on the Bonds on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than ourselves.

Based on the foregoing and our examination of existing constitutional, statutory and decisional law, such legal proceedings and such other documents as we deem necessary to render this opinion, we are of the opinion that:

1. The Bonds have been duly authorized, executed and delivered by the Authority and are legal, valid and special limited obligations of the Authority, payable from Revenues pledged therefore under the Indenture.

2. The Indenture has been duly authorized, executed and delivered by the Authority and constitutes a legal, valid and binding obligation of the Authority.

3. The Facility Lease has been duly authorized, executed and delivered by the City and the Authority and constitutes the legal, valid and binding obligation of the parties thereto.

4. The Sublease has been duly authorized, executed and delivered by the City and the Authority and constitutes the legal, valid and binding obligation of the parties thereto.

5. Based on existing statutes, regulations, rulings and judicial decisions and assuming compliance by the Authority and the City with certain covenants in the Indenture, the Facility Lease and Sublease and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Bond and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds.

6. Interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

7. Interest on the Bonds is exempt from personal income taxes imposed by the State of California.

We express no opinion with respect to any collateral tax consequences resulting from the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

With respect to the opinions expressed herein, the rights and obligations under the Bonds, the Indenture, the Facility Lease and the Sublease are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting the enforcement of creditors' rights generally, to the application of equitable principles (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint exercise of powers authorities or cities in the State of California. In addition, we express no opinion with respect to any

indemnification, contribution, penalty, choice of law, choice of forum, consent to non jury trial or waiver provisions contained in the foregoing documents.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

Respectfully submitted,

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APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is executed and delivered by the CITY OF MODESTO (the “City”) and THE BANK OF NEW YORK TRUST COMPANY, N.A., in its capacity as Dissemination Agent (the “Dissemination Agent”), in connection with the issuance by the Modesto Public Financing Authority (the “Authority”) of its \$62,275,000 Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the “Bonds”). The City is an “obligated person” with respect to the Bonds within the meaning of the Securities and Exchange Commission’s Rule 15c2-12(b)(5) (the “Rule”). The Bonds are being issued pursuant to an Indenture, dated as of April 1, 2007 (the “Indenture”), by and between the Authority and The Bank of New York Trust Company, N.A., San Francisco, California, as trustee (the “Trustee”). The City and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section 2, the following terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Central Post Office” means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Agreement.

“Disclosure Representative” shall mean the City Manager or Finance Director of the City, or their designee, or such other officer or employee as the City shall designate in writing to the Trustee and the Dissemination Agent from time to time.

“Dissemination Agent” shall mean The Bank of New York Trust Company, N.A., acting in the capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the Trustee a written acceptance of such designation.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve month or fifty-two week period hereafter selected by the City, with notice of such selection or change in fiscal year to be provided as set forth herein.

“Holders” shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The Nationally Recognized Municipal Securities Information Repositories for purposes of the Rule are identified in the Securities and Exchange Commission website located at www.sec.gov/consumer/nrmsir.htm.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City’s Fiscal Year (presently March 31 of the subsequent year following the end of the City’s Fiscal Year), commencing with the report for the end of the 2006-07 Fiscal Year, prepare an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City’s Fiscal Year changes, the City shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the City shall provide the Annual Report to the Dissemination Agent (if other than the City) and the Trustee. If by fifteen (15) Business Days prior to such date, the Dissemination Agent has not received a copy of the Annual Report from the City, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a). The City reserves the right to make this filing through the Central Post Office.

(c) If the Dissemination Agent is unable to verify that an Annual Report of the City has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached hereto as Appendix A.

- (d) The Dissemination Agent shall:
 - (i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and;
 - (ii) to the extent the City has provided the Dissemination Agent with the Annual Report, file a report with the City and (if the Dissemination Agent is not the Trustee, the Trustee) certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided. The Dissemination Agent shall have no responsibility for the content of any Annual Report.

SECTION 4. Content of Annual Reports. The Annual Report of the City shall contain or include by reference the following:

- (i) the Annual Budget of the City;
- (ii) the Comprehensive Annual Financial Report of the City and, to the extent not contained in said Report or if said Report is no longer being prepared, the audited financial statements of the City for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Government Accounting Standards Board. If the audited financial statements of the City are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available; and
- (iii) the principal amount of the Bonds and any other Parity Debt outstanding.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if the City determines that such event is material under federal securities law:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. unscheduled draws on credit enhancements reflecting financial difficulties;

9. unscheduled draws on the insurance policies reflecting financial difficulties;
10. substitution of the provider of any municipal bond insurance, or any failure by any insurer to perform on any municipal bond insurance policy; and
11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (e).

(d) If the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (e).

(e) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board or the Repositories with a copy to the City. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture.

(f) The City reserves the right to make such notice of significant event filings through the Central Post Office.

SECTION 6. Termination of Reporting Obligation. The obligations of the City under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be The Bank of New York Trust Company, N.A. The Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under this Disclosure Agreement in accordance with its written fee schedule provided to the City, as such fee schedule may be amended from time to time in writing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the City that does not adversely

affect the Dissemination Agent's rights and obligations) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

- (i) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds or the type of business conducted;
- (ii) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (iii) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the City shall not have any obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall (to the extent indemnified to its satisfaction)) or any Holder or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this

Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

In accepting the appointment under this Disclosure Agreement, the Dissemination Agent is not acting in a fiduciary capacity to the Holders or Beneficial Owners of the Bonds, the City, the Participating Underwriters or any other party or person.

No provision of this Disclosure Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the right to resign from its duties as Dissemination Agent upon thirty (30) days notice to the City and the Trustee. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City:	City of Modesto 1010 10 th Street, Suite 5200 Modesto, California 95353 Attention: Finance Director Telephone: (209) 577-5371 Facsimile: (209) 571-5880
To the Dissemination Agent:	The Bank of New York Trust Company, N.A. 550 Kearny Street, Suite 600 San Francisco, California 94108 Attention: Corporate Trust Fax: (415) 399-1647 Telephone: (415) 263-2418

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the City and the Dissemination Agent to the undertaking herein provided.

Dated: April 18, 2007

CITY OF MODESTO

By: _____
Director of Finance

THE BANK OF NEW YORK TRUST
COMPANY, N.A., Dissemination Agent

By: _____
Authorized Officer

APPENDIX A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: City of Modesto

Name of Issue: Modesto Public Financing Authority, Lease Revenue Refunding and
Capital Improvement Bonds, Series 2007

Date of Delivery: April 18, 2007

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated April 1, 2007, between the City and The Bank of New York Trust Company, N.A., as Dissemination Agent. The City has informed the undersigned that it anticipates that the Annual Report will be filed by _____.

Dated: _____

The Bank of New York Trust Company, N.A.,
as Dissemination Agent

By: _____
Authorized Officer

cc: City of Modesto

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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CIFG Assurance North America, Inc.
825 Third Avenue, Sixth Floor
New York, NY 10022
For information, contact (212) 909-3939
Toll-free (866) 243-4212

FINANCIAL GUARANTY INSURANCE POLICY

ISSUER: _____

Policy No.: CIFG NA-##

CUSIP: _____

Effective Date: _____, 200_

OBLIGATIONS: _____

CIFG ASSURANCE NORTH AMERICA, INC. ("CIFG NA"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to each Policyholder, subject only to the terms and conditions of this Policy (which includes each endorsement hereto), the full and complete payment by or on behalf of the Issuer of Regular Payments of principal of and interest on the Obligations.

For the further protection of each Policyholder, CIFG NA irrevocably and unconditionally guarantees:

(1) payment of any amount required to be paid under this Policy by CIFG NA following CIFG NA's receipt of notice and instruments of assignment as described in Endorsement No. 1 hereto and

(2) payment of the amount of any distribution of principal of and interest on the Obligations made during the Term of this Policy to such Policyholder that is subsequently avoided in whole or in part as a preference payment under applicable law, all as described in Endorsement No. 1 hereto.

CIFG NA shall be subrogated to the rights of each Policyholder to receive payments under the Obligations to the extent of any payment by CIFG NA hereunder. Upon disbursement in respect of an Obligation, CIFG NA shall become the owner of the Obligation, appurtenant coupon, if any, and all rights to payment of principal thereof or interest thereon.

The following terms shall have the meanings specified below, subject to and including any modifications set forth in any endorsement hereto, for all purposes of this Policy. "Effective Date," "Issuer" and "Obligations" mean, respectively, the Effective Date, Issuer and Obligations referenced above. "Policyholder" means, if the Obligations are in book-entry form, the registered owner of any Obligation as indicated on the registration books maintained by or on behalf of the Issuer for such purpose or, if the Obligations are in bearer form, the holder of any Obligation; provided, however, that any trustee acting on behalf of and for the benefit of such registered owner or holder shall be deemed to be the Policyholder to the extent of such trustee's authority. "Regular Payments" means payments of interest and principal which are agreed to be made during the Term of this Policy in accordance with the original terms of the Obligations when issued and without regard to any amendment or modification of such Obligations thereafter; payments which become due on an accelerated basis as a result of (a) a default by the Issuer or any other person, (b) an election by the Issuer to pay principal or other amounts on an accelerated basis or (c) any other cause, shall not constitute "Regular Payments" unless CIFG NA shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. "Term of this Policy" has the meaning set forth in Endorsement No. 1 hereto.

This Policy sets forth in full the undertaking of CIFG NA, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto or to the Obligations (except a contemporaneous or subsequent agreement or instrument given by CIFG NA or to which CIFG NA has given its written consent) or by the merger, consolidation or dissolution of the Issuer. The premiums paid in respect of this Policy are nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity. This Policy may not be cancelled or revoked during the Term of this Policy, including for nonpayment of premium due to CIFG NA. Payments under this Policy may not be accelerated except at the sole option of CIFG NA.

In witness whereof, CIFG ASSURANCE NORTH AMERICA, INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

CIFG ASSURANCE NORTH AMERICA, INC.

By _____
Authorized Officer

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APPENDIX H

BOOK ENTRY SYSTEM

The information in this Appendix concerning DTC and DTC's book entry only system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and recordkeeping with respect to beneficial ownership in the Bonds, payment of principal, premium, if any, and interest with respect to the Bonds to all DTC Participants or to Beneficial Owners, confirmation and transfers of Beneficial Ownership interests in the Bonds and other related transactions by and between DTC, DTC Participants and Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the 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. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be prepaid.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. 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 Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.



\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

RECEIPT FOR THE SERIES 2007 BONDS


The undersigned, an authorized officer of Banc of America Securities LLC, as underwriter under the Bond Purchase Contract, dated April 11, 2007 (the "Purchase Contract"), by and among Banc of America Securities LLC, the City of Modesto (the "City") and the Modesto Public Financing Authority (the "Authority"), for the purchase of the above-captioned Bonds, does hereby acknowledge that it has received from The Bank of New York Trust Company, N.A. (the "Trustee") the Authority's Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the "Series 2007 Bonds"), in the aggregate principal amount of \$62,275,000, dated April 18, 2007, consisting of fully registered bonds without coupons, all as set forth in the Indenture, dated as of April 1, 2007, by and between the Authority and the Trustee, with respect to the Series 2007 Bonds.

The undersigned hereby further acknowledges the receipt of, or waives the requirement for, each opinion, document and certificate required by Section 9(f) of the Purchase Contract, and agrees that the Underwriter has received each such opinion, document and certificate and that each is satisfactory to the Underwriter as to form and substance or have waived the requirements therefor.

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Dated: April 18, 2007

BANC OF AMERICA SECURITIES LLC,
as Underwriter

By: 
Principal

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK (“DTC”) TO THE DEPARTMENT OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC AND ANY PAYMENT IS MADE TO CEDE & CO., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR THE CITY OF MODESTO IS PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE REVENUES HEREINAFTER REFERRED TO IS PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF THE BONDS. NEITHER THE PAYMENT OF THE PRINCIPAL OF NOR INTEREST ON THE BONDS CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE CITY OF MODESTO OR ANY OF THE PUBLIC AGENCIES WHO ARE PARTIES TO THE AGREEMENT CREATING THE AUTHORITY.

<u>NUMBER</u>	<u>AMOUNT</u>
R-1	\$62,275,000

MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BOND
SERIES 2007
(AUCTION RATE SECURITIES)

MATURITY DATE	INITIAL INTEREST RATE	DATED DATE	CUSIP NUMBER
September 1, 2033	3.70%	April 18, 2007	607796 AX7

REGISTERED HOLDER: CEDE & CO.

PRINCIPAL AMOUNT: SIXTY-TWO MILLION TWO HUNDRED SEVENTY-FIVE THOUSAND DOLLARS

MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise of powers authority duly organized and existing under the laws of the State of California (the “State”), particularly Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State (the “Authority”), for value received, hereby promises to pay from the Revenues (as defined in the Indenture) and any other amounts pledged under the Indenture, dated as of April 1, 2007, by and between the Authority and The Bank of New York Trust Company, N.A. (together with any successor thereto, the “Trustee”), to the Registered Holder identified above or registered assigns, on the Maturity Date, stated above, the Principal Amount specified above, in lawful money of the United States of America, upon presentation and surrender hereof to the Trustee for cancellation; and to pay from such sources to the Registered Holder hereof as of the applicable Record Date by check mailed to such Registered Holder at such Holder s address as it last appears on the registration books kept for that purpose at the office of the Trustee (unless otherwise specified in the Indenture), interest hereon in like lawful money from the Dated Date stated above, or thereafter from the date to which interest has already been paid, payable on each Interest Payment Date (as defined in the Indenture), until payment of the Principal Amount hereof has been discharged as provided in the Indenture. Capitalized terms used herein have the meanings ascribed thereto in the Indenture.

The term of the Series 2007 Bonds will be divided into consecutive Interest Periods during each of which the Series 2007 Bonds shall bear interest at a Daily Rate, Weekly Rate, Flexible Rate, Term Rate or an ARS Rate. The initial Interest Period for the Series 2007 Bonds shall be an ARS Rate Period. The Series 2007 Bonds shall initially evidence interest at the Initial Interest Rate specified above for the period commencing on and including the Dated Date and ending on and including September 2, 2008, with interest payable on September 1, 2007, March 1, 2008 and September 3, 2008. Thereafter, the Auction Period shall be a seven-day Auction Period with Auctions generally conducted on Tuesdays. The first Auction shall occur on September 2, 2008. The Interest Period on the Series 2007 Bonds thereafter may be changed from time to time to a Weekly Interest Period, Daily Rate Period, Weekly Rate Period, Flexible Rate Period or a Term Rate Period and thereafter again changed as described in the Indenture.

REFERENCE IS MADE TO THE FURTHER PROVISIONS RELATING TO THIS BOND SET FORTH IN THE INDENTURE, WHICH SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS THOUGH FULLY SET FORTH HEREIN.

This Bond is one of a duly authorized issue of bonds of the Authority designated Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007, issued in the aggregate principal amount of \$62,275,000 (the Series 2007 Bonds) and pursuant to the provisions of Sections 6540 et seq. of the Government Code of the State (the "Act") and the Indenture.

The Series 2007 Bonds are issued to provide funds to finance or refinance the cost of the acquisition and construction of certain facilities (the "Project"). The Bonds are limited obligations of the Authority and are payable, as to interest thereon and principal thereof, solely from certain proceeds of the Bonds held in certain funds and accounts pursuant to the Indenture and the Revenues (as defined in the Indenture) derived from Base Rental Payments and other payments made by the City of Modesto (the "City"), and all interest or other investment income thereon, pursuant to the Facility Lease, dated as of April 1 2007, as amended from time to time (collectively, the "Facility Lease"); by and between the Authority and the City, and the Authority is not obligated to pay the interest or premium, if any, on and principal of the Bonds except from the Revenues. All Bonds are equally and ratably secured in accordance with the terms and conditions of the Indenture by a pledge of and charge and lien upon the Revenues, and the Revenues constitute a trust fund for the security and payment of the interest or premium, if any, on and principal of the Bonds as provided in the Indenture. The full faith and credit of the Authority and the City are not pledged for the payment of the interest or premium, if any, on or principal of the Bonds. No tax shall ever be levied to pay the interest on or principal of the Bonds. The Bonds are not secured by a legal or equitable pledge of or charge or lien upon any property of the Authority or any of its income or receipts except the Revenues, and neither the payment of the interest on nor principal of the Bonds is a debt, liability or general obligation of the Authority, the City or any member of the Authority for which such entity is obligated to levy or pledge any form of taxation. Additional Bonds payable from the Revenues may be issued which will rank equally as to security with the Series 2007 Bonds, but only subject to the conditions and upon compliance with the procedures set forth in the Indenture.

This Bond and the Series of which it forms a part are issued pursuant to and in full compliance with the constitution and laws of the State and pursuant to the Indenture. The Bond is a special and limited obligation of the Authority and will be payable solely from and secured exclusively by payments, revenues and other amounts pledged thereto in the Indenture. The Bonds do not represent or constitute a debt of the City or the State or any political subdivision thereof within the meaning of the provisions of the constitution or statutes of the State or a pledge of the faith and credit of the City or the State, or any political subdivision thereof, and the Bonds do not grant to owners or holders thereof any right to have the Authority or the State, or any political subdivision thereof, levy any taxes or appropriate funds for the payment of the principal thereof or interest thereon. The Authority has no taxing power.

No recourse shall be had for the payment of the principal of or premium, if any, or interest on any of the Bonds or for any claim based hereon or upon any obligations, covenant or agreement contained in the

Indenture, against any past, present or future officer, director member, trustee, employee or agent of the Authority, and all such liability of any such officers directors, members, trustees, employees or agents as such is hereby expressly waived and released as a condition of and consideration for the execution of the Indenture and the issuance of the Bonds.

Reference is hereby made to the Indenture (a copy of which is on file at the designated corporate trust office of the Trustee) and all indentures supplemental thereto, to the Facility Lease (a copy of which is on file at said designated corporate trust office of the Trustee) and to the Act for a description of the rights thereunder of the Holders of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of the Authority thereunder, to all the provisions of which Indenture and Facility Lease the Holder of this Bond, by acceptance hereof, assents and agrees.

The Series 2007 Bonds are subject to extraordinary redemption, prior to their stated maturity, at the option of the Authority, as provided in the Indenture. The Series 2007 Bonds are also subject to redemption at the option of the Authority at the times and at the Redemption Price as set forth in the Indenture. The Series 2007 Bonds are also subject to redemption in part prior to their stated maturity from Sinking Fund Installments established pursuant to the Indenture on any September 1, on or after September 1, 2007 at the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium, as set forth in the Indenture. When any Series 2007 Bond to be redeemed is subject to an ARS Rate Period, if such September 1 is not an Interest Payment Date, the redemption from Sinking Fund Installments shall occur on the Interest Payment Date immediately preceding such September 1 as set forth in the Indenture.

Notice of redemption shall be given by mail to the registered owners of the Bonds as provided in the Indenture. If notice of redemption shall have been given as aforesaid, the Bonds specified in said notice shall become due and payable at the applicable redemption price on the date of redemption therein designated; subject to the right to rescind such notice as provided in the Indenture.

The Series 2007 Bonds are subject to mandatory tender as provided in the Indenture.

If, on the date of payment, moneys for the payment of all the Bonds to be redeemed or maturing, together with interest to the date of payment shall be available with the Trustee for such payment on said date, then from and after the date of payment, interest on such Bonds shall cease to accrue and become payable.

This Bond is fully transferable by the Registered Holder hereof in person or by such owner's duly authorized attorney on the registration books of the Authority kept at the principal office of the Trustee upon surrender of this Bond together with a duly executed written instrument of transfer satisfactory to the Trustee. Upon such transfer a new fully registered Bond of authorized denominations of the same aggregate principal amount and maturity will be issued to the transferee in exchange therefor, all upon payment of the charges and subject to the terms and conditions set forth in the Indenture.

The owner of this Bond shall have no right to enforce the provisions of the Indenture or to institute action to enforce the covenants therein, or to take any action with respect to any Event of Default under the Indenture, or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Indenture. Modifications or alterations of the Indenture, or of any supplements thereto, may be made only to the extent and in the circumstances permitted by the Indenture.

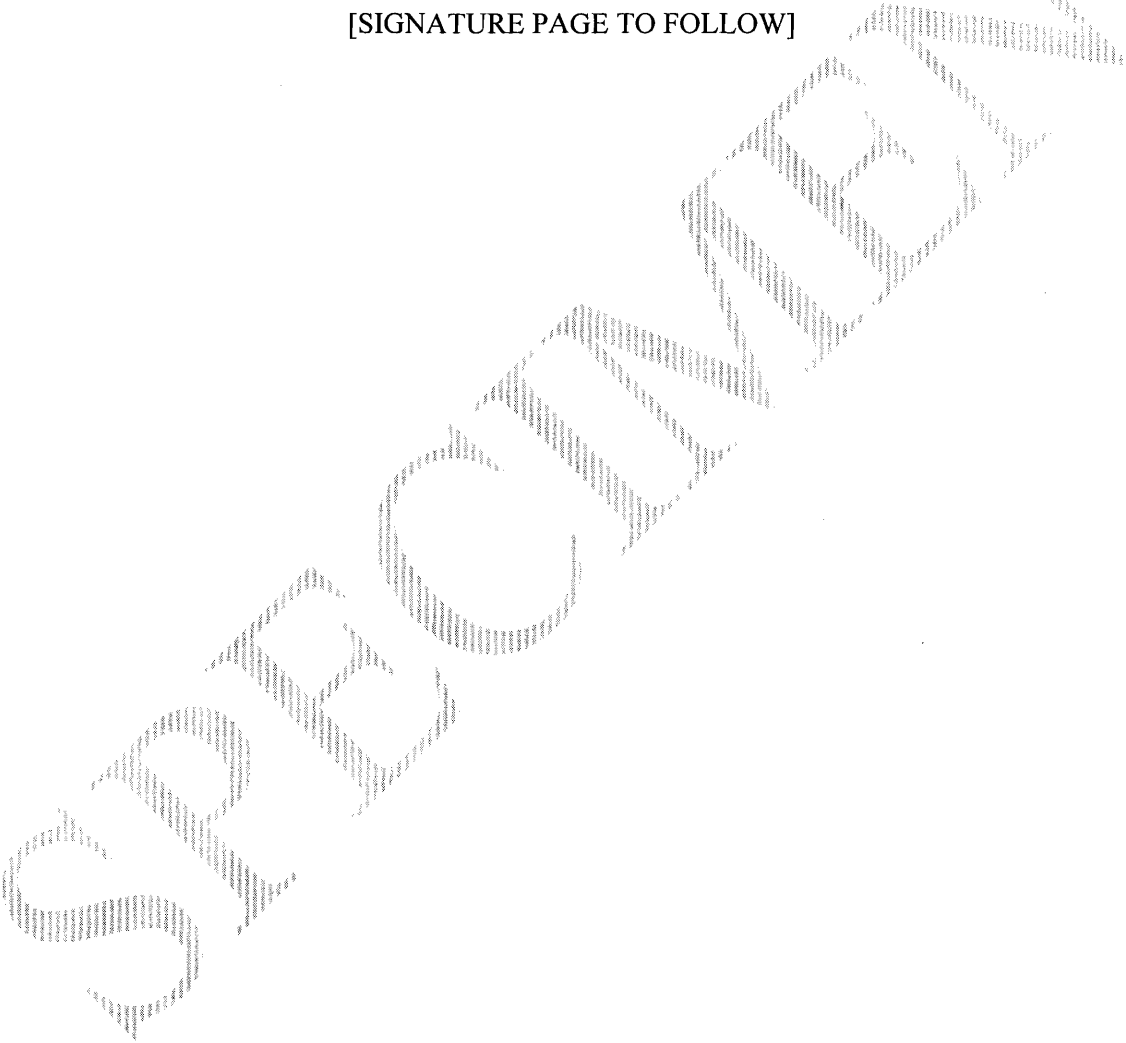
IT IS HEREBY CERTIFIED RECITED AND DECLARED that all acts conditions and things required to be done, to exist, to happen and to be performed in order to make this Bond a valid and binding obligation

of the Authority according to its terms have been done, do exist, have happened and have been performed in regular and due form, time and manner as so required.

The Authority and the Trustee may deem and treat the person in whose name this Bond is registered upon the registration books as the absolute owner hereof, whether this Bond is overdue or not, for the purpose of receiving payment of or on account of the principal or interest and for all other purposes, and all such payments so made to the Registered Holder or upon such Holder s order shall be valid and effectual to satisfy and discharge the liability on this Bond to the extent of the sum or sums so paid, and neither the Authority nor Trustee shall be affected by any notice to the contrary.

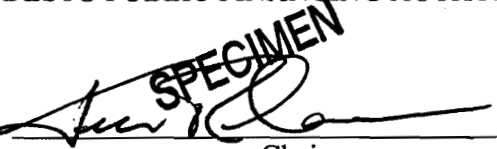
This Bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Indenture until the Certificate of Authentication hereon shall have been executed by the Trustee.

[SIGNATURE PAGE TO FOLLOW]



IN WITNESS WHEREOF, MODESTO PUBLIC FINANCING AUTHORITY has caused this Bond to be executed in its name and on its behalf by the manual or facsimile signature of its Chairman and attested by the manual or facsimile signature of its Secretary, all as of the date set forth above.

MODESTO PUBLIC FINANCING AUTHORITY

By: 
Chairman

ATTEST:


Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Bonds described in the within mentioned Indenture, which has been registered on the date set forth below.

Dated: April 18, 2007

THE BANK OF NEW YORK TRUST
COMPANY, N.A., as Trustee

By:  **SPECIMEN**
Authorized Signatory

STATEMENT OF INSURANCE

CIFG Assurance North America, Inc. ("CIFG NA"), New York, New York, has delivered its financial guaranty insurance policy (the "Policy") with respect to the scheduled payments of principal and interest on this Bond as described hereinbelow to The Bank of New York Trust Company, N.A., San Francisco, California or its successor, as trustee (the "Trustee") for the \$62,275,000 Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007. Said Policy is on file and available for inspection at the principal office of the Trustee and a copy thereof may be obtained from CIFG NA or the Trustee.



[FORM OF ASSIGNMENT]

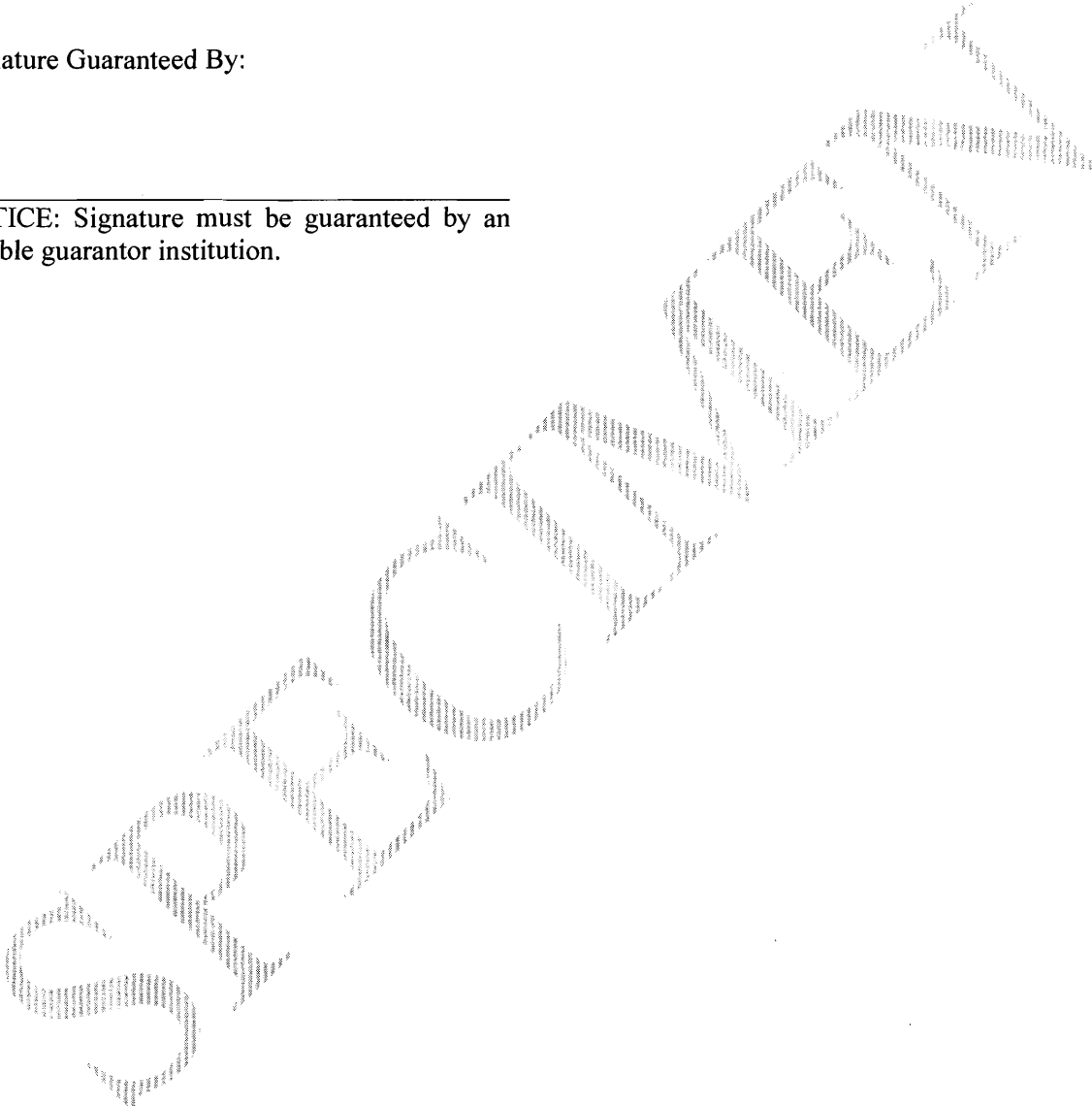
For value received, the undersigned do(es) hereby sell, assign and transfer unto _____ the within mentioned Bond and hereby irrevocably constitute(s) and appoint(s) _____, attorney, to transfer the same on the books of the within named Trustee, with full power of substitution in the premises.

Dated: _____

By: _____

Signature Guaranteed By:

NOTICE: Signature must be guaranteed by an eligible guarantor institution.



FitchRatings

1201 East 7th Street
Powell, WY 82435

T 307 754 2012 / 800 85 FITCH
www.fitchratings.com

April 16, 2007

Ms. Yahayra Reyes
CIFG Assurance North America, Inc.
825 Third Avenue
6th Floor
New York, NY 10022

Re: Modesto Public Financing Authority (CA) / Policy # CIFGNA-1568

Dear Ms. Reyes:

Fitch Ratings has assigned one or more ratings and/or otherwise taken rating action(s), as detailed on the attached Notice of Rating Action.

Ratings assigned by Fitch are based on documents and information provided to us by issuers, obligors, and/or their experts and agents, and are subject to receipt of the final closing documents. Fitch does not audit or verify the truth or accuracy of such information.

It is important that Fitch be provided with all information that may be material to its ratings so that they continue to accurately reflect the status of the rated issues. Ratings may be changed, withdrawn, suspended or placed on Rating Watch due to changes in, additions to or the inadequacy of information.

Ratings are not recommendations to buy, sell or hold securities. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect of any security.

The assignment of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement or other filing under U.S., U.K., or any other relevant securities laws.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time.

Sincerely,



Dey Lynn Stebner
Insured Ratings Manager
U.S. Public Finance

DLS/bs

Enc: Notice of Rating Action
(Doc ID: 73926 Rev 2)

Notice of Rating Action

<u>Bond Description</u>	<u>Rating Type</u>	<u>Action</u>	<u>Rating</u>	<u>Outlook/ Watch</u>	<u>Eff Date</u>	<u>Notes</u>
Modesto Public Financing Authority (CA) (Capital Improvements & Refinancing Project) lease rev bonds ser 2007 (Insured: CIFG Assurance North America, Inc.)	Long Term	Upgrade	AAA	RO:Sta	16-Apr-2007	

Key: RO: Rating Outlook, RW: Rating Watch; Pos: Positive, Neg: Negative, Sta: Stable, Evo: Evolving

**STANDARD
& POOR'S**

55 Water Street, 38th Floor
New York, NY 10041-0003
tel 212 438-2074
reference no.: 40184610

April 16, 2007

CIFG Assurance North America, Inc.
825 Third Avenue - 6th Floor
New York, NY 10022
Attention: Mr. Steven Klein, Managing Director of Public Finance

Re: ***\$62,275,000 Modesto Public Financing Authority, California, Lease Revenue Refunding and Capital Improvement Bonds, Series 2007, dated: Date of Delivery, due: September 1, 2033, (POLICY #CIFG NA-1568)***

Dear Mr. Klein:

Standard & Poor's has reviewed the rating on the above-referenced obligations. After such review, we have changed the rating to "AAA" from "A". The rating reflects our assessment of the likelihood of repayment of principal and interest based on the bond insurance policy your company is providing. Therefore, rating adjustments may result from changes in the financial position of your company or from alterations in the documents governing the issue.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

STANDARD
& POOR'S

Mr Steven Klein
Page 2
April 16, 2007

Standard & Poor's is pleased to be of service to you. For more information please visit our website at www.standardandpoors.com. If we can be of help in any other way, please contact us. Thank you for choosing Standard & Poor's and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services
a division of The McGraw-Hill Companies, Inc.

A handwritten signature in black ink that reads "Standard and Poor's" followed by a stylized monogram or initials.

ak

STANDARD
& POOR'S

FitchRatings

650 California Street, 8th Floor
San Francisco, CA 94108

T 415 732 5770 / 800 95 FITCH
www.fitchratings.com

March 6, 2007

Mr. Wayne Padilla
Finance Director
Modesto Public Financing Authority
Financial Services
1010 Tenth Street, Suite 5200
Modesto, CA 95353

Dear Mr. Padilla:

Fitch Ratings has assigned one or more ratings and/or otherwise taken rating action(s), as detailed on the attached Notice of Rating Action.

Ratings assigned by Fitch are based on documents and information provided to us by issuers, obligors, and/or their experts and agents, and are subject to receipt of the final closing documents. Fitch does not audit or verify the truth or accuracy of such information.

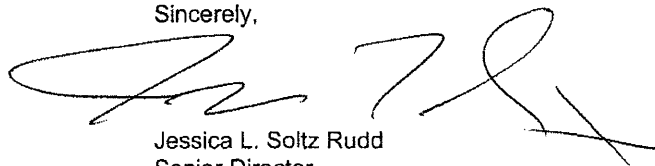
It is important that Fitch be provided with all information that may be material to its ratings so that they continue to accurately reflect the status of the rated issues. Ratings may be changed, withdrawn, suspended or placed on Rating Watch due to changes in, additions to or the inadequacy of information.

Ratings are not recommendations to buy, sell or hold securities. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect of any security.

The assignment of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement or other filing under U.S., U.K., or any other relevant securities laws.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time.

Sincerely,



Jessica L. Soltz Rudd
Senior Director
U.S. Public Finance

JSR/dg

Enc: Notice of Rating Action
(Doc ID: 69426)

Notice of Rating Action

<u>Bond Description</u>	<u>Rating Type</u>	<u>Action</u>	<u>Rating</u>	<u>Outlook/ Watch</u>	<u>Eff Date</u>	<u>Notes</u>
Modesto Public Financing Authority (CA) (Capital Improvements & Refinancing Project) lease rev bonds ser 2007	Long Term	New Rating	A+	RO:Sta	05-Mar-2007	

Key: RO: Rating Outlook, RW: Rating Watch; Pos: Positive, Neg: Negative, Sta: Stable, Evo: Evolving

**STANDARD
& POOR'S**

One Market
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
tel 415 371-5004
reference no.: 817834

March 11, 2007

City of Modesto
1010 Tenth Street, Suite 5200
P.O. Box 642
Modesto, CA 95353
Attention: Mr. Wayne Padilla, Director of Finance

Re: *US\$61,550,000 Modesto Public Finance Authority, California, Lease Revenue Bonds, (Modesto), dated: Date of Delivery, due: September 1, 2033*

Dear Mr. Padilla:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned a rating of "A". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial

Mr. Wayne Padilla
Page 2
March 11, 2007

information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

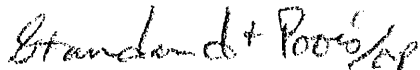
Please send all information to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

Standard & Poor's is pleased to be of service to you. For more information on Standard & Poor's, please visit our website at www.standardandpoors.com. If we can be of help in any other way, please call or contact us at nypublicfinance@standardandpoors.com. Thank you for choosing Standard & Poor's and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services
a division of The McGraw-Hill Companies, Inc.

A handwritten signature in cursive script that reads "Standard & Poor's".

jf

enclosures

cc: Mr. George W. Britton
Mr. Peter Miller

STANDARD &POOR'S

Standard & Poor's Ratings Services Terms and Conditions Applicable To U.S. Public Finance Ratings

Request for a rating. Standard & Poor's issues public finance ratings for a fee upon request from an issuer, or from an underwriter, financial advisor, investor, insurance company, or other entity, provided that the obligor and issuer (if different from the obligor) each has knowledge of the request. The term "issuer/obligor" in these Terms and Conditions means the issuer and the obligor if the obligor is different from the issuer.

Agreement to Accept Terms and Conditions. Standard & Poor's assigns Public Finance ratings subject to the terms and conditions stated herein and in the rating letter. The issuer/obligor's use of a Standard & Poor's public finance rating constitutes agreement to comply in all respects with the terms and conditions contained herein and in the rating letter and acknowledges the issuer/obligor's understanding of the scope and limitations of the Standard & Poor's rating as stated herein and in the rating letter.

Fees and expenses. In consideration of our analytic review and issuance of the rating, the issuer/obligor agrees to pay Standard & Poor's a rating fee. Payment of the fee is not conditioned on Standard & Poor's issuance of any particular rating. In most cases an annual surveillance fee will be charged for so long as we maintain the rating. The issuer/obligor will reimburse Standard & Poor's for reasonable travel and legal expenses if such expenses are not included in the fee. Should the rating not be issued, the issuer/obligor agrees to compensate Standard & Poor's based on the time, effort, and charges incurred through the date upon which it is determined that the rating will not be issued.

Scope of Rating. The issuer/obligor understands and agrees that (i) an issuer rating reflects Standard & Poor's current opinion of the issuer/obligor's overall financial capacity to pay its financial obligations as they come due, (ii) an issue rating reflects Standard & Poor's current opinion of the likelihood that the issuer/obligor will make payments of principal and interest on a timely basis in accordance with the terms of the obligation, (iii) a rating is an opinion and is not a verifiable statement of fact, (iv) ratings are based on information supplied to Standard & Poor's by the issuer/obligor or by its agents and upon other information obtained by Standard & Poor's from other sources it considers reliable, (v) Standard & Poor's does not perform an audit in connection with any rating and a rating does not represent an audit by Standard & Poor's, (vi) Standard & Poor's relies on the issuer/obligor, its accountants, counsel, and other experts for the accuracy and completeness of the information submitted in connection with the rating and surveillance process, (vii) Standard & Poor's undertakes no duty of due diligence or independent verification of any information, (viii) Standard & Poor's does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a rating or the results obtained from the use of such information, (ix) Standard & Poor's may raise, lower, suspend, place on CreditWatch, or withdraw a rating at any time, in Standard & Poor's sole discretion, and (x) a rating is not a "market" rating nor a recommendation to buy, hold, or sell any financial obligation.

Publication. Standard & Poor's reserves the right to publish, disseminate, or license others to publish or disseminate the rating and the rationale for the rating unless the issuer/obligor specifically requests that the rating be assigned and maintained on a confidential basis. If a confidential rating subsequently becomes public through disclosure by the issuer/obligor or a third party other than Standard & Poor's, Standard & Poor's reserves the right to publish it. Standard & Poor's may publish explanations of Standard & Poor's ratings criteria from time to time and nothing in this Agreement shall be construed as limiting Standard & Poor's ability to modify or refine Standard & Poor's criteria at any time as Standard & Poor's deems appropriate.

Information to be Provided by the Issuer/obligor. The issuer/obligor shall meet with Standard & Poor's for an analytic review at any reasonable time Standard & Poor's requests. The issuer/obligor also agrees to provide Standard & Poor's promptly with all information relevant to the rating and surveillance of the rating including information on material changes to information previously supplied to Standard & Poor's. The rating may be affected by Standard & Poor's opinion of the accuracy, completeness, timeliness, and reliability of information received from the issuer/obligor or its agents. Standard & Poor's undertakes no duty of due diligence or independent verification of

information provided by the issuer/obligor or its agents. Standard & Poor's reserves the right to withdraw the rating if the issuer/obligor or its agents fails to provide Standard & Poor's with accurate, complete, timely, or reliable information.

Standard & Poor's Not an Advisor, Fiduciary, or Expert. The issuer/obligor understands and agrees that Standard & Poor's is not acting as an investment, financial, or other advisor to the issuer/obligor and that the issuer/obligor should not and cannot rely upon the rating or any other information provided by Standard & Poor's as investment or financial advice. Nothing in this Agreement is intended to or should be construed as creating a fiduciary relationship between Standard & Poor's and the issuer/obligor or between Standard & Poor's and recipients of the rating. The issuer/obligor understands and agrees that Standard & Poor's has not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the U.S. Securities Act of 1933.

Limitation on Damages. The issuer/obligor agrees that Standard & Poor's, its officers, directors, shareholders, and employees shall not be liable to the issuer/obligor or any other person for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising out of or relating to the rating or the related analytic services provided for in an aggregate amount in excess of the aggregate fees paid to Standard & Poor's for the rating, except for Standard & Poor's gross negligence or willful misconduct. In no event shall Standard & Poor's, its officers, directors, shareholders, or employees be liable for consequential, special, indirect, incidental, punitive or exemplary damages, costs, expenses, legal fees, or losses (including, without limitation, lost profits and opportunity costs). In furtherance and not in limitation of the foregoing, Standard & Poor's will not be liable in respect of any decisions made by the issuer/obligor or any other person as a result of the issuance of the rating or the related analytic services provided by Standard & Poor's hereunder or based on anything that appears to be advice or recommendations. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise. The issuer/obligor acknowledges and agrees that Standard & Poor's does not waive any protections, privileges, or defenses it may have under law, including but not limited to, the First Amendment of the Constitution of the United States of America.

Term. This Agreement shall terminate when the ratings are withdrawn. Notwithstanding the foregoing, the paragraphs above, "Standard & Poor's Not an Advisor, Fiduciary, or Expert" and "Limitation on Damages", shall survive the termination of this Agreement or any withdrawal of a rating.

Third Parties. Nothing in this Agreement, or the rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the rating. No person is intended as a third party beneficiary to this Agreement or to the rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Complete Agreement. This Agreement constitutes the complete agreement between the parties with respect to its subject matter. This Agreement may not be modified except in a writing signed by authorized representatives of both parties.

Governing Law. This Agreement and the rating letter shall be governed by the internal laws of the State of New York. The parties agree that the state and federal courts of New York shall be the exclusive forums for any dispute arising out of this Agreement and the parties hereby consent to the personal jurisdiction of such courts.

CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is executed and delivered by the CITY OF MODESTO (the “City”) and THE BANK OF NEW YORK TRUST COMPANY, N.A., in its capacity as Dissemination Agent (the “Dissemination Agent”), in connection with the issuance by the Modesto Public Financing Authority (the “Authority”) of its \$62,275,000 Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the “Bonds”). The City is an “obligated person” with respect to the Bonds within the meaning of the Securities and Exchange Commission’s Rule 15c2-12(b)(5) (the “Rule”). The Bonds are being issued pursuant to an Indenture, dated as of April 1, 2007 (the “Indenture”), by and between the Authority and The Bank of New York Trust Company, N.A., San Francisco, California, as trustee (the “Trustee”). The City and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section 2, the following terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Central Post Office” means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Agreement.

“Disclosure Representative” shall mean the City Manager or Finance Director of the City, or their designee, or such other officer or employee as the City shall designate in writing to the Trustee and the Dissemination Agent from time to time.

“Dissemination Agent” shall mean The Bank of New York Trust Company, N.A., acting in the capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the Trustee a written acceptance of such designation.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve month or fifty-two week period hereafter selected by the City, with notice of such selection or change in fiscal year to be provided as set forth herein.

“Holders” shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The Nationally Recognized Municipal Securities Information Repositories for purposes of the Rule are identified in the Securities and Exchange Commission website located at www.sec.gov/consumer/nrmsir.htm.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City’s Fiscal Year (presently March 31 of the subsequent year following the end of the City’s Fiscal Year), commencing with the report for the end of the 2006-07 Fiscal Year, prepare an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City’s Fiscal Year changes, the City shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the City shall provide the Annual Report to the Dissemination Agent (if other than the City) and the Trustee. If by fifteen (15) Business Days prior to such date, the Dissemination Agent has not received a copy of the Annual Report from the City, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a). The City reserves the right to make this filing through the Central Post Office.

(c) If the Dissemination Agent is unable to verify that an Annual Report of the City has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached hereto as Appendix A.

- (d) The Dissemination Agent shall:
 - (i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and;
 - (ii) to the extent the City has provided the Dissemination Agent with the Annual Report, file a report with the City and (if the Dissemination Agent is not the Trustee, the Trustee) certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided. The Dissemination Agent shall have no responsibility for the content of any Annual Report.

SECTION 4. Content of Annual Reports. The Annual Report of the City shall contain or include by reference the following:

- (i) the Annual Budget of the City;
- (ii) the Comprehensive Annual Financial Report of the City and, to the extent not contained in said Report or if said Report is no longer being prepared, the audited financial statements of the City for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Government Accounting Standards Board. If the audited financial statements of the City are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available; and
- (iii) the principal amount of the Bonds and any other Parity Debt outstanding.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if the City determines that such event is material under federal securities law:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. unscheduled draws on credit enhancements reflecting financial difficulties;

9. unscheduled draws on the insurance policies reflecting financial difficulties;
10. substitution of the provider of any municipal bond insurance, or any failure by any insurer to perform on any municipal bond insurance policy; and
11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (e).

(d) If the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (e).

(e) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board or the Repositories with a copy to the City. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture.

(f) The City reserves the right to make such notice of significant event filings through the Central Post Office.

SECTION 6. Termination of Reporting Obligation. The obligations of the City under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be The Bank of New York Trust Company, N.A. The Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under this Disclosure Agreement in accordance with its written fee schedule provided to the City, as such fee schedule may be amended from time to time in writing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the City that does not adversely

affect the Dissemination Agent's rights and obligations) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

- (i) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds or the type of business conducted;
- (ii) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (iii) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the City shall not have any obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall (to the extent indemnified to its satisfaction)) or any Holder or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this

Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

In accepting the appointment under this Disclosure Agreement, the Dissemination Agent is not acting in a fiduciary capacity to the Holders or Beneficial Owners of the Bonds, the City, the Participating Underwriters or any other party or person.

No provision of this Disclosure Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the right to resign from its duties as Dissemination Agent upon thirty (30) days notice to the City and the Trustee. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City: City of Modesto
1010 10th Street, Suite 5200
Modesto, California 95353
Attention: Finance Director
Telephone: (209) 577-5371
Facsimile: (209) 571-5880

To the Dissemination Agent: The Bank of New York Trust Company, N.A.
550 Kearny Street, Suite 600
San Francisco, California 94108
Attention: Corporate Trust
Fax: (415) 399-1647
Telephone: (415) 263-2418

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

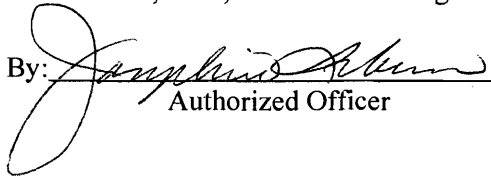
SECTION 14. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the City and the Dissemination Agent to the undertaking herein provided.

Dated: April 18, 2007

CITY OF MODESTO

By: 
Director of Finance

THE BANK OF NEW YORK TRUST
COMPANY, N.A., Dissemination Agent

By: 
Authorized Officer

APPENDIX A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: City of Modesto

Name of Issue: Modesto Public Financing Authority, Lease Revenue Refunding and
Capital Improvement Bonds, Series 2007

Date of Delivery: April 18, 2007

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated April 1, 2007, between the City and The Bank of New York Trust Company, N.A., as Dissemination Agent. The City has informed the undersigned that it anticipates that the Annual Report will be filed by _____.

Dated: _____

The Bank of New York Trust Company, N.A.,
as Dissemination Agent

By: _____
Authorized Officer

cc: City of Modesto

REPORT OF PROPOSED DEBT ISSUANCE

California Debt and Investment Advisory Commission
915 Capitol Mall, Room 400, Sacramento, CA 95814
P.O. Box 942809, Sacramento, CA 94209-0001
Tel.: (916) 653-3269 FAX: (916) 654-7440

For Office Use Only

CDIAC #: _____

RCVD MAR 20 '07

Completion and timely submittal of this form to the California Debt and Investment Advisory Commission (CDIAC) at the above address will assure your compliance with existing California State law and will assist in the maintenance of a complete database of public debt in California. Thank you for your cooperation.¹

ISSUER NAME: Modesto Public Financing Authority

(If pool bond, list participants)

ISSUE NAME: Lease Revenue Refunding and Capital Improvement Bonds Series 2007

Please specify type/name of project: _____

PROPOSED SALE DATE: 4/10/07 PRINCIPAL TO BE SOLD: \$ 65,000,000

IS ANY PORTION OF THE DEBT FOR REFUNDING??

No Yes, proposed amount for refunding \$ 60,000,000

Issuer Contact:

Name: Wayne Padilla

Title: Director of Finance

Address: City of Modesto, City Hall, 1010 Tenth Street, Suite 5200, Modesto, California 95353

Phone: (209) 577-5371 E-mail: wpadilla@modestogov.com Issuer Located In Stanislaus County

Filing Contact: Name of Individual (representing: Bond Counsel, Issuer, Financial Advisor, or Lead Underwriter) who completed this form and may be contacted for information:

Name: Eric D. Tashman, Esq.

Firm/Agency: Sidley Austin LLP

Address: 555 California Street, Suite 2000, San Francisco, California 94104-1715

Phone: (415) 772-1200 E-mail: etashman@sidley.com

Send acknowledgement/copies to: Katy A. McNeil, Legal Assistant E-mail: kamcneil@sidley.com

FINANCING PARTICIPANTS:

BOND COUNSEL: Sidley Austin LLP

FINANCIAL ADVISOR: Public Financial Management

UNDERWRITER/PURCHASER: Banc of America Securities LLC

IS THE INTEREST ON THE DEBT TAXABLE?

Under State law: NO (tax-exempt) YES (taxable)

Under Federal law: NO (tax-exempt) YES (taxable)

If the issue is federally tax-exempt, is interest a specific preference item for the purpose of alternative minimum tax?

Yes, preference item No, not a preference item

TYPE OF SALE: Competitive Negotiated

¹ Section 8855(k) of the California Government Code requires the issuer of any proposed new public debt issue to give written notice of the proposed sale to the CDIAC no later than 30 days prior to the sale. Under California Government Code Section 8855(l), "The issuer of any new public debt issue shall, not later than 45 days after the signing of the bond purchase contract in a negotiated or private financing, or after the acceptance of a bid in a competitive offering, submit a report of final sale and official statement to the Commission. The Commission may require information to be submitted in the report of final sale that is considered appropriate."

² Section 53583(c)(2)(B) of the California Government Code requires that any local agency selling refunding bonds at private sale or on a negotiated basis shall send a written statement, within two weeks after the bonds are sold, to the CDIAC explaining the reasons why the local agency determined to sell the bonds at private sale or on a negotiated basis instead of at public sale.

TYPE OF DEBT INSTRUMENT

NOTE

- Bond anticipation (BAN)
- Grant anticipation (GAN)
- Other note (Please specify below.) (OTHN)
- Revenue anticipation (RAN)
- Tax allocation (TALN)
- Tax and revenue anticipation (TRAN)
- Tax anticipation (TAN)

- Commercial paper (CP)
- Certificates of participation/leases (COPL)
- Other (Please specify below.) (OTH)

BOND

- Conduit revenue (Private obligor) (CRB)
- General obligation (GOB)
- Limited tax obligation (LTOB)
- Other bond (Please specify below.) (OTHB)
- Public lease revenue (PLRB)
- Revenue (Pool) (RB)
- Revenue (Public enterprise) (PERB)
- Sales tax revenue (STRB)
- Special assessment (SAB)
- Tax allocation (TAB)

Please specify if "Other note/Other bond/Other" was checked: _____

SOURCE(S) OF REPAYMENT

- Bond proceeds (BDPR)
- General fund of issuing jurisdiction (GNFD)
- Grants (GRNT)
- Intergovernmental transfers other than grants (ITGV)
- Local obligations (LOB)
- Private obligor payments (POP)
- Other (Please specify.) (OTHS): (i) Base Rental Payments pursuant to a facility lease and (ii) swap revenues.

- Property tax revenues (PRTX)
- Public enterprise revenues (PER)
- Sales tax revenues (SATR)
- Special assessments (SA)
- Special tax revenues (SPTR)
- Tax-increment (TI)

PURPOSE(S) OF FINANCING

- Cash flow, interim financing (CFIF)
- Project, interim financing (PIF)

- College/university housing (CUH)
- Multifamily housing (MFH)
- Single-family housing (SFH)

- Health care facilities (HCF)
- Hospital (HOSP)
- Other/multiple health care purposes (equipment; etc.)(OMHC)

- College/university facility (CUF)
- K-12 school facility (KSCH)
- Other/multiple education uses (equipment, etc.)(OMED)
- Student loans (SLC)

- Redevelopment, multiple uses (RD)

- Commercial development (CMDV)
- Industrial development (INDV)
- Pollution control (PC)

- Airport (APRT)
- Bridges and highways (BRHI)
- Convention center (CCTR)
- Equipment (EQU)
- Flood control/storm drainage (FLDS)
- Multiple capital improvements and public works (MCAP)
- Other capital improvements and public works (OCAP)
- Parking (PRKG)
- Parks/open space (PRKO)
- Ports and marinas (PRTS)
- Power generation/transmission (PWR)
- Prisons/jails/correctional facilities (PRSN)
- Public building (PB)
- Public transit (PTR)
- Recreation and sports facilities (RCSP)
- Seismic safety improvements/repair (SSI)
- Solid waste recovery facilities (SWST)
- Street construction and improvements (SCI)
- Wastewater collection and treatment (WSTW)
- Water supply/storage/distribution (WTR)

- Insurance/pension funds (IPF)
- Other than listed above (OTH)

Please specify type/name of project if different from above: _____



CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

915 CAPITOL MALL, ROOM 400
P.O. BOX 942809
SACRAMENTO, CA 94209-0001
TELEPHONE: (916) 653-3269
FAX: (916) 654-7440

March 21, 2007

TO: Katy A McNeil
Sidley Austin LLP
555 California St 20th Fl
San Francisco, CA 94104-1715

FROM: John Decker, Executive Director

RE: ACKNOWLEDGEMENT OF REPORT OF PROPOSED DEBT ISSUANCE

Section 8855(k) of the California Government Code requires written notice to be given to the California Debt and Investment Advisory Commission (CDIAC) no later than 30 days prior to the proposed sale of any public agency debt issue.

CDIAC acknowledges receipt of your notice of the following proposed debt issuance:

CDIAC Nbr: 2007-0369
Issuer: Modesto Public Financing Authority
Project: Other capital improvements, public works
Proposed Amount: \$65,000,000.00
Proposed Sale Date: April 10, 2007
Date Notice Received: March 20, 2007

Issuers may electronically file the **Report of Final Sale** through CDIAC's website, using the following information:

CDIAC Nbr: 2007-0369
Password: 388200

A **CDIAC Number** and **Password** will be provided for each electronic filing of the **Report of Proposed Debt Issuance**. This information is unique to this filing and must be used for any subsequent reporting under this **CDIAC Number**.

Please submit the **Report of Final Sale** and the Official Statement (or Offering Memorandum) on this issue within 45 days of the signing of the bond purchase contract or the acceptance of a bid to purchase the debt, to www.treasurer.ca.gov/cdiac/reporting.htm under the heading "Reporting Forms". Official Statements or Offering Memorandums can be sent by e-mail to CDIAC_issuance@treasurer.ca.gov.

Any questions regarding reporting requirements may be directed to the CDIAC's Data Unit at (916) 653-3269.

Cc: Wayne Padilla
Finance Director

REPORT OF FINAL SALE

California Debt and Investment Advisory Commission
915 Capitol Mall, Room 400, Sacramento, CA 95814
P.O. Box 942809, Sacramento, CA 94209-0001
Tel.: (916) 653-3269 FAX: (916) 654-7440

For Office Use Only

RCVD MAY 10 '07

Under California Government Code Section 8855(i), "The issuer of any new public debt issue shall, not later than 45 days after the signing of the bond purchase contract in a negotiated or private financing, or after the acceptance of a bid in a competitive offering, submit a report of final sale and official statement to the Commission. The Commission may require information to be submitted in the report of final sale that is considered appropriate."

CDIAC #: 2007-0369

ISSUER NAME: Modesto Public Financing Authority

(If pool bond, list participants)

ISSUE NAME: Lease Revenue Refunding and Capital Improvement Bonds Series 2007

IF THIS IS A POOLED FINANCING, WHICH ISSUANCE STATUTE IS IT AUTHORIZED UNDER?

- 1) Marks-Roos Local Bond Pooling Act
- 2) JPA Law
- 3) Installment Sales Agreement, Lease...
- 4) Housing Revenue Bond Law & Industrial Development Bond Law
- 5) Other _____

WILL A VALIDATION ACTION BE PURSUED: No Yes Unknown

ACTUAL SALE DATE: 4/11/07 PRINCIPAL SOLD: \$ 62,275,000

IS ANY PORTION OF THE DEBT FOR REFUNDING?¹

No Yes, refunding amount (including costs) \$ 59,875,000

Issuer Contact:

Name: Wayne Padilla

Title: Finance Director/Treasurer

Address: 1010 Tenth Street, Suite 5200, Modesto, California 95353

Phone: (209) 577-5371 ISSUER LOCATED IN Stanislaus COUNTY

Filing Contact: Name of Individual (representing: Bond Counsel, Issuer, Financial Advisor, or Lead Underwriter) who completed this form and may be contacted for information:

Name: Eric D. Tashman, Esq.

Firm/Agency: Sidley Austin LLP

Address: 555 California Street, Suite 2000, San Francisco, California 94104-1715

Phone: (415) 772-1200 E-Mail: etashman@sidley.com

Send acknowledgement/copies to: Katy A. McNeil, Legal Assistant (kamcneil@sidley.com)

Name of individual to whom an invoice for the CDIAC issue fee should be sent:²

Name: Scott Nagelson, Principal

Firm: Banc of America, Securities, LLC

Address: 600 Montgomery Street, Suite 1800, CA5-801-18-36, San Francisco, California 94111

Phone: (415) 953-7314

¹ Section 53583(c)(2)(B) of the California Government Code requires that any local agency selling refunding bonds at private sale or on a negotiated basis shall send a written statement, within two weeks after the bonds are sold, to the CDIAC explaining the reasons why the local agency determined to sell the bonds at a private sale or on a negotiated basis instead of at public sale.

² This fee is authorized by Section 8856 of the California Government Code and is charged to the lead underwriter or purchaser of the issue. The fee is administratively set by the Commission. The current fee schedule may be obtained from CDIAC.

FINANCING PARTICIPANTS (Firm name)

FINANCIAL ADVISOR: Public Financial Management
 LEAD UNDERWRITER/PURCHASER: Banc of America Securities LLC
 BOND COUNSEL: Sidley Austin LLP
 TRUSTEE/PAYING AGENT: The Bank of New York Trust Company, N.A.

OFFICE LOCATION (City/State)

San Francisco, CA
San Francisco, CA
San Francisco, CA
San Francisco, CA

MATURITY SCHEDULE

Attached Included in Official Statement

MATURITY STRUCTURE

Serial (S) Term (T)
 Serial and term bonds or two or more term (B)

FINAL MATURITY DATE: 9/1/2033

FIRST OPTIONAL CALL DATE: see OS

SENIOR/SUBORDINATE STRUCTURE Yes No

OFFICIAL STATEMENT/OFFERING MEMORANDUM:

Enclosed None prepared

WAS THE ISSUE INSURED OR GUARANTEED?

No
 Bond Insurance (I)
 Letter of Credit (L)
 State Intercept Program (T)
 Other (O)

GUARANTOR: CIFG Assurance North America, Inc.

ENHANCEMENT EXPIRATION DATE: 9/1/2033

INDICATE CREDIT RATING:

(For example, "AAA" or "Aaa")

Not Rated
 Rated
 Standard & Poor's: AAA (uninsured: A)
 Fitch: AAA (uninsured: A+)
 Moody's: _____
 Other: _____

REASON FOR NEGOTIATED REFUNDINGS

If the issue is a negotiated refunding, indicate the reason(s) why the bonds were issued at a private or negotiated versus a competitive sale.

- (1) Timing of the sale provided more flexibility than a public sale
- (2) More cost savings were expected to be realized than a public sale
- (3) More flexibility in debt structure was available than a public sale
- (4) Issuer able to work with participants familiar with issue/r than a public sale
- (5) All of the above
- (6) Other (please specify) _____

IS THE INTEREST ON THE DEBT TAXABLE?

Under State Law: No (tax-exempt) Yes (taxable)
 Under Federal Law: No (tax-exempt) Yes (taxable)
 If the issue is federally tax-exempt, is interest a specific preference item for the purpose of alternative minimum tax? Yes No

INTEREST TYPE: NIC TIC Variable

INTEREST COST: 3.907830 %

CAPITAL APPRECIATION BOND: Yes No

ISSUANCE COSTS AND FEES:

- A) Management Fee \$ _____
- B) Total Takedown \$ _____
- C) Underwriter Expenses \$ _____
- Underwriter Spread or Discount** \$ * _____
- D) Bond Counsel \$ * _____
- E) Disclosure Counsel \$ * _____
- F) Financial Advisor \$ * _____
- G) Rating Agency \$ * _____
- H) Credit Enhancement \$ * _____
- I) Trustee Fee \$ * _____
- J) Other Expenses \$ * _____
- Total Issuance Costs** \$ * _____
- K) ORIGINAL ISSUE PREMIUM \$ _____
- L) ORIGINAL ISSUE DISCOUNT \$ _____
- M) NET ORIGINAL ISSUE DISCOUNT/PREMIUM \$ _____

*Contact Underwriter

FOR OFFICE USE ONLY
FEE: \$ _____

ESCROW AGREEMENT
RELATING TO THE DEFEASANCE OF
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE BONDS, SERIES 1997
(JOHN THURMAN FIELD RENOVATION PROJECT)

THIS ESCROW AGREEMENT (the “Escrow Agreement”), dated as of April 1, 2007, by and between the Modesto Public Financing Authority (the “Authority”) and U.S. Bank National Association, as escrow agent (the “Escrow Agent”) hereunder and as successor trustee with respect to the Refunded 1997 Bonds referred to below (the “Trustee”);

W I T N E S S E T H :

WHEREAS, pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Act”) and a Trust Indenture, dated as of January 1, 1997 (the “1997 Indenture”), by and between the Authority and the Trustee, the Authority previously issued its Lease Revenue Bonds, Series 1997 (John Thurman Field Renovation Project) in an aggregate principal amount of \$3,600,000 (the “Series 1997 Bonds”); and

WHEREAS, pursuant to the Act and an Indenture, dated as of April 1, 2007, by and between the Authority and The Bank of New York Trust Company, N.A., as trustee, the Authority has determined to issue its \$62,275,000 aggregate principal amount of Lease Revenue Bonds, Series 2007 (the “Series 2007 Bonds”) for the purpose, among others, of refunding the \$2,335,000 currently outstanding Series 1997 Bonds (hereinafter the “Refunded 1997 Bonds”); and

WHEREAS, by irrevocably depositing with the Escrow Agent a specified amount of the proceeds from the sale of the Series 2007 Bonds, together with certain other available funds, and directing the Escrow Agent to invest such amounts in certain investments satisfying the criteria set forth in Section 9.03 of the 1997 Indenture (herein, the “Federal Securities”), the Escrow Agent will have money sufficient to pay the principal, interest and redemption premium of the Refunded 1997 Bonds as provided herein;

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the Authority and the Escrow Agent agree as follows:

SECTION 1. Deposit of Moneys. The Authority hereby deposits or causes to be deposited with the Escrow Agent \$2,450,597.74, consisting of (a) \$2,291,177.17, representing a portion of the proceeds of the sale of the Series 2007 Bonds and (b) \$159,420.57 of moneys from the funds and accounts held under the 1997 Indenture; all to be held in irrevocable escrow by the Escrow Agent separate and apart from other funds and accounts of the Authority and the Escrow Agent, in a fund hereby created and established to be known as the “1997 Bonds Escrow Fund,” to be applied solely as provided in this Escrow Agreement. This deposit is at least equal to an amount sufficient to purchase the Federal Securities in accordance with Section 2 hereof.

SECTION 2. Investment of Moneys. The Escrow Agent acknowledges receipt of the moneys described in Section 1 and agrees to immediately invest \$2,379,087.00 in the Federal Securities set forth in Schedule A hereto and to deposit the Federal Securities in the 1997 Bonds Escrow Fund. The Escrow Agent shall hold the balance of \$71,510.74 uninvested.

SECTION 3. Investment of Any Remaining Moneys. In the event that the Escrow Agent receives any payment of principal or interest from the Federal Securities prior to the date on which such payment is required for the purposes set forth herein, the Escrow Agent shall, at the written direction of the Authority, reinvest the amount of such payment, or any portion thereof, in noncallable direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) maturing not later than the date on which such payment or portion thereof is required for the purposes set forth in Section 5, as verified in a report prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of obligations of public agencies, and provided the Authority has obtained and delivered to the Escrow Agent an unqualified opinion of nationally recognized bond counsel that such reinvestment will not adversely affect the exclusion from gross income of interest on the Refunded 1997 Bonds for purposes of federal income taxation. Any interest income resulting from investment or reinvestment of moneys pursuant to this Section 3 which is not required for the purposes set forth in this Section 3 or Section 5, as verified in the letter (the "Letter") of The Arbitrage Group, Inc. originally obtained by the Authority with respect to the refunding of the Refunded 1997 Bonds or in any other report prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of obligations of public agencies, shall be paid to the Authority promptly upon the receipt of such interest income by the Escrow Agent. In the absence of such written direction the Escrow Agent shall hold such amounts uninvested.

SECTION 4. Substitution of Securities. Upon the written request of the Authority, and subject to prior written consent of CIFG Assurance North America, Inc., the insurer for the Series 2007 Bonds (the "Insurer") and to the conditions and limitations herein set forth and applicable governmental rules and regulations, the Escrow Agent shall sell, redeem or otherwise dispose of the Federal Securities, provided there are substituted therefor from the proceeds of the Federal Securities noncallable direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America), but only after the Authority has obtained and delivered to the Escrow Agent and the Insurer (i) an unqualified opinion of nationally recognized bond counsel that such reinvestment will not adversely affect the exclusion from gross income of interest payable on the Refunded 1997 Bonds for purposes of federal income taxation, and (ii) a report by an independent certified public accountant or firm of certified public accountants to the effect that such reinvestment will not adversely affect the sufficiency of the amounts of securities, investments and money in the 1997 Bonds Escrow Fund to pay the principal and redemption premium of 2.0% of the principal amount to be redeemed, and interest on the Refunded 1997 Bonds, as provided in Section 5. The Escrow Agent shall not be liable or responsible for any loss resulting from any reinvestment made pursuant to this Escrow Agreement and in full compliance with the provisions hereof.

SECTION 5. Payment of Refunded 1997 Bonds.

(a) Payment. From the maturing principal of the Federal Securities and the investment income and other earnings thereon and other moneys on deposit in the 1997 Bonds Escrow Fund, the Escrow Agent shall apply the amounts on deposit in the 1997 Bonds Escrow Fund (i) to pay on May 1, 2007, the interest on the Refunded 1997 Bonds, and (ii) to pay the interest and redemption price (102% of the principal amount thereof) on the Refunded 1997 Bonds on May 23, 2007.

(b) Irrevocable Instructions to Provide Notice. The Authority irrevocably instructs the Escrow Agent (i) to mail a notice substantially in the form of Exhibit A, to the owners of the Refunded 1997 Bonds, that an irrevocable deposit has been made with the Escrow Agent and that the Refunded 1997 Bonds have been deemed to be paid in accordance with the 1997 Indenture; and (ii) to mail a notice of redemption, substantially in the form of Exhibit B, in accordance with the terms of the 1997 Indenture as required to provide for the redemption of the Refunded 1997 Bonds in accordance with this Section 5.

The Escrow Agent is further instructed to mail a copy of such notices to the Information Services and the Securities Depositories (as such terms are defined in the 1997 Indenture) or, in accordance with then-current guidelines of the Securities and Exchange Commission, to such other addresses, such other services providing information with respect to called bonds, and/or such other securities depositories as may be set forth in the guidelines.

(c) Unclaimed Moneys. Any moneys which remain unclaimed for two years after the date such moneys have become due and payable hereunder shall be repaid by the Escrow Agent to the Authority, and the Escrow Agent shall thereupon be released and discharged with respect thereto, and the holders of the Refunded 1997 Bonds shall look only to the Authority for the payment on the Refunded 1997 Bonds; provided, however, that before making such repayment to the Authority, the Escrow Agent shall, at the expense of the Authority, cause to be mailed to the holders of any unredeemed Refunded 1997 Bonds, a notice that such money remains unclaimed and that, after a date set forth in the notice, which date shall not be less than thirty (30) days after the date of mailing of the notice, the balance of the money then unclaimed will be returned to the Authority.

(d) Priority of Payments. The owners of the Refunded 1997 Bonds shall have a lien on moneys and securities in the 1997 Bonds Escrow Fund which are allocable and sufficient to repay the Refunded 1997 Bonds, including the redemption premium thereon, in accordance with this Escrow Agreement, as verified by the Letter, until such moneys and such securities are used and applied as provided in this Escrow Agreement.

(e) Termination of Obligation. As provided in the 1997 Indenture, upon deposit of moneys with the Escrow Agent in the 1997 Bonds Escrow Fund as set forth in Section 1 hereof and the purchase of the various Federal Securities as provided in Section 2 hereof, and notice of, or provision for notice of, defeasance and redemption having been given as set forth in Section 5(b) hereof, the Bonds are deemed to have been paid in accordance with its terms and all right, title and interest of the Trustee under the 1997 Indenture shall cease, except only with respect to the obligation of the Authority to pay or cause to be paid to the Owners (as defined in

the 1997 Indenture) of such Refunded 1997 Bonds all sums due thereon from amounts set aside for such purpose in the 1997 Bonds Escrow Fund, as provided herein.

SECTION 6. Performance of Duties. The Escrow Agent agrees to perform only the duties set forth herein and shall have no responsibility to take any action or omit to take any action not set forth herein.

SECTION 7. Escrow Agent's Authority to Make Investments. Except as provided in Sections 2, 3 and 4 hereof, the Escrow Agent shall have no power or duty to invest any funds held under this Escrow Agreement or to sell, transfer or otherwise dispose of the cash or Federal Securities held hereunder.

SECTION 8. Indemnity. The Authority hereby assumes liability for, and agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and keep harmless the Escrow Agent and its respective successors, assigns, agents, officers, directors, employees and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements) of whatever kind and nature which may be imposed on, incurred by, or asserted against, the Escrow Agent at any time (whether or not also indemnified against the same by the Authority or any other person under any other agreement or instrument, but without double indemnity) in any way relating to or arising out of the execution, delivery and performance of this Escrow Agreement, the establishment hereunder of the 1997 Bonds Escrow Fund, the acceptance of the cash and securities deposited therein, the purchase of the Federal Securities, the retention of the Federal Securities or the proceeds thereof, and any payment, transfer or other application of moneys or securities by the Escrow Agent in accordance with the provisions of this Escrow Agreement; provided, however, that the Authority shall not be required to indemnify the Escrow Agent against the Escrow Agent's own negligence or willful misconduct or the negligence or willful misconduct of the Escrow Agent's employees or the willful breach by the Escrow Agent of the terms of this Escrow Agreement. In no event shall the Authority or the Escrow Agent be liable to any person by reason of the transactions contemplated hereby other than to each other as set forth in this Section. The indemnities contained in this Section shall survive the termination of this Escrow Agreement.

SECTION 9. Responsibilities of Escrow Agent. The Escrow Agent and its agents and servants shall not be held to any personal liability whatsoever, in tort, contract, or otherwise, in connection with the execution and delivery of this Escrow Agreement, the establishment of the 1997 Bonds Escrow Fund, the acceptance of the moneys or securities deposited therein, the purchase of the Federal Securities, the retention of the Federal Securities or the proceeds thereof, the sufficiency of the Federal Securities to pay the Refunded 1997 Bonds or any payment, transfer or other application of moneys or obligations by the Escrow Agent in accordance with the provisions of this Escrow Agreement, or by reason of any non-negligent act, non-negligent omission or non-negligent error of the Escrow Agent made in good faith in the conduct of its duties. The recitals of fact contained in the "Whereas" clauses herein shall be taken as the statements of the Authority, and the Escrow Agent assumes no responsibility for the correctness thereof or the correctness of any recitals or statements contained in the Refunded 1997 Bonds. The Escrow Agent makes no representation as to the sufficiency of the Federal Securities to accomplish the refunding of the Refunded 1997 Bonds or to the validity of this Escrow

Agreement as to the Authority and, except as otherwise provided herein, the Escrow Agent shall incur no liability with respect thereto. The Escrow Agent shall not be liable in connection with the performance of its duties under this Escrow Agreement except for its own negligence, willful misconduct or willful breach, and the duties and obligations of the Escrow Agent shall be determined by the express provisions of this Escrow Agreement. The Escrow Agent shall be under no obligation to inquire into or be in any way responsible for the performance or nonperformance by the Authority of its obligations. The Escrow Agent may consult with counsel, who may or may not be counsel to the Authority, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Escrow Agreement, such matter may be deemed to be conclusively established by a certificate signed by an officer of the Authority. No provision of this Escrow Agreement shall require the Escrow Agent to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties hereunder, or in the exercise of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

SECTION 10. Amendments. This Escrow Agreement is made for the benefit of the Authority and the owners of the Refunded 1997 Bonds and it shall not be repealed, revoked, altered or amended without the written consent of all such owners obtained in accordance with the provisions of the 1997 Indenture, the Escrow Agent, the Authority and the Insurer; provided, however, that the Authority and the Escrow Agent may, without the consent of, or notice to, such owners, amend this Escrow Agreement or enter into such agreements supplemental to this Escrow Agreement as shall not adversely affect the rights of such owners and as shall not be inconsistent with the terms and provisions of this Escrow Agreement or the 1997 Indenture, for any one or more of the following purposes: (i) to cure any ambiguity or formal defect or omission in this Escrow Agreement; (ii) to grant to, or confer upon the Escrow Agent for the benefit of the owners of the Refunded 1997 Bonds, any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such owners or the Escrow Agent; and (iii) to include under this Escrow Agreement additional funds, securities or properties. The Escrow Agent shall be entitled to rely conclusively upon an unqualified opinion of nationally recognized bond counsel with respect to compliance with this Section, including the extent, if any, to which any change, modification, addition or elimination affects the rights of the owners of the Refunded 1997 Bonds or that any instrument executed hereunder complies with the conditions and provisions of this Section.

SECTION 11. Term. This Escrow Agreement shall commence upon its execution and delivery and terminate on the later to occur of either (i) the date upon which the Refunded 1997 Bonds have been paid in accordance with this Escrow Agreement or (ii) the date upon which no unclaimed moneys remain on deposit with the Escrow Agent pursuant to Section 5(c) of this Escrow Agreement.

SECTION 12. Compensation. The Escrow Agent shall receive its reasonable fees and expenses as previously agreed to by the Escrow Agent and the Authority; provided, however, that under no circumstances shall the Escrow Agent be entitled to any lien whatsoever on any

moneys or obligations in the 1997 Bonds Escrow Fund for the payment of fees and expenses for services rendered or expenses incurred by the Escrow Agent under this Escrow Agreement until payment or provision for payment in full of the Refunded 1997 Bonds has been made.

SECTION 13. Severability. If any one or more of the covenants or agreements provided in this Escrow Agreement on the part of the Authority or the Escrow Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenants or agreements shall be null and void and shall be deemed separate from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Escrow Agreement.

SECTION 14. Counterparts. This Escrow Agreement may be executed in counterparts, any of which shall be regarded for all purposes as an original but all of which shall constitute and be but one and the same instrument.

SECTION 15. Governing Law. This Escrow Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 16. Insufficient Funds. If at any time the moneys and investments in the 1997 Bonds Escrow Fund, including the anticipated proceeds of and earnings thereon, will not be sufficient to make all payments required by this Escrow Agreement, or, in the event the Escrow Agent has failed to receive instructions for the reinvestment of the Federal Securities pursuant to Section 3 hereof, the Escrow Agent shall notify the Authority, in writing, immediately upon becoming aware of such deficiency, the amount thereof, and, if known to it, the reason therefor, or of such failure to receive the reinvestment instructions. Upon receipt of such notice, the Authority shall, as the case may be, either promptly deposit with the Escrow Agent for deposit in the 1997 Bonds Escrow Fund the amount necessary to cure any such deficiency, or provide written instruction to the Escrow Agent to reinvest any remaining moneys pursuant to the requirements of Section 3 hereof. The Escrow Agent shall have no further responsibility regarding any such deficiency.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK.]

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

MODESTO PUBLIC FINANCING AUTHORITY

By: 
Authorized Signatory

U.S. BANK NATIONAL ASSOCIATION, as
Escrow Agent

By: _____
Authorized Signatory

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

MODESTO PUBLIC FINANCING AUTHORITY

By: _____
Authorized Signatory

U.S. BANK NATIONAL ASSOCIATION, as
Escrow Agent

By: *Myra P. Chown.*
Authorized Signatory

SCHEDULE A
FEDERAL SECURITIES

<u>TYPE</u>	<u>MATURITY DATE</u>	<u>PAR AMOUNT</u>	<u>COUPON</u>
I. Bond Proceeds Escrow Securities			
SLG	5/23/2007	\$2,224,319.00	4.990%
II. Prior Reserve Fund Escrow Securities			
SLG	5/23/2007	\$154,768.00	4.990%

NOTICE OF DEFEASANCE

**MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE BONDS, SERIES 1997
(JOHN THURMAN FIELD RENOVATION PROJECT)**

NOTICE IS HEREBY GIVEN to the owners of the above-captioned Bonds (the “Bonds”) that the Modesto Public Financing Authority (the “Authority”) has deposited with U.S. Bank National Association, the successor Trustee for the Bonds under the Trust Indenture, dated as of January 1, 1997 (the “Indenture”), by and between the Authority and the Trustee, cash and noncallable direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America), paying interest and principal in an amount which shall be sufficient, in the opinion of The Arbitrage Group, Inc., as verification agent to pay the interest and redemption price (102% of the principal amount thereof) on the Refunded 1997 Bonds. In accordance with the Indenture pursuant to which the Bonds were issued, the Bonds are deemed to have been paid in accordance with its terms and all right, title and interest of the Trustee under the 1997 Indenture shall cease, except only with respect to the obligation of the Authority to pay or cause to be paid to the Owners (as defined in the Indenture) of such Bonds all sums due thereon from amounts set aside for such purpose and available as set forth above.

DATED this ____ day of _____, 2007.

U.S. BANK NATIONAL ASSOCIATION, as Trustee

NOTICE OF REDEMPTION

**MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE BONDS, SERIES 1997
(JOHN THURMAN FIELD RENOVATION PROJECT)**

NOTICE IS HEREBY GIVEN to the owners of the above-captioned Bonds (the “Bonds”) that, pursuant to the Trust Indenture, dated as of January 1, 1997 (the “Indenture”), by and between the Modesto Public Financing Authority (the “Authority”) and U.S. Bank National Association, as successor trustee (the “Trustee”), the Authority has directed the Trustee to call for redemption, on May 23, 2007, the outstanding Bonds in the amount of \$_____, with the CUSIP number _____.

Owners of such Bonds should present such Bonds on the redemption date at the following address:

On May 23, 2007, the Bonds to be redeemed will be payable from the proceeds of refunding bonds issued by the Authority, together with other available moneys, at a redemption price of 102% of the principal amount together with interest accrued thereon to the date of redemption. On May 23, 2007, there shall become due and payable upon each Bond to be redeemed, to the person whose name appears on the registration books of the Trustee as the registered owner thereof, the redemption price thereof as set forth above. From and after May 23, 2007, interest on the Bonds so redeemed will cease to accrue.

DATED this ____ day of _____, 2007.

U.S. BANK NATIONAL ASSOCIATION, as Escrow Agent

ESCROW AGREEMENT
RELATING TO THE PARTIAL DEFEASANCE OF
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE BONDS, SERIES 1998
(CAPITAL IMPROVEMENTS AND REFINANCING PROJECT)

THIS ESCROW AGREEMENT (the “Escrow Agreement”), dated as of April 1, 2007, by and between the Modesto Public Financing Authority (the “Authority”) and The Bank of New York Trust Company, N.A., as escrow agent (the “Escrow Agent”) hereunder and as successor trustee with respect to the Refunded 1998 Bonds referred to below;

W I T N E S S E T H :

WHEREAS, pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Act”) and a Trust Indenture, dated as of March 1, 1998 (the “1998 Indenture”), by and between the Authority and The Bank of New York Trust Company, N.A., as successor trustee with respect to the Refunded 1998 Bonds (the “Trustee”), the Authority previously issued its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) in an aggregate principal amount of \$61,430,000 (the “Series 1998 Bonds”); and

WHEREAS, pursuant to the Act and an Indenture, dated as of April 1, 2007, by and between the Authority and The Bank of New York Trust Company, N.A., as trustee, the Authority has determined to issue its \$62,275,000 aggregate principal amount of Lease Revenue Bonds, Series 2007 (the “Series 2007 Bonds”) for the purpose, among others, of advance refunding a portion of the currently outstanding Series 1998 Bonds in the amount of \$55,460,000 (hereinafter the “Refunded 1998 Bonds”); and

WHEREAS, by irrevocably depositing with the Escrow Agent a specified amount of the proceeds from the sale of the Series 2007 Bonds, together with certain other available funds, and directing the Escrow Agent to invest such amounts in certain investments satisfying the criteria set forth in Section 9.03 of the 1998 Indenture (herein, the “Federal Securities”), the Escrow Agent will have money sufficient to pay the principal, interest and redemption premium of the Refunded 1998 Bonds as provided herein;

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the Authority and the Escrow Agent agree as follows:

SECTION 1. Deposit of Moneys. The Authority hereby deposits or causes to be deposited with the Escrow Agent \$57,282,754.15, consisting of (a) \$56,619,945.84, representing a portion of the proceeds of the sale of the Series 2007 Bonds and (b) \$662,807.31 of moneys from the funds and accounts held under the 1998 Indenture; all to be held in irrevocable escrow by the Escrow Agent separate and apart from other funds and accounts of the Authority and the Escrow Agent, in a fund hereby created and established to be known as the “1998 Bonds Escrow Fund,” to be applied solely as provided in this Escrow Agreement. This deposit is at least equal to an amount sufficient to purchase the Federal Securities in accordance with Section 2 hereof.

SECTION 2. Investment of Moneys. The Escrow Agent acknowledges receipt of the moneys described in Section 1 and agrees to immediately invest \$57,282,752.00 in the Federal Securities set forth in Schedule A hereto and to deposit the Federal Securities in the 1998 Bonds Escrow Fund. The Escrow Agent shall hold the balance of \$2.15 uninvested.

SECTION 3. Investment of Any Remaining Moneys. In the event that the Escrow Agent receives any payment of principal or interest from the Federal Securities prior to the date on which such payment is required for the purposes set forth herein, the Escrow Agent shall, at the written direction of the Authority, reinvest the amount of such payment, or any portion thereof, in noncallable direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) maturing not later than the date on which such payment or portion thereof is required for the purposes set forth in Section 5, as verified in a report prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of obligations of public agencies, and provided the Authority has obtained and delivered to the Escrow Agent an unqualified opinion of nationally recognized bond counsel that such reinvestment will not adversely affect the exclusion from gross income of interest on the Refunded 1998 Bonds for purposes of federal income taxation. Any interest income resulting from investment or reinvestment of moneys pursuant to this Section 3 which is not required for the purposes set forth in this Section 3 or Section 5, as verified in the letter (the "Letter") of The Arbitrage Group, Inc. originally obtained by the Authority with respect to the refunding of the Refunded 1998 Bonds or in any other report prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of obligations of public agencies, shall be paid to the Authority promptly upon the receipt of such interest income by the Escrow Agent. In the absence of such written direction the Escrow Agent shall hold such amounts uninvested.

SECTION 4. Substitution of Securities. Upon the written request of the Authority, and subject to prior written consent of CIFG Assurance North America, Inc., the insurer for the Series 2007 Bonds (the "Insurer") and to the conditions and limitations herein set forth and applicable governmental rules and regulations, the Escrow Agent shall sell, redeem or otherwise dispose of the Federal Securities, provided there are substituted therefor from the proceeds of the Federal Securities noncallable direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America), but only after the Authority has obtained and delivered to the Escrow Agent and the Insurer (i) an unqualified opinion of nationally recognized bond counsel that such reinvestment will not adversely affect the exclusion from gross income of interest payable on the Refunded 1998 Bonds for purposes of federal income taxation, and (ii) a report by an independent certified public accountant or firm of certified public accountants to the effect that such reinvestment will not adversely affect the sufficiency of the amounts of securities, investments and money in the 1998 Bonds Escrow Fund to pay the principal and redemption premium of 1.0% of the principal amount to be redeemed, and interest on the Refunded 1998 Bonds, as provided in Section 5. The Escrow Agent shall not be liable or responsible for any loss resulting from any reinvestment made pursuant to this Escrow Agreement and in full compliance with the provisions hereof.

SECTION 5. Payment of Refunded 1998 Bonds.

(a) Payment. From the maturing principal of the Federal Securities and the investment income and other earnings thereon and other moneys on deposit in the 1998 Bonds Escrow Fund, the Escrow Agent shall, apply the amounts on deposit in the 1998 Bonds Escrow Fund to pay on March 1 and September 1 of each year, commencing September 1, 2007 through and including September 1, 2008, the interest on the Refunded 1998 Bonds maturing on and after September 1, 2009, and to pay on September 1, 2008, the redemption price (101.0% of the principal amount thereof) of the Refunded 1998 Bonds maturing on and after September 1, 2009.

(b) Irrevocable Instructions to Provide Notice. The Authority irrevocably instructs the Escrow Agent (i) to mail a notice substantially in the form of Exhibit A, to the owners of the Refunded 1998 Bonds, that an irrevocable deposit has been made with the Escrow Agent and that the Refunded 1998 Bonds have been deemed to be paid in accordance with the 1998 Indenture; and (ii) to mail a notice of redemption, substantially in the form of Exhibit B, in accordance with the terms of the 1998 Indenture as required to provide for the redemption of the Refunded 1998 Bonds in accordance with this Section 5.

The Escrow Agent is further instructed to mail a copy of such notices to the Information Services and the Securities Depositories (as such terms are defined in the 1998 Indenture) or, in accordance with then-current guidelines of the Securities and Exchange Commission, to such other addresses, such other services providing information with respect to called bonds, and/or such other securities depositories as may be set forth in the guidelines.

(c) Unclaimed Moneys. Any moneys which remain unclaimed for two years after the date such moneys have become due and payable hereunder shall be repaid by the Escrow Agent to the Authority, and the Escrow Agent shall thereupon be released and discharged with respect thereto, and the holders of the Refunded 1998 Bonds shall look only to the Authority for the payment on the Refunded 1998 Bonds; provided, however, that before making such repayment to the Authority, the Escrow Agent shall, at the expense of the Authority, cause to be mailed to the holders of any unredeemed Refunded 1998 Bonds, a notice that such money remains unclaimed and that, after a date set forth in the notice, which date shall not be less than thirty (30) days after the date of mailing of the notice, the balance of the money then unclaimed will be returned to the Authority.

(d) Priority of Payments. The owners of the Refunded 1998 Bonds shall have a lien on moneys and securities in the 1998 Bonds Escrow Fund which are allocable and sufficient to repay the Refunded 1998 Bonds, including the redemption premium thereon, in accordance with this Escrow Agreement, as verified by the Letter, until such moneys and such securities are used and applied as provided in this Escrow Agreement.

(e) Termination of Obligation. As provided in the 1998 Indenture, upon deposit of moneys with the Escrow Agent in the 1998 Bonds Escrow Fund as set forth in Section 1 hereof and the purchase of the various Federal Securities as provided in Section 2 hereof, and notice of, or provision for notice of, defeasance and redemption having been given as set forth in Section 5(b) hereof, the Bonds are deemed to have been paid in accordance with its terms and all right, title and interest of the Trustee under the 1998 Indenture shall cease, except only with

respect to the obligation of the Authority to pay or cause to be paid to the Owners (as defined in the 1998 Indenture) of such Refunded 1998 Bonds all sums due thereon from amounts set aside for such purpose in the 1998 Bonds Escrow Fund, as provided herein.

SECTION 6. Performance of Duties. The Escrow Agent agrees to perform only the duties set forth herein and shall have no responsibility to take any action or omit to take any action not set forth herein.

SECTION 7. Escrow Agent's Authority to Make Investments. Except as provided in Sections 2, 3 and 4 hereof, the Escrow Agent shall have no power or duty to invest any funds held under this Escrow Agreement or to sell, transfer or otherwise dispose of the cash or Federal Securities held hereunder.

SECTION 8. Indemnity. The Authority hereby assumes liability for, and agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and keep harmless the Escrow Agent and its respective successors, assigns, agents, officers, directors, employees and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements) of whatever kind and nature which may be imposed on, incurred by, or asserted against, the Escrow Agent at any time (whether or not also indemnified against the same by the Authority or any other person under any other agreement or instrument, but without double indemnity) in any way relating to or arising out of the execution, delivery and performance of this Escrow Agreement, the establishment hereunder of the 1998 Bonds Escrow Fund, the acceptance of the cash and securities deposited therein, the purchase of the Federal Securities, the retention of the Federal Securities or the proceeds thereof, and any payment, transfer or other application of moneys or securities by the Escrow Agent in accordance with the provisions of this Escrow Agreement; provided, however, that the Authority shall not be required to indemnify the Escrow Agent against the Escrow Agent's own negligence or willful misconduct or the negligence or willful misconduct of the Escrow Agent's employees or the willful breach by the Escrow Agent of the terms of this Escrow Agreement. In no event shall the Authority or the Escrow Agent be liable to any person by reason of the transactions contemplated hereby other than to each other as set forth in this Section. The indemnities contained in this Section shall survive the termination of this Escrow Agreement.

SECTION 9. Responsibilities of Escrow Agent. The Escrow Agent and its agents and servants shall not be held to any personal liability whatsoever, in tort, contract, or otherwise, in connection with the execution and delivery of this Escrow Agreement, the establishment of the 1998 Bonds Escrow Fund, the acceptance of the moneys or securities deposited therein, the purchase of the Federal Securities, the retention of the Federal Securities or the proceeds thereof, the sufficiency of the Federal Securities to pay the Refunded 1998 Bonds or any payment, transfer or other application of moneys or obligations by the Escrow Agent in accordance with the provisions of this Escrow Agreement, or by reason of any non-negligent act, non-negligent omission or non-negligent error of the Escrow Agent made in good faith in the conduct of its duties. The recitals of fact contained in the "Whereas" clauses herein shall be taken as the statements of the Authority, and the Escrow Agent assumes no responsibility for the correctness thereof or the correctness of any recitals or statements contained in the Refunded 1998 Bonds. The Escrow Agent makes no representation as to the sufficiency of the Federal Securities to

accomplish the refunding of the Refunded 1998 Bonds or to the validity of this Escrow Agreement as to the Authority and, except as otherwise provided herein, the Escrow Agent shall incur no liability with respect thereto. The Escrow Agent shall not be liable in connection with the performance of its duties under this Escrow Agreement except for its own negligence, willful misconduct or willful breach, and the duties and obligations of the Escrow Agent shall be determined by the express provisions of this Escrow Agreement. The Escrow Agent shall be under no obligation to inquire into or be in any way responsible for the performance or nonperformance by the Authority of its obligations. The Escrow Agent may consult with counsel, who may or may not be counsel to the Authority, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Escrow Agreement, such matter may be deemed to be conclusively established by a certificate signed by an officer of the Authority. No provision of this Escrow Agreement shall require the Escrow Agent to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties hereunder, or in the exercise of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

SECTION 10. Amendments. This Escrow Agreement is made for the benefit of the Authority and the owners of the Refunded 1998 Bonds and it shall not be repealed, revoked, altered or amended without the written consent of all such owners obtained in accordance with the provisions of the 1998 Indenture, the Escrow Agent, the Authority and the Insurer; provided, however, that the Authority and the Escrow Agent may, without the consent of, or notice to, such owners, amend this Escrow Agreement or enter into such agreements supplemental to this Escrow Agreement as shall not adversely affect the rights of such owners and as shall not be inconsistent with the terms and provisions of this Escrow Agreement or the 1998 Indenture, for any one or more of the following purposes: (i) to cure any ambiguity or formal defect or omission in this Escrow Agreement; (ii) to grant to, or confer upon the Escrow Agent for the benefit of the owners of the Refunded 1998 Bonds, any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such owners or the Escrow Agent; and (iii) to include under this Escrow Agreement additional funds, securities or properties. The Escrow Agent shall be entitled to rely conclusively upon an unqualified opinion of nationally recognized bond counsel with respect to compliance with this Section, including the extent, if any, to which any change, modification, addition or elimination affects the rights of the owners of the Refunded 1998 Bonds or that any instrument executed hereunder complies with the conditions and provisions of this Section.

SECTION 11. Term. This Escrow Agreement shall commence upon its execution and delivery and terminate on the later to occur of either (i) the date upon which the Refunded 1998 Bonds have been paid in accordance with this Escrow Agreement or (ii) the date upon which no unclaimed moneys remain on deposit with the Escrow Agent pursuant to Section 5(c) of this Escrow Agreement.

SECTION 12. Compensation. The Escrow Agent shall receive its reasonable fees and expenses as previously agreed to by the Escrow Agent and the Authority; provided, however,

that under no circumstances shall the Escrow Agent be entitled to any lien whatsoever on any moneys or obligations in the 1998 Bonds Escrow Fund for the payment of fees and expenses for services rendered or expenses incurred by the Escrow Agent under this Escrow Agreement until payment or provision for payment in full of the Refunded 1998 Bonds has been made.

SECTION 13. Severability. If any one or more of the covenants or agreements provided in this Escrow Agreement on the part of the Authority or the Escrow Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenants or agreements shall be null and void and shall be deemed separate from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Escrow Agreement.

SECTION 14. Counterparts. This Escrow Agreement may be executed in counterparts, any of which shall be regarded for all purposes as an original but all of which shall constitute and be but one and the same instrument.

SECTION 15. Governing Law. This Escrow Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 16. Insufficient Funds. If at any time the moneys and investments in the 1998 Bonds Escrow Fund, including the anticipated proceeds of and earnings thereon, will not be sufficient to make all payments required by this Escrow Agreement, or, in the event the Escrow Agent has failed to receive instructions for the reinvestment of the Federal Securities pursuant to Section 3 hereof, the Escrow Agent shall notify the Authority, in writing, immediately upon becoming aware of such deficiency, the amount thereof, and, if known to it, the reason therefor, or of such failure to receive the reinvestment instructions. Upon receipt of such notice, the Authority shall, as the case may be, either promptly deposit with the Escrow Agent for deposit in the 1998 Bonds Escrow Fund the amount necessary to cure any such deficiency, or provide written instruction to the Escrow Agent to reinvest any remaining moneys pursuant to the requirements of Section 3 hereof. The Escrow Agent shall have no further responsibility regarding any such deficiency.

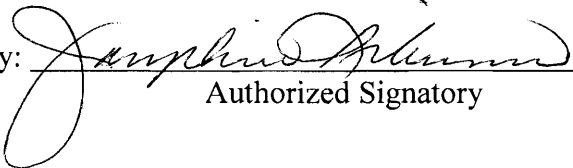
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IN WITNESS WHEREOF, the parties hereto have caused this Escrow Agreement to be executed by their duly authorized officers as of the date first above written.

MODESTO PUBLIC FINANCING AUTHORITY

By: 
Authorized Signatory

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

By: 
Authorized Signatory

SCHEDULE A
FEDERAL SECURITIES

<u>TYPE</u>	<u>MATURITY DATE</u>	<u>PAR AMOUNT</u>	<u>COUPON</u>
I. Bond Proceeds Escrow Securities			
SLG	9/1/2007	\$597,890.00	3.818%
SLG	3/1/2008	327,507.00	3.780
SLG	9/1/2008	55,694,548.00	3.696
II. Prior Reserve Fund Escrow Securities			
SLG	9/1/2007	\$4,492.00	5.040%
SLG	9/1/2008	658,315.00	4.880

NOTICE OF PARTIAL DEFEASANCE

MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE BONDS, SERIES 1998
(CAPITAL IMPROVEMENTS AND REFINANCING PROJECT)

<u>Maturity</u> <u>(September 1)</u>	<u>Interest Rate</u>	<u>Principal Amount</u> <u>to be Redeemed</u>	<u>CUSIP No</u>
2009	4.375%	\$460,000	607796 AY5
2010	4.500	550,000	607796 AZ2
2011	4.600	645,000	607796 BA6
2012	4.700	750,000	607796 BB4
2013	4.800	855,000	607796 BC2
2016	5.000	3,270,000	607796 BD0
2020	5.125	6,360,000	607796 BE8
2024	4.750	9,165,000	607796 BF5
2029	5.000	16,405,000	607796 BG3
2033	5.125	17,000,000	607796 BH1

NOTICE IS HEREBY GIVEN to the owners of the above-captioned Bonds (the “Bonds”) that the Modesto Public Financing Authority (the “Authority”) has deposited with The Bank of New York Trust Company, N.A., the successor Trustee for the Bonds under the Trust Indenture, dated as of March 1, 1998 (the “Indenture”), by and between the Authority and the Trustee, cash and noncallable direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America), paying interest and principal in an amount which shall be sufficient, in the opinion of The Arbitrage Group, Inc., as verification agent to pay (i) on March 1 and September 1 of each year, commencing September 1, 2007 through and including September 1, 2008, the interest on the Bonds maturing on and after September 1, 2009, and (ii) on September 1, 2008, the redemption price (101.0% of the principal amount thereof) of the Bonds maturing on and after September 1, 2009, as the same shall become due and payable. In accordance with the Indenture pursuant to which the Bonds were issued, the Bonds are deemed to have been paid in accordance with its terms and all right, title and interest of the Trustee under the 1998 Indenture shall cease, except only with respect to the obligation of the Authority to pay or cause to be paid to the Owners (as defined in the Indenture) of such Bonds all sums due thereon from amounts set aside for such purpose and available as set forth above.

DATED this ____ day of _____, 2008.

THE BANK OF NEW YORK TRUST COMPANY, N.A.,
as Trustee

NOTICE OF REDEMPTION

**MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE BONDS, SERIES 1998
(CAPITAL IMPROVEMENTS AND REFINANCING PROJECT)**

NOTICE IS HEREBY GIVEN to the owners of the above-captioned Bonds (the “Bonds”) that, pursuant to the Trust Indenture, dated as of March 1, 1998 (the “Indenture”), by and between the Modesto Public Financing Authority (the “Authority”) and The Bank of New York Trust Company, N.A., as successor trustee (the “Trustee”), the Authority has directed the Trustee to call on September 1, 2008, the following Bonds:

<u>Maturity (September 1)</u>	<u>Interest Rate</u>	<u>Principal Amount to be Redeemed</u>	<u>CUSIP No</u>
2009	4.375%	\$460,000	607796 AY5
2010	4.500	550,000	607796 AZ2
2011	4.600	645,000	607796 BA6
2012	4.700	750,000	607796 BB4
2013	4.800	855,000	607796 BC2
2016	5.000	3,270,000	607796 BD0
2020	5.125	6,360,000	607796 BE8
2024	4.750	9,165,000	607796 BF5
2029	5.000	16,405,000	607796 BG3
2033	5.125	\$17,000,000	607796 AY5

Owners of such Bonds should present such Bonds on the redemption date at the following address:

On September 1, 2008, the Bonds to be redeemed will be payable from the proceeds of refunding bonds issued by the Authority, together with other available moneys, at a redemption price of 101% of the principal amount together with interest accrued thereon to the date of redemption. On September 1, 2008, there shall become due and payable upon each Bond to be redeemed, to the person whose name appears on the registration books of the Trustee as the registered owner thereof, the redemption price thereof as set forth above. From and after September 1, 2008, interest on the Bonds so redeemed will cease to accrue.

DATED this ____ day of _____, 2008.

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



The Arbitrage Group, Inc.

\$62,275,000

**MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007**



The Arbitrage Group, Inc.

3401 Louisiana Street
Suite 238
Houston, Texas 77002

Telephone 713 522 8527
Facsimile 713 522 8471

www.thearbitragegroup.com

April 18, 2007

Modesto Public Financing Authority
Modesto, California

U.S. Bank National Association
San Francisco, California

City of Modesto
Modesto, California

Banc of America Securities LLC
San Francisco, California

Sidley Austin, LLP
San Francisco, California

CIFG Assurance North America, Inc.
New York, New York

Public Financial Management, Inc.
San Francisco, California

Ambac Assurance Corporation
New York, New York

The Bank of New York Trust Company, N.A.
San Francisco, California

\$62,275,000

MODESTO PUBLIC FINANCING AUTHORITY LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS SERIES 2007

The Modesto Public Financing Authority proposes to issue the above referenced bonds (the "Bonds") which are dated April 18, 2007 and will be issued on April 18, 2007.

A portion of the proceeds of the Bonds will be used to purchase United States Treasury Securities -- State and Local Government Series (the "Series 1997 Restricted Acquired Obligations") which together with the United States Treasury Securities -- State and Local Government Series to be purchased with other funds (the "Series 1997 Other Acquired Obligations") will be placed in an irrevocable trust together with an initial cash deposit to be used solely to refund all of the outstanding Modesto Public Financing Authority Lease Revenue Bonds, Series 1997 (John Thurman Field Renovation Project) (the "Series 1997 Refunded Bonds") described below:

Series	Original Amount Issued	Dated Date	Amount to be Refunded	Maturities and Sinking Fund Dates to be Refunded	Maturities and Sinking Fund Dates to be Optionally Redeemed	Optional Redemption Date and Price
1997	\$3,600,000	01-01-1997	\$2,335,000	11-01-2007 - 11-01-2016, Inclusive	11-01-2007 - 11-01-2016, Inclusive	05-31-2007 @ 102%

City of Modesto, California
 April 18, 2007
 Page 2

A portion of the proceeds of the Bonds will be used to purchase United States Treasury Securities -- State and Local Government Series (the "Series 1998 Restricted Acquired Obligations") which together with the United States Treasury Securities -- State and Local Government Series to be purchased with other funds (the "Series 1998 Other Acquired Obligations") will be placed in an irrevocable trust together with an initial cash deposit to be used solely to refund that portion of the Modesto Public Financing Authority Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "Series 1998 Refunded Bonds") described below:

<u>Series</u>	<u>Original Amount Issued</u>	<u>Dated Date</u>	<u>Amount to be Refunded</u>	<u>Maturities and Sinking Fund Dates to be Refunded</u>	<u>Maturities and Sinking Fund Dates to be Optionally Redeemed</u>	<u>Optional Redemption Date and Price</u>
1998	\$61,430,000	03-11-1998	\$55,460,000	09-01-2009 - 09-01-2033, Inclusive*	09-01-2009 - 09-01-2033, Inclusive*	09-01-2008 @ 101%

* Includes partially redeemed par amounts.

At your request, we have independently verified the arithmetical accuracy of the computations provided to us by Public Financial Management, Inc. which indicate: (1) the sufficiency of the receipts from the Series 1997 Restricted Acquired Obligations and the Series 1997 Other Acquired Obligations together with an initial cash deposit to pay to and at early redemption the principal, interest, and early redemption premium on the Series 1997 Refunded Bonds; (2) the sufficiency of the receipts from the Series 1998 Restricted Acquired Obligations and the Series 1998 Other Acquired Obligations together with an initial cash deposit to pay to and at early redemption the principal, interest, and early redemption premium on the Series 1998 Refunded Bonds; and, (3) the "yields" to be considered by bond counsel in its determination that the Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended. The term "yield," as used herein, means that discount rate which, when used in computing the present value of all payments of principal and interest on an obligation compounded semiannually using a 30/360-day year basis, produces an amount equal to in the case of the Series 1998 Restricted Acquired Obligations the purchase price of such securities.

The original computations, along with certain assumptions and information, were furnished to us by Public Financial Management, Inc. on behalf of the City of Modesto (the "City"). We have relied solely on the assumptions and information provided to us and have not made any study or evaluation of them, except as noted below. We express no opinion on the reasonableness of the assumptions, or the likelihood that the debt service requirements of the Series 1997 Refunded Bonds and Series 1998 Refunded Bonds (collectively, the "Refunded Bonds") will be paid as described in the accompanying Exhibits.

City of Modesto, California

April 18, 2007

Page 3

In the course of our engagement, we were furnished by Public Financial Management, Inc. with excerpts from the Official Statements for the Refunded Bonds, the Official Statement for the Bonds and copies of the initial and final subscription forms for the purchase of the Series 1997 Restricted Acquired Obligations, Series 1998 Restricted Acquired Obligations, Series 1997 Other Acquired Obligations and Series 1998 Other Obligations (collectively, the "Acquired Obligations"). We understand that the initial subscription form was filed on April 11, 2007. We compared the information contained in the schedules provided by Public Financial Management, Inc. with certain information set forth in such documents with respect to prices, principal payment dates and amounts, interest payment dates and rates, yields, and redemption dates and prices. We found that the information contained in such schedules provided to us by Public Financial Management, Inc. was in agreement with the above-mentioned information set forth in such documents. In addition, we have verified that, based upon the table of interest rates payable on United States Treasury Securities -- State and Local Government Series for use on April 11, 2007, the interest rates payable on the Acquired Obligations are at or below the maximum allowable interest rate for each maturity date.

In our opinion, based on the assumptions and information provided by Public Financial Management, Inc. on behalf of the City, the computations in the schedules provided to us are arithmetically accurate. The computations in the accompanying Exhibits prepared by us and the comparable schedules provided to us indicate that:

- (1) the receipts from the Series 1997 Restricted Acquired Obligations and the Series 1997 Other Acquired Obligations together with an initial cash deposit of \$71,509.75 will be sufficient to pay to and at early redemption the principal, interest, and early redemption premium on the Series 1997 Refunded Bonds;
- (2) the receipts from the Series 1998 Restricted Acquired Obligations and the Series 1998 Other Acquired Obligations together with an initial cash deposit of \$1.15 will be sufficient to pay to and at early redemption the principal, interest, and early redemption premium on the Series 1998 Refunded Bonds; and,
- (3) the yield of the Series 1998 Restricted Acquired Obligations is 3.699412%.

The terms of our engagement are such that we have no obligation to update this report or to verify any revised computation because of events and transactions occurring subsequent to the date of this report. This report is issued solely for your information and assistance in connection with the issuance of the Bonds. This report is not to be quoted or referred to without our prior written consent.

Very truly yours,

The Arbitrage Group, Inc.

Exhibits

Section 1

- A. Sources and Uses of Funds

Section 2

- A. Series 1997 Escrow Cash Flow
- B-1. Debt Service Requirements of the Series 1997 Refunded Bonds to Maturity
- B-2. Debt Service Requirements of the Series 1997 Refunded Bonds to Early Redemption
- C. Receipts from Series 1997 Restricted Acquired Obligations and Proof of Yield
- D. Receipts from Series 1997 Other Acquired Obligations

Section 3

- A. Series 1998 Escrow Cash Flow
- B-1. Debt Service Requirements of the Series 1998 Refunded Bonds to Maturity
- B-2. Debt Service Requirements of the Series 1998 Refunded Bonds to Early Redemption
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- D. Receipts from Series 1998 Other Acquired Obligations

Section 1

Sources and Uses of Funds

*Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007*

SOURCES

Principal Amount of the Bonds	\$62,275,000.00
Transfer from 1997 Reserve Fund	320,484.78
Transfer from 1997 Sweep Account	147.68
Transfer from 1998 Reserve Fund	4,637,633.91
	<hr/>
	\$67,233,266.37
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USES

Price of 1997 Restricted Acquired Obligations	\$2,224,319.00
Price of 1997 Other Acquired Obligations	154,768.00
Price of 1998 Restricted Acquired Obligations	56,619,945.00
Price of 1998 Other Acquired Obligations	662,807.00
Initial Cash Deposit	71,512.89
Deposit to Project Fund	2,400,000.00
Deposit to Debt Service Reserve Fund	4,318,051.92
Costs of Issuance	413,745.50
Underwriter's Discount	207,482.63
Bond Insurance	151,178.50
Contingency	9,455.93
	<hr/>
	\$67,233,266.37
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Section 2

Series 1997 Escrow Cash Flow

*Modesto Public Financing Authority
 Lease Revenue Refunding and Capital Improvement Bonds
 Series 2007*

<u>Date</u>	<u>Beginning Cash Balance</u>	<u>Receipts from Series 1997 Restricted Acquired Obligations</u>	<u>Receipts from Series 1997 Other Acquired Obligations</u>	<u>Debt Service Requirements of the Series 1997 Refunded Bonds to Early Redemption</u>	<u>Ending Cash Balance</u>
05/01/07	\$71,510.74			\$71,509.37	\$1.37
05/23/07	\$1.37	\$2,234,933.13	\$155,506.53	2,390,440.04	\$0.99
		<u>\$2,234,933.13</u>	<u>\$155,506.53</u>	<u>\$2,461,949.41</u>	

Debt Service Requirements of the Series 1997 Refunded Bonds to Maturity

*Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007*

Date	Principal	Coupon Rate	Early Redemption Premium	Interest	Debt Service Requirements of the Series 1997 Refunded Bonds to Maturity
05/01/07				\$71,509.38	\$71,509.38
11/01/07	\$175,000.00	6.125%	2.000%	71,509.38	246,509.38
05/01/08				66,150.00	66,150.00
11/01/08	185,000.00	6.125%	2.000%	66,150.00	251,150.00
05/01/09				60,484.38	60,484.38
11/01/09	195,000.00	6.125%	2.000%	60,484.38	255,484.38
05/01/10				54,512.50	54,512.50
11/01/10	210,000.00	6.125%	2.000%	54,512.50	264,512.50
05/01/11				48,081.25	48,081.25
11/01/11	225,000.00	6.125%	2.000%	48,081.25	273,081.25
05/01/12				41,190.63	41,190.63
11/01/12	235,000.00	6.125%	2.000%	41,190.63	276,190.63
05/01/13				33,993.75	33,993.75
11/01/13	250,000.00	6.125%	2.000%	33,993.75	283,993.75
05/01/14				26,337.50	26,337.50
11/01/14	270,000.00	6.125%	2.000%	26,337.50	296,337.50
05/01/15				18,068.75	18,068.75
11/01/15	285,000.00	6.125%	2.000%	18,068.75	303,068.75
05/01/16				9,340.63	9,340.63
11/01/16	305,000.00	6.125%	2.000%	9,340.63	314,340.63
	<u>\$2,335,000.00</u>			<u>\$859,337.54</u>	<u>\$3,194,337.54</u>

Debt Service Requirements of the Series 1997 Refunded Bonds to Early Redemption

*Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007*

<u>Date</u>	<u>Principal</u>	<u>Coupon Rate</u>	<u>Early Redemption Premium</u>	<u>Interest</u>	<u>Debt Service Requirements of the Series 1997 Refunded Bonds to Early Redemption</u>
05/01/07				\$71,509.38	\$71,509.38
05/23/07	\$2,335,000.00	*	\$46,700.00	8,740.04	2,390,440.04
	<u>\$2,335,000.00</u>		<u>\$46,700.00</u>	<u>\$80,249.42</u>	<u>\$2,461,949.42</u>
	=====		=====	=====	=====

* Coupon rates are as shown in the Debt Service Requirements of the Series 1997 Refunded Bonds to Maturity.

Receipts from Series 1997 Restricted Acquired Obligations and Proof of Yield

*Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007*

<u>Date</u>	<u>Principal</u>	<u>Coupon Rate</u>	<u>Interest</u>	<u>Receipts from Series 1997 Restricted Acquired Obligations</u>	<u>Present Value of Future Receipts at 04/18/07 Using a Rate of 4.956955%</u>
05/23/07	\$2,224,319.00	4.990%	\$10,614.13	\$2,234,933.13	\$2,224,319.00
					<u>Purchase Price of Series 1997 Restricted Acquired Obligations</u>
					<u>\$2,224,319.00</u>

Receipts from Series 1997 Other Acquired Obligations

*Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007*

<u>Date</u>	<u>Principal</u>	<u>Coupon Rate</u>	<u>Interest</u>	<u>Receipts from Series 1997 Other Acquired Obligations</u>
05/23/07	\$154,768.00	4.990%	\$738.53	\$155,506.53
	=====		=====	=====

Section 3

Series 1998 Escrow Cash Flow

*Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007*

<u>Date</u>	<u>Beginning Cash Balance</u>	<u>Receipts from Series 1998 Acquired Obligations</u>	<u>Receipts from Series 1998 Acquired Obligations</u>	<u>Debt Service Requirements of the Series 1998 Refunded Bonds to Early Redemption</u>	<u>Ending Cash Balance</u>
09/01/07	\$2.15	\$1,367,111.43	\$16,448.70	\$1,383,561.25	\$1.03
03/01/08	\$1.03	1,367,498.44	16,062.89	1,383,561.25	\$1.11
09/01/08	\$1.11	56,723,783.25	674,377.89	57,398,161.25	\$1.00
		<u>\$59,458,393.12</u>	<u>\$706,889.48</u>	<u>\$60,165,283.75</u>	

Debt Service Requirements of the Series 1998 Refunded Bonds to Maturity

*Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007*

<u>Date</u>	<u>Principal</u>	<u>Coupon Rate</u>	<u>Early Redemption Premium</u>	<u>Interest</u>	<u>Debt Service Requirements of the Series 1998 Refunded Bonds to Maturity</u>
09/01/07				\$1,383,561.25	\$1,383,561.25
03/01/08				1,383,561.25	1,383,561.25
09/01/08				1,383,561.25	1,383,561.25
03/01/09				1,383,561.25	1,383,561.25
09/01/09	\$460,000.00	4.375%	1.000%	1,383,561.25	1,843,561.25
03/01/10				1,373,498.75	1,373,498.75
09/01/10	550,000.00	4.500%	1.000%	1,373,498.75	1,923,498.75
03/01/11				1,361,123.75	1,361,123.75
09/01/11	645,000.00	4.600%	1.000%	1,361,123.75	2,006,123.75
03/01/12				1,346,288.75	1,346,288.75
09/01/12	750,000.00	4.700%	1.000%	1,346,288.75	2,096,288.75
03/01/13				1,328,663.75	1,328,663.75
09/01/13	855,000.00	4.800%	1.000%	1,328,663.75	2,183,663.75
03/01/14				1,308,143.75	1,308,143.75
09/01/14	965,000.00	5.000%	1.000%	1,308,143.75	2,273,143.75
03/01/15				1,284,018.75	1,284,018.75
09/01/15	1,090,000.00	5.000%	1.000%	1,284,018.75	2,374,018.75
03/01/16				1,256,768.75	1,256,768.75
09/01/16	1,215,000.00	5.000%	1.000%	1,256,768.75	2,471,768.75
03/01/17				1,226,393.75	1,226,393.75
09/01/17	1,355,000.00	5.125%	1.000%	1,226,393.75	2,581,393.75
03/01/18				1,191,671.88	1,191,671.88
09/01/18	1,505,000.00	5.125%	1.000%	1,191,671.88	2,696,671.88
03/01/19				1,153,106.25	1,153,106.25
09/01/19	1,665,000.00	5.125%	1.000%	1,153,106.25	2,818,106.25
03/01/20				1,110,440.63	1,110,440.63
09/01/20	1,835,000.00	5.125%	1.000%	1,110,440.63	2,945,440.63
03/01/21				1,063,418.75	1,063,418.75
09/01/21	2,010,000.00	4.750%	1.000%	1,063,418.75	3,073,418.75

Debt Service Requirements of the Series 1998 Refunded Bonds to Maturity

*Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007*

Date	Principal	Coupon Rate	Early Redemption Premium	Interest	Debt Service Requirements of the Series 1998 Refunded Bonds to Maturity
03/01/22				1,015,681.25	1,015,681.25
09/01/22	2,190,000.00	4.750%	1.000%	1,015,681.25	3,205,681.25
03/01/23				963,668.75	963,668.75
09/01/23	2,380,000.00	4.750%	1.000%	963,668.75	3,343,668.75
03/01/24				907,143.75	907,143.75
09/01/24	2,585,000.00	4.750%	1.000%	907,143.75	3,492,143.75
03/01/25				845,750.00	845,750.00
09/01/25	2,800,000.00	5.000%	1.000%	845,750.00	3,645,750.00
03/01/26				775,750.00	775,750.00
09/01/26	3,040,000.00	5.000%	1.000%	775,750.00	3,815,750.00
03/01/27				699,750.00	699,750.00
09/01/27	3,285,000.00	5.000%	1.000%	699,750.00	3,984,750.00
03/01/28				617,625.00	617,625.00
09/01/28	3,550,000.00	5.000%	1.000%	617,625.00	4,167,625.00
03/01/29				528,875.00	528,875.00
09/01/29	3,730,000.00	5.000%	1.000%	528,875.00	4,258,875.00
03/01/30				435,625.00	435,625.00
09/01/30	3,930,000.00	5.125%	1.000%	435,625.00	4,365,625.00
03/01/31				334,918.75	334,918.75
09/01/31	4,135,000.00	5.125%	1.000%	334,918.75	4,469,918.75
03/01/32				228,959.38	228,959.38
09/01/32	4,350,000.00	5.125%	1.000%	228,959.38	4,578,959.38
03/01/33				117,490.63	117,490.63
09/01/33	4,585,000.00	5.125%	1.000%	117,490.63	4,702,490.63
	<u>\$55,460,000.00</u>			<u>\$51,867,356.29</u>	<u>\$107,327,356.29</u>

Debt Service Requirements of the Series 1998 Refunded Bonds to Early Redemption

*Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007*

<u>Date</u>	<u>Principal</u>	<u>Coupon Rate</u>	<u>Early Redemption Premium</u>	<u>Interest</u>	<u>Debt Service Requirements of the Series 1998 Refunded Bonds to Early Redemption</u>
09/01/07				\$1,383,561.25	\$1,383,561.25
03/01/08				1,383,561.25	1,383,561.25
09/01/08	\$55,460,000.00	*	\$554,600.00	1,383,561.25	57,398,161.25
	<u>\$55,460,000.00</u>		<u>\$554,600.00</u>	<u>\$4,150,683.75</u>	<u>\$60,165,283.75</u>

* Coupon rates are as shown in the Debt Service Requirements of the Series 1998 Refunded Bonds to Maturity.

Receipts from Series 1998 Other Acquired Obligations

*Modesto Public Financing Authority
 Lease Revenue Refunding and Capital Improvement Bonds
 Series 2007*

<u>Date</u>	<u>Principal</u>	<u>Coupon Rate</u>	<u>Interest</u>	<u>Receipts from Series 1998 Other Acquired Obligations</u>
09/01/07	\$4,492.00	5.040%	\$11,956.70	\$16,448.70
03/01/08			16,062.89	16,062.89
09/01/08	658,315.00	4.880%	16,062.89	674,377.89
	<u>\$662,807.00</u>		<u>\$44,082.48</u>	<u>\$706,889.48</u>



The Arbitrage Group, Inc.

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CERTIFICATE REGARDING AUTHORITY RESOLUTION

I, Jean Morris, hereby certify that I am the Secretary of the Commission of the Modesto Public Financing Authority (the "Authority"), a joint exercise of powers authority organized under the laws of the State of California, and that as such I am authorized to execute this Certificate on behalf of the Authority.

I hereby further certify that the attached resolution is a full, true and correct copy of Resolution No. 01-2007, adopted at the regular meeting of the Commission of the Authority held on April 3, 2007, of which meeting all of the members of the Governing Board had due notice and at which a quorum was present and acting throughout.

I hereby further certify that I have carefully compared the same with the original resolution so adopted at said meeting and that it is a full, true and correct copy of said resolution; and that said resolution has not been amended, modified or rescinded since the date of adoption and is now in full force and effect.

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Dated: April 18, 2007

MODESTO PUBLIC FINANCING AUTHORITY

By: Jean Morris
Jean Morris
Secretary

**MODESTO PUBLIC FINANCING AUTHORITY
RESOLUTION NO. 01-2007**

A RESOLUTION OF THE MODESTO PUBLIC FINANCING AUTHORITY APPROVING AND AUTHORIZING THE ISSUANCE AND SALE OF NOT TO EXCEED \$65,000,000 AGGREGATE PRINCIPAL AMOUNT OF LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS, SERIES 2007; APPROVING THE FORMS OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN INDENTURE, A SUBLEASE, A FACILITY LEASE, A PURCHASE CONTRACT, AN AUCTION AGREEMENT, A BROKER-DEALER AGREEMENT, A SWAP AGREEMENT AND THE ESCROW AGREEMENTS; APPROVING THE FORM OF AND AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT; AND APPROVING CERTAIN OTHER RELATED ACTIONS

WHEREAS, the Modesto Public Financing Authority (the "Authority") is a joint exercise of powers authority duly organized and existing under Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, as amended (the "Act") and pursuant to a Joint Exercise of Powers Agreement, dated as of December 1, 1989, by and between the City of Modesto (the "City") and the Industrial Development Authority of the City of Modesto; and

WHEREAS, the Authority is authorized under the Act to lease and/or purchase real property and to issue bonds for the financing and refinancing of public capital improvements whenever there are significant public benefits; and

WHEREAS, the Authority previously issued its Lease Revenue Bonds, Series 1997 (John Thurman Field Renovation Project) (the "1997 Bonds") and Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "1998 Bonds") to assist the City in the financing of certain public capital improvements located in the City, including John Thurman field, a City-County administration building, a public parking garage, a communication dispatch center, the police headquarters, various public

parks and miscellaneous city properties; and

WHEREAS, the City has determined to refund all of the 1997 Bonds and a portion of the 1998 Bonds; and

WHEREAS, the Authority desires to approve the sale and issuance of not to exceed \$65,000,000 in aggregate principal amount of Lease Revenue Refunding and Capital Improvement Bonds, Series 2007, in one or more series of bonds (the "Series 2007 Bonds"), pursuant to an indenture (the "Indenture") by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), for the purposes of (i) providing funds to finance certain additional improvements to John Thurman field, (ii) providing funds to refund all of the 1997 Bonds and a portion of the 1998 Bonds, and (iii) paying the costs of issuance therefore (collectively, the "2007 Project"); and

WHEREAS, Section 5922 of the California Government Code provides that in connection with, or incidental to, the issuance or carrying of bonds, any public entity may enter into any contracts which the public entity determines to be appropriate to place the obligations represented by the bonds, in whole or in part, on the interest rate, cash flow or other basis desired by the public entity, including without limitation contracts commonly known as interest rate swap agreements, to hedge payment, rate, spread or similar exposure; and

WHEREAS, in order to minimize debt service and maximize benefits to the City, the Authority proposes to issue the Series 2007 Bonds with a variable interest rate and to execute a swap agreement providing for a fixed swap rate on the Series 2007 Bonds (the "Swap") and the Authority will execute the Swap using the ISDA Master Agreement and

related Schedule, Credit Support Annex and Confirmation (collectively, the “Swap Agreement”) by and between the Authority and Bank of America, N.A. (the “Swap Provider”); and

WHEREAS, pursuant to Section 5922 of the Government Code of the State of California, the Authority hereby finds and determines that the Swap Agreement is entered into in connection with, or incidental to, the issuance of the Series 2007 Bonds, will reduce the amount and duration of interest rate risk with respect to the Series 2007 Bonds and will result in a lower cost of borrowing when used in combination with the Series 2007 Bonds; and

WHEREAS, the Authority proposes to enter into an escrow agreement related to the 1997 Bonds (the “1997 Escrow Agreement”) by and between the Authority and an escrow agent thereunder (the “1997 Escrow Agent”) and an escrow agreement related to the 1998 Bonds (the “1998 Escrow Agreement” and together with the 1997 Escrow Agreement, the “Escrow Agreements”) by and between the Authority and an escrow agent thereunder (the “1998 Escrow Agent” and together with the 1997 Escrow Agent, the “Escrow Agents”); and

WHEREAS, the Authority previously leased certain properties to the City pursuant to a Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002 (as so amended, the “1998 Lease”) under which the City is obligated to make lease payments for the lease of properties thereunder (the “Leased Property”); and

WHEREAS, pursuant to Section 7.2 of the 1998 Lease, the City may sublease the

Leased Property or any portions thereof, as provided in the 1998 Lease; and

WHEREAS, in consideration of the Authority's assistance in financing the 2007 Project through the issuance of the Series 2007 Bonds and in consideration of the corresponding reduction in lease payments payable by the City under the 1998 Lease as a result of the partial refunding of the 1998 Bonds, the City will sublease to the Authority, pursuant to a sublease (the "Sublease") by and between the City and the Authority and in accordance with the terms of the 1998 Lease, the Leased Property, as more fully described in Exhibit A of the Sublease; and

WHEREAS, the Authority will lease back to the City the Leased Property pursuant to the terms of a Facility Lease (the "Facility Lease") pursuant to which the City will pay Base Rental Payments therefor, all under and in accordance with the Constitution and laws of the State of California, including the Act; and

WHEREAS, pursuant to the terms of the 1998 Lease, the obligation of the City to make lease payments under the 1998 Lease will remain the obligations of the City and no portion of the Leased Property subleased to the Authority pursuant to the Sublease will be used for a purpose other than a governmental function authorized under the provisions of the Constitution and laws of the State of California; and

WHEREAS, the Series 2007 Bonds are expected to be initially executed and delivered as auction rate securities; and

WHEREAS, the Trustee and The Bank of New York (the "Auction Agent") propose to execute and enter into an Auction Agreement (the "Auction Agreement") acknowledged and agreed to by the Authority, relating to the performance of the Auction

Agent's duties thereunder; and

WHEREAS, the Auction Agent, Banc of America Securities LLC, as broker-dealer (the "Broker-Dealer") and the Authority propose to execute and enter into a Broker-Dealer Agreement (the "Broker-Dealer Agreement"), relating to the performance of certain duties with respect to the Auction Agent and Broker-Dealer; and

WHEREAS, the Authority proposes to execute and enter into a bond purchase contract (the "Purchase Contract") with Banc of America Securities LLC (the "Underwriter") and the City, pursuant to which the Underwriter will purchase the Series 2007 Bonds for reoffering to the public; and

WHEREAS, the Authority proposes to approve of and deem final the Preliminary Official Statement relating to the Series 2007 Bonds (the "Preliminary Official Statement") for purposes of Rule 15c2-12 of the Securities and Exchange Act of 1934, as amended, and to execute and deliver an Official Statement (the "Official Statement") relating to the Series 2007 Bonds and to authorize the distribution of the Preliminary Official Statement to prospective purchasers and the Official Statement to actual purchasers of the Series 2007 Bonds; and

WHEREAS, all acts, conditions and things required by the Constitution and laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the transactions authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such transactions for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, it is hereby resolved by the Commission of the Modesto Public Financing Authority (the "Commission"), as follows:

Section 1. Findings. The Commission hereby finds and determines that the foregoing recitals are true and correct and that it is desirable and furthers the public purpose to assist the City in the financing of the 2007 Project through the actions authorized hereby.

Section 2. Approval of Issuance of Series 2007 Bonds. The Commission hereby authorizes and approves the issuance of the Series 2007 Bonds in the aggregate principal amount not to exceed \$65,000,000, on the terms and conditions set forth in, and subject to the limitations specified in, the Indenture. The Series 2007 Bonds will be dated, will bear interest at the rates, will mature on the dates, will be issued in the form, will be subject to redemption, and will be as otherwise provided in said Indenture as the same is completed as provided in this Resolution.

Section 3. Indenture. The proposed form of the Indenture presented to this meeting and on file with the Authority is hereby approved. The Chairperson, Vice Chairperson, Executive Director and Auditor and Treasurer of the Authority (each, an "Authorized Officer") are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Indenture in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 4. Facility Lease. The proposed form of the Facility Lease presented to this meeting and on file with the Authority is hereby approved. The Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the

Authority, to execute and deliver the Facility Lease in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. Sublease. The proposed form of the Sublease presented to this meeting and on file with the Authority is hereby approved. The Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Sublease in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 6. Purchase Contract. The proposed form of the Purchase Contract presented to this meeting and on file with the Authority is hereby approved. The Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Purchase Contract in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided that the aggregate principal amount of the Series 2007 Bonds shall not exceed \$65,000,000, the interest rate on the Series 2007 Bonds shall not exceed twelve percent (12%) per annum and the underwriting discount (excluding any original issue discount) shall not exceed 0.5% of the principal amount of the Series 2007 Bonds sold.

Section 7. Auction Agreement. The proposed form of the Auction Agreement presented to this meeting and on file with the Authority is hereby approved.

Section 8. Broker-Dealer Agreement. The proposed form of the Broker-Dealer Agreement presented to this meeting and on file with the Authority is hereby approved.

The Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Broker-Dealer Agreement in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 9. Escrow Agreements. The proposed forms of the Escrow Agreements presented to this meeting and on file with the Authority are hereby approved. The Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver each of the Escrow Agreements in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 10. Swap Agreement. The proposed form of the Swap Agreement presented to this meeting and on file with the Authority is hereby approved. The Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to negotiate the Swap Agreement with the Swap Provider, to execute and deliver the Swap Agreement with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided that the Swap Agreement shall be in an aggregate notional amount not to exceed \$65,000,000, at a nominal swap rate not to exceed 4.5 percent (4.5%) per annum against receipt of a variable rate equal to the interest rate on the Series 2007 Bonds.

Section 11. Official Statement. The form of Preliminary Official Statement of

the Authority relating to the Series 2007 Bonds presented to this meeting and on file with the Authority is hereby approved. Any of the Authorized Officers is hereby authorized to certify that said Preliminary Official Statement, with such changes therein as such Authorized Officer executing the same shall approve, is as of its date “deemed final” for purposes of Rule 15c2 12 of the Securities and Exchange Commission. Any of the Authorized Officers is hereby authorized and directed to execute for and on behalf of the Authority a final Official Statement, in substantially the form of the Preliminary Official Statement, with such changes therein (and additions thereto to reflect the terms of the sale of the Series 2007 Bonds) as such Authorized Officer shall approve after consultation with Bond Counsel, such approval to be evidenced by the execution and delivery thereof. The Underwriter is hereby authorized to distribute copies of said Preliminary Official Statement to persons who may be interested in the purchase of the Series 2007 Bonds and are directed to deliver copies of the final Official Statement to all actual purchasers of the Series 2007 Bonds.

Section 12. Attestations. The Secretary of the Authority is hereby authorized and directed to attest the signatures of the Chairperson, Vice Chairperson, Executive Director and the Auditor and Treasurer of the Authority in connection with the execution and delivery of the Series 2007 Bonds and the documents approved by this Resolution.

Section 13. Other Actions. The Chairperson, Vice Chairperson, Executive Director, Auditor and Treasurer and Secretary of the Authority are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate, carry out, give effect to and comply with the terms and intent of this Resolution, the Indenture, the Sublease, the Facility Lease, the Auction Agreement, the Broker-Dealer

Agreement, the Escrow Agreements, the Purchase Contract, the Official Statement and the Series 2007 Bonds and the consummation of the transactions contemplated hereby and to consummate the issuance, sale and delivery of the Series 2007 Bonds. The Authorized Officers are hereby further authorized and directed, individually or jointly, to execute and deliver, on behalf of the Authority, any other agreements, certificate, consent, request, approval, notice, amendment, confirmation, supplement or revision permitted or required to be delivered pursuant to the documents authorized hereby or otherwise as may be necessary or desirable in connection with the financing of the 2007 Project without further authorization by this Commission including, without limitation, a tax certificate, agreements relating to the engagement of verification agents, printers, bond insurers or other credit providers, one or more investment agreements (or amendments thereto), escrow float agreements, guaranteed investment contracts, forward delivery agreements or other investment vehicles for moneys in any of the funds or accounts held by the Trustee or the Escrow Agents. Any actions heretofore taken by such officers in furtherance of any of the transactions authorized herein are hereby ratified, confirmed and approved.

Section 14. Effective Date. This Resolution shall take effect immediately upon its passage.


The foregoing resolution was introduced at a regular meeting of the Commission of the Modesto Public Financing Authority held on the 3rd of April, 2007, by Commissioner Hawn, who moved its adoption, which motion being duly seconded by Commissioner Dunbar, was upon roll call carried and the resolution adopted by the following vote:

AYES: Commissioners: Dunbar, Hawn, Keating, Marsh, O'Bryant, Olsen, Mayor Ridenour
NOES: Commissioners: None
ABSENT: Commissioners: None

ATTEST: Jean Morris
JEAN MORRIS, Secretary

(SEAL)

APPROVED AS TO FORM:

By 
SUSANA ALCALA WOOD,
City Attorney, acting as Authority General Counsel

THIS IS TO CERTIFY THAT THIS
IS A TRUE COPY OF THE DOCUMENT ON
FILE WITH THIS OFFICE.
DATE 4/12/07



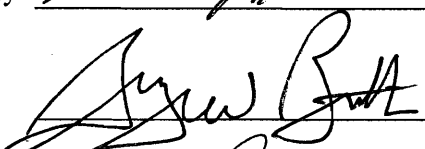
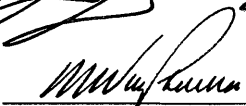
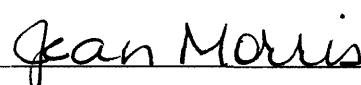
Jean Morris
SIGNATURE
CITY CLERK
CITY OF MODESTO, CA

MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CLOSING CERTIFICATE OF THE AUTHORITY

The undersigned, the Auditor and Treasurer and Secretary, respectively, of the Modesto Public Financing Authority (the "Authority"), a joint exercise of powers authority organized under the laws of the State of California, hereby certify on behalf of the Authority, in connection with the Authority's Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the "Series 2007 Bonds"), as follows:

1. The officers identified below are duly authorized by the Commission of the Authority to execute on behalf of the Authority, certain documents, certificates and agreements relating to the Series 2007 Bonds, and that pursuant to such authority certain documents, certificates and agreements have been executed by such persons, and attested to by the signature of the Secretary of the Commission, and, each of the undersigned by their signature confirms that the other signatures set forth below are genuine or an authorized facsimile signature:

<u>Name</u>	<u>Official Title</u>	<u>Signature</u>
Jim Ridenour	Chairperson of the Commission of the Modesto Public Financing Authority	
Brad Hawn	Vice Chairperson of the Commission of the Modesto Public Financing Authority	
George W. Britton	Executive Director of the Modesto Public Financing Authority	
Wayne Padilla	Auditor and Treasurer of the Modesto Public Financing Authority	
Jean Morris	Secretary of the Commission of the Modesto Public Financing Authority	

2. The undersigned further certify that authorized officers of the Authority executed the following documents on behalf of the Authority:

- (a) Indenture, dated as of April 1, 2007 (the "Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A., as Trustee (the "Trustee");
- (b) Facility Lease (the "Facility Lease"), dated as of April 1, 2007, by and between the City of Modesto (the "City") and the Authority;

- (c) Sublease (the "Sublease"), dated as of April 1, 2007, by and between the City and the Authority;
- (d) Auction Agreement, dated as of April 1, 2007, by and between the Trustee and Deutsche Bank Trust Company Americas, as Auction Agent (the "Auction Agent"), and agreed to by the Authority;
- (e) Broker-Dealer Agreement, dated as of April 1, 2007, by and among the Auction Agent, Banc of America Securities LLC, as the Broker-Dealer, and the Authority;
- (f) Bond Purchase Contract, dated April 11, 2007 (the "Purchase Contract"), by and among the City, the Authority and Banc of America Securities LLC, as Underwriter;
- (g) Tax Certificate, dated April 18, 2007 (the "Tax Certificate") for the Series 2007 Bonds;
- (h) Escrow Agreement relating to the 1997 Bonds, dated as of April 1, 2007 (the "1997 Escrow Agreement") by and between the Authority and U.S. Bank National Association, as escrow agent thereunder;
- (i) Escrow Agreement relating to the 1998 Bonds, dated as of April 1, 2007 (the "1998 Escrow Agreement") by and between the Authority and The Bank of New York Trust Company, N.A., as escrow agent thereunder; and
- (j) the Official Statement, dated April 11, 2007 (the "Official Statement").

3. The undersigned further certify that the following persons are now, and at all times since April 3, 2007 have been, the duly appointed or elected, qualified and acting members of the Commission of the Authority:

<u>Name</u>	<u>Position</u>
Jim Ridenour	Chairperson
Brad Hawn	Vice Chairperson
Bob Dunbar	Member
Brad Hawn	Member
Janice Keating	Member
Garrad Marsh	Member
Kristin Olsen	Member

4. The undersigned further certify that:

(i) the Authority is a public body corporate and politic, organized and existing pursuant to the laws of the State of California, including Section 6500 et seq. of the California Government Code, as amended, and the Joint Exercise of Powers Agreement, dated as of December 1, 1989 (the "JPA Agreement"), by and between the

City and the Industrial Development Authority of the City of Modesto, with the full power and authority to enter into the Agreements;

(ii) the Joint Powers Agreement of the Authority, as filed in the Office of the Secretary of State of the State of California on December 19, 1989, has not been amended in any respect since said date and continues to be in full force and effect on the date of this certificate, and the Authority is not in violation of any provisions thereof;

(iii) the representations and warranties of the Authority contained in the Indenture, Facility Lease, Sublease, the Auction Agreement, the Broker-Dealer Agreement, the 1997 Escrow Agreement, 1998 Escrow Agreement, the Tax Certificate and the Purchase Contract (collectively, the "Authority Documents") are accurate in all material aspects, as and if made on the date hereof;

(iv) the Authority Documents have been duly authorized, executed and delivered and each constitutes a valid and legally binding obligation of the Authority enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought;

(v) the resolution of the Authority, adopted on April 3, 2007, at a meeting of the Commission duly called, noticed and conducted, at which a quorum was present and acting throughout, authorizing the execution, delivery and due performance of the Authority Documents, is in full force and effect at the date hereof and has not been amended, modified or supplemented; and the resolution of the Authority, adopted on February 10, 1998, at a meeting of the Commission duly called, noticed and conducted, at which a quorum was present and acting throughout, is in full force and effect at the date hereof and has not been amended, modified or supplemented;

(vi) the Authority has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied on or prior to the date hereof;

(vii) the information contained in the Official Statement under the captions "INTRODUCTION-The Authority" and "ABSENCE OF LITIGATION" (solely as it relates to the Authority) does not contain any untrue or misleading statement of a material fact and does not omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading; and

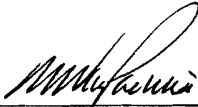
(viii) the total rental payable under the Facility Lease for each Rental Payment Period (as defined in the Facility Lease) represents the fair rental value of the Leased Property (as defined in the Facility Lease) for each such period.

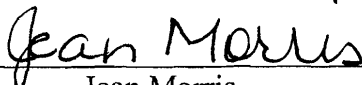
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Capitalized terms used herein not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

Dated: April 18, 2007

MODESTO PUBLIC FINANCING AUTHORITY

By: 
Wayne Padilla
Auditor and Treasurer

By: 
Jean Morris
Secretary

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CERTIFICATE REGARDING JOINT EXERCISE OF POWERS AGREEMENT

The undersigned hereby states and certifies that:

1. He is the duly appointed, qualified and acting Auditor and Treasurer of the Modesto Public Financing Authority (the "Authority"), a joint exercise of powers authority, duly organized under the laws of the State of California (the "State"), and operating pursuant to Article 1 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California and pursuant to an agreement which became effective on December 1, 1989 (the "Agreement"), by and among the members of the Authority, and as such, is familiar with the facts herein certified and is authorized to certify the same.

2. Attached hereto as Exhibit A is a true copy of the Joint Exercise of Powers Agreement of the Authority, and such Agreement has not been amended, modified or repealed as of the date hereof.


3. Attached hereto as Exhibit B is an initial Notice as to a Joint Powers Agreement duly filed with the California Secretary of State on December 19, 1989.

4. Attached hereto as Exhibit C is the Statement of Facts executed on October 17, 2006, and duly filed with the California Secretary of State on October 19, 2006.

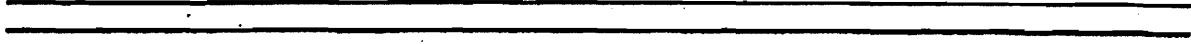
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Dated: April 18, 2007

MODESTO PUBLIC FINANCING AUTHORITY

By: 

Wayne Padilla
Auditor and Treasurer



JOINT EXERCISE OF POWERS AGREEMENT
MODESTO PUBLIC FINANCING AUTHORITY

Dated as of December 1, 1989



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THIS AGREEMENT is by and among the CITY OF MODESTO (the "City") and the INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF MODESTO (the "IDA"), each duly organized and existing under the laws of the State of California (the "State"), collectively called the "Members".

WITNESSETH:

WHEREAS, the Marks-Roos Local Bond Pooling Act of 1985 (hereinafter defined as the "Bond Law") authorizes agencies formed under the Joint Exercise of Powers Law (hereinafter defined as the "Act") to issue bonds for the purpose of acquiring and constructing Public Capital Improvements (as that term is defined in the Act) and to lease those Public Capital Improvements to public agencies in California;

WHEREAS, the City intends to finance the renovation of the main terminal building at the Modesto City-County Airport/Harry Sham Field by entering into a lease/leaseback financing of the Airport, and the IDA is willing to assist the City and to facilitate such financing;

NOW, THEREFORE, in consideration of the above premises and of the mutual promises herein contained, the Members do hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.01. Definitions. Unless the context otherwise requires, the words and terms defined in this Article shall, for the purpose hereof, have the meanings herein specified.

"Act" means Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State.

"Agreement" means this Joint Exercise of Powers Agreement.

"Auditor and Treasurer" means the Director of Finance of the City, designated as Auditor and Treasurer of the Authority in Section 3.02.

"Authority" means the Modesto Public Financing Authority created pursuant to this Agreement.

"Bond Law" means the Marks-Roos Local Bond Pooling Act of 1985, being Article 4 of the Act (commencing with Section 6584), as now or hereafter amended, or any other law hereafter legally available for use by the Authority in the authorization and issuance of Bonds to finance the acquisition of Obligations and/or Public Capital Improvements.

"Bonds" means bonds of the Authority issued pursuant to Section 6590 or 6591 of the Bond Law.

"Chairperson" means the Chairperson of the Authority.

"Commission" means the Commission referred to in Section 2.03, which shall be the governing body of the Authority.

"Commissioners" means the representatives of the Members appointed to the Commission pursuant to Section 2.03.

"Fiscal Year" means the period from July 1 to and including the following June 30.

"Members and Member" means each of the parties to this Agreement and "Member" means any such party.

"Public Agency" means any public agency authorized by the Act to enter into a joint exercise of powers agreement with the Members.

"Public Capital Improvement" has the meaning given to such term in Section 6585(g) of the Act, as in effect on the date hereof, and as hereafter amended.

"Secretary" means the secretary of the Authority.

"State" means the State of California.

"Vice Chairperson" means the vice Chairperson of the Authority.

ARTICLE II

GENERAL PROVISIONS

Section 2.01. Purpose. This Agreement is made pursuant to the Act providing for the joint exercise of powers common to the Members. The purpose of this Agreement is to provide for the financing of Public Capital Improvements for the Members through the issuance of Bonds by the Authority and the leasing of the Public Capital Improvements to the Members.

Section 2.02. Creation of Authority. Pursuant to the Act, there is hereby created a public entity to be known as the "Modesto Public Financing Authority". The Authority shall be a public entity separate and apart from the Members, and shall administer this Agreement.

Section 2.03. Commission. The Authority shall be administered by a Commission of seven (7) Commissioners. The members of the City Council of the City shall be, *ex officio*, the Commissioners of the Authority. The number of Commissioners may be changed by amendment of this Agreement. The Commission shall be called the "Commission of the Modesto Public Financing Authority". All voting power of the Authority shall reside in the Commission.

Section 2.04. Meetings of the Commission.

(a) **Regular Meetings.** The Commission shall provide for its regular meetings; provided, however, that at least one regular meeting shall be held each year. The date, hour and place of the holding of regular meetings shall be fixed by resolution of the Commission and a copy of such resolution shall be filed with each of the Members.

(b) **Special Meetings.** Special meetings of the Commission may be called in accordance with the provisions of Section 54956 of the Government Code of the State.

(c) **Call, Notice and Conduct of Meetings.** All meetings of the Commission, including without limitation, regular, adjourned regular and special meetings, shall be called, noticed, held and conducted in accordance with the provisions of Sections 54950 et seq. of the Government Code of the State.

Section 2.05. Minutes. The Secretary shall cause to be kept minutes of the meetings of the Commission and shall, as soon as possible after each meeting, cause a copy of the minutes to be forwarded to each Commissioner and to each of the Members.

Section 2.06. Voting. Each Commissioner shall have one vote.

Section 2.07. Quorum; Required Votes; Approvals. Commissioners holding a majority of the votes shall constitute a quorum for the transaction of business, except that less than a quorum may adjourn from time to time. The affirmative votes of at least a majority of the Commissioners shall be required to take any action by the Commission.

Section 2.08. Bylaws. The Commission may adopt, from time to time, such bylaws, rules and regulations for the conduct of its meetings as are necessary for the purposes hereof.

ARTICLE III
OFFICERS AND EMPLOYEES

Section 3.01. Chairperson, Vice-Chairperson, Executive Director and Secretary. The Mayor of the City shall, *ex officio*, serve as the Chairperson of the Authority, the Mayor pro tem of the City shall, *ex officio*, serve as the Vice Chairperson of the Authority, and the City Clerk of the City shall, *ex officio*, serve as the Secretary. The City Manager of the City shall, *ex officio*, serve as the Executive Director of the Authority. The officers shall perform the duties normal to said offices; and

(a) the Chairperson shall preside over all meetings of the Commission of the Authority, and shall perform such other duties as may be imposed by the Commission;

(b) the Vice Chairperson shall perform all of the Chairperson's duties in the absence of the Chairperson;

(c) the Executive Director shall sign all contracts on behalf of the Authority, and shall perform such other duties as may be imposed by the Commission;

(d) the Secretary shall countersign all contracts signed by the Executive Director on behalf of the Authority, perform such other duties as may be imposed by the Commission and cause a copy of this Agreement to be filed with the Secretary of State of the State pursuant to the Act.

Section 3.02. Auditor and Treasurer. Pursuant to Section 6505.6 of the Act, the Director of Finance of the City is hereby designated as the Auditor and Treasurer of the Authority. The Auditor and Treasurer shall be the depository, shall have custody of all of the accounts, funds and money of the Authority from whatever source, shall have the duties and obligations set forth in Sections 6505 and 6505.5 of the Act and shall assure that there shall be strict accountability of all funds and reporting of all receipts and disbursements of the Authority.

Section 3.03. Officers in Charge of Records, Funds and Accounts. Pursuant to Section 6505.1 of the Act, the Auditor and Treasurer shall have charge of, handle and have access to all accounts, funds and money of the Authority and all records of the Authority relating thereto; and the Secretary shall have charge of, handle and have access to all other records of the Authority.

Section 3.04. Bonding Persons Having Access to Public Capital Improvements. From time to time, the Commission may designate persons, in addition to the Secretary and the Auditor and Treasurer, having charge of, handling or having access to any records, funds or accounts or other Public Capital Improvements of the Authority, and the respective amounts of the official bonds of the Secretary and the Auditor and Treasurer and such other persons pursuant to Section 6505.1 of the Act.

Section 3.05. Legal Advisor. The City Attorney of the City of Modesto shall serve as legal advisor to the Authority.

Section 3.06. Other Employees. The Commission shall have the power to appoint and employ such other consultants and independent contractors as may be necessary for the purposes of this Agreement.

All of the privileges and immunities from liability, exemption from laws, ordinances and rules, all pension, relief, disability, workers' compensation and other benefits which apply to the activities of officers, agents, or employees of an Agency when performing their respective functions shall apply to them to the same degree and extent while engaged in the performance of any of the functions and other duties under this Agreement.

None of the officers, agents, or employees directly employed by the Commission shall be deemed, by reason of their employment by the Commission to be employed by any Member or, by reason of their employment by the Commission, to be subject to any of the requirements of the Members.

Section 3.07. Assistant Officers. The Commission may appoint such assistants to act in the place of the Secretary or other officers of the Authority (other than any Commissioner) as the Commission shall from time to time deem appropriate.

ARTICLE IV

POWERS

Section 4.01. General Powers. The Authority shall exercise in the manner herein provided the powers common to each of the Members and necessary to the accomplishment of the purposes of this Agreement, subject to the restrictions set forth in Section 4.04, including but not limited to the common power of eminent domain with respect to Public Capital Improvements.

As provided in the Act, the Authority shall be a public entity separate from the Members. The Authority shall have the power to finance the acquisition of Public Capital Improvements necessary or convenient for the operation of the Members, and to acquire Obligations of the Members.

Section 4.02. Power to Issue Bonds. The Authority shall have all of the powers provided in Article 4 of the Act (commencing with Section 6584), including the power to issue Bonds under the Bond Law.

Section 4.03. Specific Powers. The Authority is hereby authorized, in its own name, to do all acts necessary for the exercise of the foregoing powers, including but not limited to, any or all of the following:

- (a) to make and enter into contracts;
- (b) to employ agents or employees;
- (c) to acquire, construct, manage, maintain or operate any buildings, works or improvements;
- (d) to acquire, construct, hold and dispose of Public Capital Improvements, including the leasing of such Public Capital Improvements from and to the Members;
- (e) to sue and be sued in its own name;
- (f) to incur debts, liabilities or obligations, provided that no debt, liability or obligation shall constitute a debt, liability or obligation of any of the Members;
- (g) to apply for, accept, receive and disburse grants, loans and other aids from any agency of the United States of America or of the State;
- (h) to invest any money in the treasury pursuant to Section 6505.5 of the Act that is not required for the immediate necessities of the Authority, as the Authority determines is advisable, in the same manner and upon the same conditions as local agencies, pursuant to Section 53601 of the Government Code of the State;

(i) to apply for letters of credit or other form of credit enhancement in order to secure the repayment of its Bonds and enter into agreements in connection therewith;

(j) to carry out and enforce all the provisions of this Agreement;

(k) to make and enter into Bond Purchase Agreements;

(l) to purchase Obligations issued by any Member; and

(m) to exercise any and all other powers as may be provided in the Bond Law.

Section 4.04. Restrictions on Exercise of Certain Powers. The powers of the Authority shall be exercised in the manner provided in the Act and in the Bond Law, and, except for those powers set forth in the Bond Law, shall be subject (in accordance with Section 6509 of the Act) to the restrictions upon the manner of exercising such powers that are imposed upon the City in the exercise of similar powers.

Section 4.05. Obligations of Authority. The debts, liabilities and obligations of the Authority shall not be the debts, liabilities and obligations of any of the Members.

ARTICLE V

METHODS OF PROCEDURE; CREDIT TO MEMBERS

Section 5.01. Assumption of Responsibilities By the Authority. As soon as practicable after the date of execution of this Agreement, the Commissioners shall give notice (in the manner required by Section 2.04) of the organizational meeting of the Commission. At said meeting the Commission shall provide for its regular meetings as required by Section 2.04 and elect a Chairperson, Vice Chairperson and the Secretary.

Section 5.02. Delegation of Powers. Each of the Members hereby delegates to the Authority the power and duty to acquire, by lease, lease-purchase, installment sale agreements, or otherwise, such Public Capital Improvement necessary or convenient for the operation of the Members.

Section 5.03. Credit to Members. All accounts or funds created and established pursuant to any trust agreement or indenture to which the Authority is a party, and any interest earned or accrued thereon, shall inure to the benefit of the respective Members for which such funds or accounts were created.

ARTICLE VI

CONTRIBUTION: ACCOUNTS AND REPORTS: FUNDS

Section 6.01. Contributions. The Members may in the appropriate circumstance when required hereunder: (a) make contributions from their treasuries for the purposes set forth herein, (b) make payments of public funds to defray the cost of such purposes, (c) make advances of public funds for such purposes, such advances to be repaid as provided herein, or (d) use its personnel, equipment or property in lieu of other contributions or advances.

Section 6.02. Accounts and Reports. To the extent not covered by the duties assigned to a trustee chosen by the Authority, the Auditor and Treasurer shall establish and maintain such funds and accounts as may be required by good accounting practice or by any provision of any trust agreement or indenture entered into with respect to the proceeds of any Bonds issued by the Authority. The books and records of the Authority in the hands of a trustee or the Auditor and Treasurer shall be open to inspection at all reasonable times by representatives of the Members. The Auditor and Treasurer of the Authority, within 180 days after the close of each Fiscal Year, shall give a complete written report of all financial activities for such Fiscal Year to the Members to the extent such activities are not covered by the report of such trustee. The trustee appointed under any trust agreement or indenture shall establish suitable funds, furnish financial reports and provide suitable accounting procedures to carry out the provisions of said trust agreement or indenture. Said trustee may be given such duties in said trust agreement or indenture as may be desirable to carry out this Agreement.

Section 6.03. Funds. Subject to the applicable provisions of any trust agreement or indenture which the Authority may enter into, which may provide for a trustee to receive, have custody of and disburse Authority funds, the Auditor and Treasurer of the Authority shall receive, have the custody of and disburse Authority funds as nearly as possible in accordance with generally accepted accounting practices, shall make the disbursements required by this Agreement or to carry out any of the provisions or purposes of this Agreement.

Section 6.04. Administrative Expenses. The Members shall pay their proportionate share (determined on the basis of a Member's percentage share of any financings completed by the Authority) of administrative expenses.

ARTICLE VII

TERM; DISPOSITION OF ASSETS

Section 7.01. Term. This Agreement shall become effective as of the date of execution hereof by the parties hereto, and shall continue in full force and effect so long as bonds of the Authority are outstanding or any lease agreements are outstanding between the Authority and a Member or Members (or between Members).

Section 7.02. Disposition of Assets. Upon termination of this Agreement, all property of the Authority, both real and personal, shall be divided among the parties hereto in such manner as shall be agreed upon by the parties.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

Section 8.01. Notices. Notices hereunder shall be in writing and shall be sufficient if delivered to:

City of Modesto
801 11th Street
Modesto, California 95354
Attn: Finance Director

Industrial Development Agency
of the City of Modesto
801 11th Street
Modesto, California 95354
Attn: Chairperson

Section 8.02. Section Headings. All section headings in this Agreement are for convenience of reference only and are not to be construed as modifying or governing the language in the section referred to or to define or limit the scope of any provision of this Agreement.

Section 8.03. Consent. Whenever in this Agreement any consent or approval is required, the same shall not be unreasonably withheld.

Section 8.04. Law Governing. This Agreement is made in the State under the constitution and laws of the State and is to be so construed.

Section 8.05. Amendments. This Agreement may be amended at any time, or from time to time, except as limited by contract with the holders of Bonds issued by the Authority or certificates of participation in payments to be made by the Authority or the Members or by applicable regulations or laws of any jurisdiction having authority, by one or more supplemental agreements executed by all of the parties to this Agreement either as required in order to carry out any of the provisions of this Agreement or for any other purpose, including without limitation addition of new parties (including any legal entities or taxing areas heretofore or hereafter created) in pursuance of the purposes of this Agreement.

Section 8.06. Enforcement by Authority. The Authority is hereby authorized to take any or all legal or equitable actions, including but not limited to injunction and specific performance, necessary or permitted by law to enforce this Agreement.

Section 8.07. Severability. Should any part, term or provision of this Agreement be decided by any court of competent jurisdiction to be illegal or in conflict with any law of the State, or otherwise be rendered unenforceable or ineffectual, the validity of the remaining portions or provisions shall not be affected thereby.

Section 8.08. Successors. This Agreement shall be binding upon and shall inure to the benefit of the successors of the respective Members. None of the Members may assign any right or obligation hereunder without the written consent of the other Members.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and attested by their proper officers thereunto duly authorized and their official seals to be hereto affixed, on the day and year set opposite the name of each of the parties.

CITY OF MODESTO

Dated: November 21, 1989



City Manager

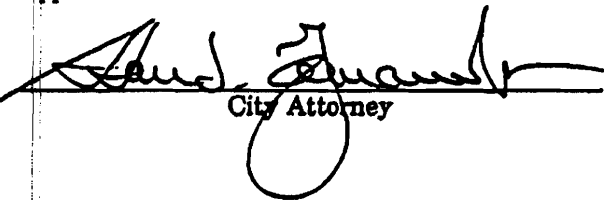
ATTEST:



City Clerk

(SEAL)

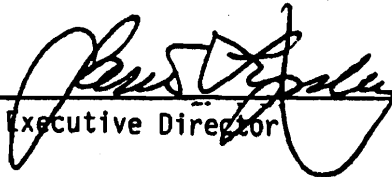
Approved as to Form:



City Attorney

INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF MODESTO

Dated: November 21, 1989



Executive Director

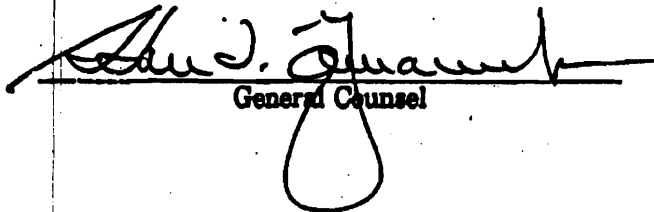
ATTEST:



Secretary

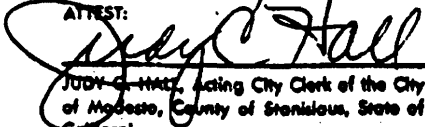
(SEAL)

Approved as to Form:



General Counsel

The foregoing is a correct copy of the original on file in this office which has not been revoked and is now in full force and effect.

ATTEST:


JUDY C. HALL, Acting City Clerk of the City of Modesto, County of Stanislaus, State of California.

**State of California
Secretary of State**



I, BRUCE McPHERSON, Secretary of State of the State of California, hereby certify:

That the attached transcript of 1 page(s) was prepared by and in this office from the record on file, of which it purports to be a copy, and that it is full, true and correct.

IN WITNESS WHEREOF, I execute this certificate and affix the Great Seal of the State of California this day of

OCT 10 2006



A handwritten signature in cursive script, appearing to read "Bruce McPherson".

BRUCE McPHERSON
Secretary of State



State of California
 March Fong Eu
 Secretary of State

FILE NO. 1027

FILED
 In the office of the Secretary of State
 of the State of California
 DEC 19 1989

March Fong Eu
 MARCH FONG EU, Secretary of State

(Office Use Only)

NOTICE OF A JOINT POWERS AGREEMENT
 (Government Code Section 6503.5 or 6503.7)

Instructions:

1. Complete and mail to: Secretary of State,
 P.O. Box 704, Sacramento, CA 95812-0704 (916) 324-6778
2. Include filing fee of \$5.00
3. Do not include attachments, unless otherwise specified.

The name of the agency or entity created under the agreement and responsible for the administration of the agreement is _____

MODESTO PUBLIC FINANCING AUTHORITY

Mailing address: 801 11th Street, Modesto, California 95354

Provide a short title of the agreement if applicable: Joint Exercise of Powers Agreement

The public agencies party to the agreement are:

(1) City of Modesto

(2) Industrial Development Authority of the City of Modesto

(3) _____
 if more space is needed, continue on a separate sheet and attach it to this form.

The effective date of the agreement is: December 5, 1989

Provide a condensed statement of the agreement's purpose or the powers to be exercised: _____

Financing Public Capital Improvements for the City of Modesto

William H. Madison
 Signature

William H. Madison, Jones Hall Hill & White
 Special Counsel
 Typed Name and Title

State of California
Secretary of State



I, BRUCE McPHERSON, Secretary of State of the State of California, hereby certify:

That the attached transcript of 01 page(s) was prepared by and in this office from the record on file, of which it purports to be a copy, and that it is full, true and correct.



IN WITNESS WHEREOF, I execute this certificate and affix the Great Seal of the State of California this day of

OCT 20 2006

BRUCE McPHERSON
Secretary of State



**State of California
Secretary of State**

FILED
In the office of the Secretary of State
of the State of California

OCT 19 2006

(Office Use Only)

**STATEMENT OF FACTS
ROSTER OF PUBLIC AGENCIES FILING**
(Government Code Section 53051)

Instructions:

1. Complete and mail to: Secretary of State,
P.O. Box 942877, Sacramento, CA 94277-0001 (916) 653-3984
2. A street address must be given as the official mailing address or as
the address of the presiding officer.
3. Complete addresses as required.
4. If you need additional space, please include information on an 8½ X 11 page.

New Filing Update

Legal name of Public Agency: Modesto Public Financing Authority

Nature of Update: Change in Commissioners

County: Stanislaus

Official Mailing Address: P.O. Box 642, Modesto, California 95353 (physical address: 1010 Tenth Street)

Name and Address of each member of the governing board:

Chairman, President or other Presiding Officer (Indicate Title): Chairperson

Name: Jim Ridenour Address: P.O. Box 642, Modesto, California 95353

Secretary or Clerk (Indicate Title): Secretary

Name: Jean Morris Address: P.O. Box 642, Modesto, California 95353

Members:

Name: Will O'Bryant (Vice Chairperson) Address: P.O. Box 642, Modesto, California 95353

Name: Bob Dunbar (Member) Address: P.O. Box 642, Modesto, California 95353

Name: Brad Hawn (Member) Address: P.O. Box 642, Modesto, California 95353

Name: Janice Keating (Member) Address: P.O. Box 642, Modesto, California 95353

Name: Garrad Marsh (Member) Address: P.O. Box 642, Modesto, California 95353

Name: Kristin Olsen (Member) Address: P.O. Box 642, Modesto, California 95353

Date: October 17, 2006

Jean Morris
Signature

Jean Morris, Secretary

Typed Name and Title



APR 23 2007

DEBRA BOWEN
Secretary of State

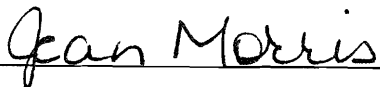
STATE OF CALIFORNIA)
)
COUNTY OF STANISLAUS)

**AFFIDAVIT OF FILING OF
CERTIFIED SIGNATURE**

I, Jean Morris, hereby certify that I am the Secretary of the Commission of the Modesto Public Financing Authority; and the following signature designated by my official title is my own manually executed signature and is being filed with the Secretary of State of the State of California, so that after such filing the facsimile signature of such officer may hereafter be used on the public securities hereafter issued by said Modesto Public Financing Authority, pursuant to Sections 5500 through 5506 of the California Government Code.

I certify under penalty of perjury that the foregoing is true and correct.

EXECUTED this 18th day of April, 2007, at Stanislaus, California.



Jean Morris
Secretary of the Commission of the
Modesto Public Financing Authority

APR 23 2007

DEBRA BOWEN
Secretary of State

STATE OF CALIFORNIA)
)
COUNTY OF STANISLAUS)

**AFFIDAVIT OF FILING OF
CERTIFIED SIGNATURE**

I, Jim Ridenour, hereby certify that I am the Chairperson of the Commission of the Modesto Public Financing Authority; and the following signature designated by my official title is my own manually executed signature and is being filed with the Secretary of State of the State of California, so that after such filing the facsimile signature of such officer may hereafter be used on the public securities hereafter issued by said Modesto Public Financing Authority, pursuant to Sections 5500 through 5506 of the California Government Code.

I certify under penalty of perjury that the foregoing is true and correct.

EXECUTED this 18th day of April, 2007, at Stanislaus, California.



Jim Ridenour
Chairperson of the Commission of the
Modesto Public Financing Authority



Blanket Issuer Letter of Representations

[To be Completed by Issuer]

Modesto Public Financing Authority

[Name of Issuer]

January 14, 1997

[Date]

Attention: Underwriting Department — Eligibility
The Depository Trust Company
55 Water Street; 50th Floor
New York, NY 10041-0099

Ladies and Gentlemen:

This letter sets forth our understanding with respect to all issues (the "Securities") that Issuer shall request be made eligible for deposit by The Depository Trust Company ("DTC").

To induce DTC to accept the Securities as eligible for deposit at DTC, and to act in accordance with DTC's Rules with respect to the Securities, Issuer represents to DTC that Issuer will comply with the requirements stated in DTC's Operational Arrangements, as they may be amended from time to time.

Note:

Schedule A contains statements that DTC believes accurately describe DTC, the method of effecting book-entry transfers of securities distributed through DTC, and certain related matters.

Very truly yours,

Modesto Public Financing Authority

(Issuer)

By: Kevin Riper

(Authorized Officer's Signature)

Kevin Riper

Auditor and Treasurer

(Type Name & Title)

Finance Department, City Hall
1012 "I" Street, 2nd Floor

(Street Address)

Received and Accepted:

THE DEPOSITORY TRUST COMPANY

By: _____

Modesto

(City)

CA

(State)

95354

(Zip)

(209) 577-5370

(Phone Number)

SAMPLE OFFERING DOCUMENT LANGUAGE
DESCRIBING BOOK-ENTRY-ONLY ISSUANCE

(Prepared by DTC—bracketed material may be applicable only to certain issues)

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$200 million, one certificate will be issued with respect to each \$200 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the 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. DTC holds securities that its participants ("Participants") 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 Participants' accounts, thereby eliminating the need for physical movement of securities 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 securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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.

[6. Redemption notices shall be sent to Cede & Co. If less than all of the Securities 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.]

7. Neither DTC nor Cede & Co. will consent or vote with respect to Securities. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal and interest payments on the Securities 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 Agent, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer or the Agent, 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.

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records.]

10. DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to the Issuer or the Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

11. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

WRITTEN REQUEST OF THE AUTHORITY TO THE TRUSTEE AND
TRUSTEE CERTIFICATE OF DELIVERY AND PAYMENT

To THE BANK OF NEW YORK TRUST COMPANY, N.A., as trustee (the "Trustee") under the Indenture, dated as of April 1, 2007 (the "Indenture"), by and between the Modesto Public Financing Authority (the "Authority") and the Trustee, pursuant to which the Authority's Lease Revenue Refunding and Capital Improvement Bonds Series 2007 (the "Series 2007 Bonds"), in the aggregate principal amount of \$62,275,000.00, have been delivered.

You are hereby requested to execute and deliver \$62,275,000.00 initial principal amount of the Series 2007 Bonds, and to deliver the Series 2007 Bonds to The Depository Trust Company, New York, New York in a F.A.S.T. delivery for the account of Banc of America Securities LLC, as underwriter (the "Underwriter"), upon payment to you as Trustee, for the account of the Authority, of: the net purchase price of the Series 2007 Bonds, which has been calculated by the Underwriter and represented to the Trustee as being equal to \$62,067,517.37 (representing the aggregate principal amount of the Series 2007 Bonds of \$62,275,000.00, less an underwriting discount of \$207,482.63) and of such purchase price, the Underwriter will wire (a) the amount of \$151,178.50 directly to CIFG Assurance North America, Inc., as Insurer for the Series 2007 Bonds, and (b) the remaining balance of \$61,916,338.87 to you, as trustee.

Pursuant to Section 3.02 of the Indenture, you are hereby authorized and directed to deposit or transfer the following amounts (representing the net purchase price for the Series 2007 Bonds) as follows:

- (a) the sum of \$423,201.43 in the Costs of Issuance Fund;
- (b) the sum of \$2,400,000.00 in the Project Fund;
- (c) the sum of \$2,291,177.17; which shall be transferred by the Trustee to the 1997 Escrow Agent, as escrow agent pursuant to the 1997 Escrow Agreement, for deposit in the escrow fund created pursuant to the 1997 Escrow Agreement;
- (d) the sum of \$56,619,946.84, which shall be transferred by the Trustee to the 1998 Escrow Agent, as escrow agent pursuant to the 1998 Escrow Agreement, for deposit in the escrow fund created pursuant to the 1998 Escrow Agreement; and
- (e) in the Reserve Fund, the sum of \$182,013.43.

The Trustee hereby acknowledges receipt of the net purchase price (as described above) of the Series 2007 Bonds and confirms that it has taken the actions and deposited, credited or transferred the proceeds from the sale of the Series 2007 Bonds as instructed as set forth above.


The Trustee hereby further confirms receipt of the Insurance Policy relating to the Series 2007 Bonds by CIFG Assurance North America, Inc.

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Capitalized terms used herein not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

Dated: April 18, 2007

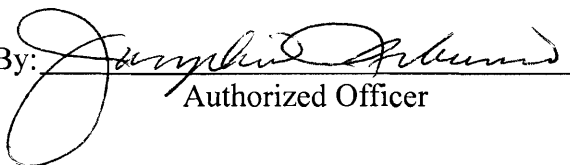
MODESTO PUBLIC FINANCING AUTHORITY

By: 

Wayne Padilla
Auditor and Treasurer

Acknowledged:

THE BANK OF NEW YORK TRUST
COMPANY, N.A.,
as Trustee

By: 

Authorized Officer

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

TO: The Bank of New York Trust Company, N.A.

RE: Disbursement from the Cost of Issuance Fund pursuant to Section 3.03 of the Indenture, dated as of April 1, 2007 (the "Indenture"), by and between THE BANK OF NEW YORK TRUST COMPANY, N.A., as Trustee (the "Trustee") and MODESTO PUBLIC FINANCING AUTHORITY (the "Authority")

WRITTEN REQUEST FOR REQUISITION
FROM COSTS OF ISSUANCE FUND

REQUISITION NO. 1

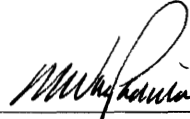
You are here by instructed to pay as Costs of Issuance of the Authority's Lease Revenue Refunding and Capital Improvements Bonds, Series 2007 (the "Series 2007 Bonds") from the Cost of Issuance Fund as provided in Section 3.03 of the Indenture the amounts set forth on Exhibit A hereto, to the persons or entities designated therein as Payee. These Costs of Issuance have been properly incurred, are a proper charge against the Costs of Issuance Fund and have not been the basis of any previous disbursements.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

Dated: April 18, 2007

MODESTO PUBLIC FINANCING AUTHORITY

By:



Wayne Padilla
Auditor and Treasurer

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CERTIFICATE REGARDING CITY RESOLUTION

I, Jean Morris, hereby certify that I am the City Clerk of the City of Modesto (the "City"), a charter city and municipal corporation duly organized under the Constitution and the laws of the State of California, and that as such I am authorized to execute this Certificate on behalf of the City.

I hereby further certify that the attached resolution is a full, true and correct copy of Resolution No. 2007-216, adopted at the regular meeting of the City Council of the City held on April 3, 2007, of which meeting all of the members of the City Council of the City had due notice and at which a quorum was present and acting throughout.

I hereby further certify that I have carefully compared the same with the original resolution so adopted at said meeting and that it is a full, true and correct copy of said resolution; and that said resolution has not been amended, modified or rescinded since the date of adoption and is now in full force and effect.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

Dated: April 18, 2007

CITY OF MODESTO

By: Jean Morris
Jean Morris
City Clerk

**MODESTO CITY COUNCIL
RESOLUTION NO. 2007-216**

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MODESTO APPROVING AND AUTHORIZING THE ISSUANCE AND SALE BY THE MODESTO PUBLIC FINANCING AUTHORITY OF NOT TO EXCEED \$65,000,000 AGGREGATE PRINCIPAL AMOUNT OF LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS, SERIES 2007; APPROVING THE FORMS OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A SUBLEASE, A FACILITY LEASE, A PURCHASE CONTRACT, A CONTINUING DISCLOSURE AGREEMENT AND A SWAP AGREEMENT; APPROVING THE FORM OF AND AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT; AND APPROVING CERTAIN OTHER RELATED ACTIONS

WHEREAS, the City of Modesto (the "City") is a charter city and a municipal corporation duly organized and existing under and by virtue of the laws of the State of California; and

WHEREAS, the Modesto Public Financing Authority (the "Authority") is authorized under the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the California Government Code, as amended (the "Act"), to lease and/or purchase real property and to issue bonds for the financing and refinancing of public capital improvements whenever there are significant public benefits; and

WHEREAS, the Authority previously issued its Lease Revenue Bonds, Series 1997 (John Thurman Field Renovation Project) (the "1997 Bonds") and Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "1998 Bonds") to assist the City in the financing of certain public capital improvements located in the City, including John Thurman field, a City-County administration building, a public parking garage, a communication dispatch center, a police headquarter, various public parks and miscellaneous city properties; and

WHEREAS, the City has determined to refund all of the 1997 Bonds and a

portion of the 1998 Bonds; and

WHEREAS, in accordance with the Act, the City, on the date hereof, held a public hearing on the proposed financing following publication of the notice of the public hearing at least five days prior thereto in a newspaper of general circulation in the City and the City Council hereby finds that the proposed financing will result in significant public benefits, including demonstrable savings in effective interest rate, bond preparation, bond underwriting or bond issuance costs; and

WHEREAS, the City desires to approve the sale and issuance by the Authority of not to exceed \$65,000,000 in aggregate principal amount of Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007, in one or more series of bonds (the "Series 2007 Bonds"), pursuant to an indenture (the "Indenture") by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), for the purposes of (i) providing funds to finance certain additional improvements to John Thurman field, (ii) providing funds to refund all of the 1997 Bonds and a portion of the 1998 Bonds, and (iii) paying the costs of issuance therefore (collectively, the "2007 Project"); and

WHEREAS, the Authority previously leased certain properties to the City pursuant to a Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002 (as so amended, the "1998 Lease") under which the City is obligated to make lease payments for the lease of properties thereunder (the "Leased Property"); and

WHEREAS, pursuant to Section 7.2 of the 1998 Lease, the City may sublease the Leased Property or any portions thereof, as provided in the 1998 Lease; and

WHEREAS, in consideration of the Authority's assistance in financing the 2007 Project through the issuance of the Series 2007 Bonds and in consideration of the corresponding reduction in lease payments payable by the City under the 1998 Lease as a result of the partial refunding of the 1998 Bonds, the City will sublease to the Authority, pursuant to a sublease (the "Sublease") by and between the City and the Authority and in accordance with the terms of the 1998 Lease, the Leased Property, as more fully described in Exhibit A of the Sublease; and

WHEREAS, the Authority will lease back to the City the Leased Property pursuant to the terms of a Facility Lease (the "Facility Lease") by and between the Authority and the City pursuant to which the City will pay Base Rental Payments therefor, all under and in accordance with the Constitution and laws of the State of California, including the Act; and

WHEREAS, pursuant to the terms of the 1998 Lease, the obligation of the City to make lease payments under the 1998 Lease will remain the obligations of the City and no portion of the Leased Property subleased to the Authority pursuant to the Sublease will be used for a purpose other than a governmental function authorized under the provisions of the Constitution and laws of the State of California; and

WHEREAS, in consideration of the partial refunding of the 1998 Bonds and the corresponding reduction of the lease payments payable by the City under the 1998 Lease with respect to the component constituting the public parking garage, the City desires to reduce the reimbursement obligation of the Redevelopment Agency of the City of Modesto (the "Redevelopment Agency") under the Reimbursement Agreement, dated as of March 1, 1998 (the "Reimbursement Agreement") by and between the City and the Redevelopment Agency; and

WHEREAS, Section 5922 of the California Government Code provides that in connection with, or incidental to, the issuance or carrying of bonds, any public entity may enter into any contracts which the public entity determines to be appropriate to place the obligations represented by the bonds, in whole or in part, on the interest rate, cash flow or other basis desired by the public entity, including without limitation contracts commonly known as interest rate swap agreements, to hedge payment, rate, spread or similar exposure; and

WHEREAS, the Series 2007 Bonds are expected to be initially executed and delivered as auction rate securities and the Authority is expected to execute an interest rate swap agreement providing for a fixed swap rate on the Series 2007 Bonds (the “Swap”) and the Authority will execute the Swap using the ISDA Master Agreement and related Schedule, Credit Support Annex and Confirmation (collectively, the “Swap Agreement”) by and between the Authority and Bank of America, N.A. (the “Swap Provider”); and

WHEREAS, pursuant to Section 5922 of the Government Code of the State of California, the City hereby finds and determines that the Swap Agreement to be entered into by the Authority in connection with, or incidental to, the issuance of the Series 2007 Bonds, will reduce the amount and duration of interest rate risk with respect to the Series 2007 Bonds and will result in a lower cost of borrowing by the Authority when used in combination with the Series 2007 Bonds; and

WHEREAS, the City proposes to execute and enter into a bond purchase contract (the “Purchase Contract”) with Banc of America Securities LLC (the “Underwriter”) and the Authority, pursuant to which the Underwriter will purchase the Series 2007 Bonds for reoffering to the public; and

WHEREAS, the City proposes to approve of and deem final the Preliminary Official Statement relating to the Series 2007 Bonds (the "Preliminary Official Statement") for purposes of Rule 15c2-12 of the Securities and Exchange Act of 1934, as amended, and to execute and deliver an Official Statement (the "Official Statement") relating to the Series 2007 Bonds and to authorize the distribution of the Preliminary Official Statement to prospective purchasers and the Official Statement to actual purchasers of the Series 2007 Bonds; and

WHEREAS, the City proposes to execute and enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with the Trustee, as dissemination agent, for the benefit of the owners of the Series 2007 Bonds and to assist the Underwriter in complying with Rule 15c2-12 of the Securities Exchange Act of 1934, as amended; and

WHEREAS, all acts, conditions and things required by the Constitution and laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the transactions authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such transactions for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, it is hereby resolved by the City Council of the City of Modesto, as follows:

Section 1. Findings. The City Council hereby finds and determines that the foregoing recitals are true and correct and that the actions authorized hereby constitute and are with respect to the public affairs of the City and that the consummation of the

transactions contemplated shall result in significant public benefits to the City.

Section 2. Approval of Issuance of Series 2007 Bonds. The City Council hereby approves the issuance of the Series 2007 Bonds by the Authority in the aggregate principal amount not to exceed \$65,000,000.

Section 3. Facility Lease. The proposed form of the Facility Lease presented to this meeting and on file with the City Clerk is hereby approved. The Mayor, City Manager, Finance Director and each of their designees (each, an "Authorized Officer") are each hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Facility Lease in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof. The maximum annual base rental payments payable by the City (exclusive of additional payments) in any fiscal year shall not exceed \$5,169,429.69, plus any deferred rental as provided in Section 3.04 of the Facility Lease.

Section 4. Sublease. The proposed form of the Sublease presented to this meeting and on file with the City Clerk is hereby approved. The Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Sublease in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. Continuing Disclosure Agreement. The proposed form of the Continuing Disclosure Agreement presented to this meeting and on file with the City Clerk is hereby approved. The Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the

Continuing Disclosure Agreement in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 6. Purchase Contract. The proposed form of the Purchase Contract presented to this meeting and on file with the City Clerk is hereby approved. The Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Purchase Contract in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided that the aggregate principal amount of the Series 2007 Bonds shall not exceed \$65,000,000, the interest rate on the Series 2007 Bonds shall not exceed twelve percent (12%) per annum and the underwriting discount (excluding any original issue discount) shall not exceed 0.5% of the principal amount of the Series 2007 Bonds sold.

Section 7. Official Statement. The form of Preliminary Official Statement of the Authority relating to the Series 2007 Bonds presented to this meeting and on file with the City Clerk is hereby approved. Any of the Authorized Officers is hereby authorized to certify that said Preliminary Official Statement, with such changes therein as such Authorized Officer executing the same shall approve, is as of its date "deemed final" for purposes of Rule 15c2-12 of the Securities and Exchange Commission. Any of the Authorized Officers is hereby authorized and directed to execute for and on behalf of the Authority a final Official Statement, in substantially the form of the Preliminary Official Statement, with such changes therein (and additions thereto to reflect the terms of the sale of the Series 2007 Bonds) as such Authorized Officer shall approve after consultation with Bond Counsel, such approval to be evidenced by the execution and delivery thereof.

The Underwriter is hereby authorized to distribute copies of said Preliminary Official Statement to persons who may be interested in the purchase of the Series 2007 Bonds and are directed to deliver copies of the final Official Statement to all actual purchasers of the Series 2007 Bonds.

Section 8. Swap Agreement. The proposed form of the Swap Agreement presented to this meeting and on file with the City Clerk is hereby approved, with such changes therein as authorized officers of the Authority may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided that the Swap Agreement shall be in an aggregate notional amount not to exceed \$65,000,000, at a nominal swap rate not to exceed 4.5 percent (4.5%) per annum against receipt of a variable rate equal to the interest rate on the Series 2007 Bonds.

Section 9. Reduction of Payments under the Reimbursement Agreement. Each Authorized Officer is hereby authorized and directed to execute an instrument unilaterally reducing the payments of the Redevelopment Agency under the Reimbursement Agreement and to provide a revised schedule of Redevelopment Agency payments under the Reimbursement Agreement.

Section 10. Attestations. The City Clerk is hereby authorized and directed to attest the signatures of the Mayor, the City Manager and the Finance Director and each of their designees and to affix and attest the seal of the City, as may be required or appropriate in connection with the execution and delivery of the Series 2007 Bonds and the documents approved by this Resolution.

Section 11. Other Actions. The Authorized Officers are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate,

carry out, give effect to and comply with the terms and intent of this Resolution, the Sublease, the Facility Lease, the Continuing Disclosure Agreement, the Purchase Contract, the Official Statement, the Swap Agreement and the Series 2007 Bonds and the consummation of the transactions contemplated hereby and to consummate the issuance, sale and delivery of the Series 2007 Bonds. The Authorized Officers are hereby further authorized and directed, individually or jointly, to execute and deliver, on behalf of the City, any other agreements, certificate, consent, request, approval, notice, amendment, confirmation, supplement or revision permitted or required to be delivered pursuant to the documents authorized hereby or otherwise as may be necessary or desirable in connection with the financing of the 2007 Project without further authorization by this City Council including, without limitation, a tax certificate, agreements relating to the engagement of verification agents, printers, bond insurers or other credit providers, one or more investment agreements (or amendments thereto), guaranteed investment contracts, forward delivery agreements or other investment vehicles for moneys in any of the funds or accounts held by the Trustee. Any actions heretofore taken by such officers in furtherance of any of the transactions authorized herein are hereby ratified, confirmed and approved.

~~Section 12. Effective Date.~~ This Resolution shall take effect immediately upon its adoption by this City Council

The foregoing resolution was introduced at a regular meeting of the Council of the City of Modesto held on the 3rd of April, 2007, by Councilmember Hawn, who moved its adoption, which motion being duly seconded by Councilmember Dunbar, was upon roll call carried and the resolution adopted by the following vote:

AYES: Councilmembers: Dunbar, Hawn, Keating, Marsh, O'Bryant, Olsen, Mayor Ridenour

NOES: Councilmembers: None

ABSENT: Councilmembers: None

ATTEST: Jean Morris
JEAN MORRIS, City Clerk

(SEAL)

APPROVED AS TO FORM:

By Susana Alcala Wood
SUSANA ALCALA WOOD, City Attorney

THIS IS TO CERTIFY THAT THIS
IS A TRUE COPY OF THE DOCUMENT ON
FILE WITH THIS OFFICE.

DATE 4/12/07

Jean Morris
SIGNATURE
CITY CLERK
CITY OF MODESTO, CA

cc: Wayne Padilla

**DECLARATION OF PUBLICATION
(C.C.P. S2015.5)**

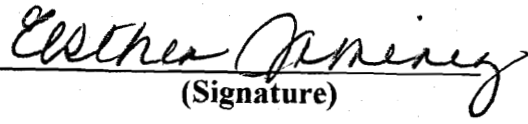
**COUNTY OF STANISLAUS
STATE OF CALIFORNIA**

I am a citizen of the United States and a resident Of the County aforesaid; I am over the age of Eighteen years, and not a party to or interested In the above entitle matter. I am a printer and Principal clerk of the publisher of **THE MODESTO BEE**, printed in the City of **MODESTO**, County of **STANISLAUS**, State of California, daily, for which said newspaper has been adjudged a newspaper of general circulation by the Superior Court of the County of **STANISLAUS**, State of California, Under the date of **February 25, 1951, Action No. 46453**; that the notice of which the annexed is a printed copy, has been published in each issue there of on the following dates, to wit:

MARCH 22, 2007

I certify (or declare) under penalty of perjury That the foregoing is true and correct and that This declaration was executed at **MODESTO, California** on

MARCH 22, 2007


(Signature)

**NOTICE OF PUBLIC HEARING REGARDING
THE FINANCING OF CERTAIN PUBLIC
CAPITALIMPROVEMENTS THROUGH
MODESTO PUBLIC FINANCING AUTHORITY**

NOTICE IS HEREBY GIVEN that a public hearing will be held by the City Council of the City of Modesto (the "City"), at 5:30 p.m., on April 3, 2007 at the regular meeting place of the City Council located at City Council Chambers at 1010 Tenth Street, Modesto, California 95354, in connection with the issuance of bonds by the Modesto Public Financing Authority for the purpose of assisting the City in the financing of the costs of certain public capital improvements to be located within the boundaries of the City, consisting of the acquisition, construction, improvement, renovation, furnishing and equipping of John Thurman Field.

At the time and place set forth above for the hearing, any interested person may appear and be heard on the proposed method of financing, and whether the financing will result in "significant public benefit" to the citizens of the City.
Dated: March 19, 2007.
Jean Morris, City Clerk

mail 3/15/07



CITY of MODESTO

Finance

Department

1010 Tenth Street

Suite 5200

P.O. Box 642

Modesto, CA 95353

209/577-5369

209/571-5880 Fax

Hearing and Speech

Impaired Only

TDD 209/526-9211

March 14, 2007

VIA CERTIFIED MAIL; RETURN RECEIPT REQUESTED

California Debt and Investment Advisory Commission
915 Capitol Mall, Room 400
Sacramento, CA 95814

Office of the Attorney General
Government Law Section
1300 I Street
Sacramento, CA 95814
Attn: Cathy Van Aken, Senior Assistant Attorney General

Re: Notice Pursuant to Section 6586.5(a)(3) of the California Government Code

You are hereby notified, in accordance with Section 6586.5(a)(3) of the California Government Code (the "Code") of the following:

Date, Time and Location of Hearing (Pursuant to §6586.5(a)(3)(A) of the Code): The public hearing will be held by the City Council of the City of Modesto, at 5:30p.m., on April 3, 2007 at the regular meeting place of the City Council located at City Council Chambers at 1010 Tenth Street, Modesto, California 95354.

Name and Telephone Number of Contact Person (Pursuant to §6586.5(a)(3)(B) of the Code): Wayne Padilla, Finance Director, City of Modesto, P O Box 642, California 95353, (209) 577-5371.

Name of the Joint Powers Authority (Pursuant to §6586.5(a)(3)(C) of the Code): The City of Modesto is currently a member of the Modesto Public Financing Authority.

Names of the Members of the Joint Powers Authority (Pursuant to §6586.5(a)(3)(D) of the Code): The current members of the Modesto Public Financing Authority are the City of Modesto and the Industrial Development Authority of the City of Modesto.

Name, Address, and Telephone Number of Bond Counsel (Pursuant to §6586.5(a)(3)(E) of the Code): Eric D. Tashman, Esq., Sidley Austin LLP, 555 California Street, San Francisco, California 94104, (415) 772-1200.

Name, Address, and Telephone Number of Underwriter (Pursuant to §6586.5(a)(3)(F) of the Code): Scott Nagelson, Banc of America Securities LLC, 600 California Street, Suite 1800, San Francisco, California 94111, (415) 953-7314.

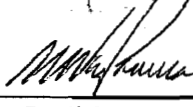
Name, Address, and Telephone Number of Financial Advisor (Pursuant to §6586.5(a)(3)(G) of the Code): Peter Miller, Public Financial Management, 50 California Street, Suite 2300, San Francisco, California 94111, (415) 982-5544.

Name, Address, and Telephone Number of Legal Counsel to the Authority (Pursuant to §6586.5(a)(3)(H) of the Code): Rolland Stevens, Assistant City Attorney, City of Modesto, P O Box 642, Modesto, California 95353, (209) 577-5284.

Prospective Location and General Functional Description of the Type and Use of the Public Capital Improvement (Pursuant to §6586.5(a)(3)(I) and §6586.5(a)(3)(J) of the Code): The public capital improvements will be located within the boundaries of the City of Modesto and may include the acquisition, construction, improvement, renovation, furnishing and equipping of John Thurman Field.

Maximum Principal Amount of Obligations to be Issued with Respect to the Public Capital Improvement (Pursuant to §6586.5(a)(3)(K) of the Code): \$63,000,000.

CITY OF MODESTO

By: 
Wayne Padilla
Finance Director, City of Modesto

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 Sacramento CA 95814

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Restricted Delivery Fee (Endorsement Required)		
Total Postage & Fees	\$4.64	

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 or PO Box No. 915 Capitol Mall, Rm 400
 City, State, ZIP+4
 Sacramento CA 95814

PS Form 3800, June 2002 See Reverse for Instructions

SENDER: COMPLETE THIS SECTION

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- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:
 Office of the Atty General
 Government Law Section
 ATTN: Cathy Van Aken
 1300 I Street
 Sacramento CA 95814

COMPLETE THIS SECTION ON DELIVERY

A. Signature Agent Addressee
 Donald E Stepha

B. Received by (Printed Name) Agent Addressee
 MAR 16 2007

C. Date of Delivery

D. Is delivery address different from item 1? Yes No
 If YES, enter delivery address below:

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

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PS Form 3811, February 2004 Domestic Return Receipt 102595-02-M-1540

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- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:
 California Debt and
 Investment Advisory Commission
 915 Capitol Mall, Rm 400
 Sacramento, CA
 95814

COMPLETE THIS SECTION ON DELIVERY

A. Signature Agent Addressee
 Said Zuhdi

B. Received by (Printed Name) Agent Addressee
 MAR 16 2007

C. Date of Delivery

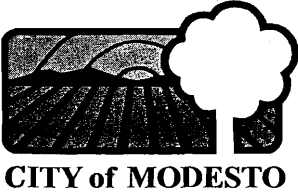
D. Is delivery address different from item 1? Yes No
 If YES, enter delivery address below:

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

2. Article Number
 (Transfer from service label) 7004 1350 0002 8170 2116

PS Form 3811, February 2004 Domestic Return Receipt 102595-02-M-1540



Finance

Department

1010 Tenth Street

Suite 5200

P.O. Box 642

Modesto, CA 95353

209/577-5369

209/571-5880 Fax

Hearing and Speech

Impaired Only

TDD 209/526-9211

April 12, 2007

VIA CERTIFIED MAIL; RETURN RECEIPT REQUESTED

California Debt and Investment Advisory Commission
915 Capitol Mall, Room 400
Sacramento, CA 95814

Office of the Attorney General
Government Law Section
1300 I Street
Sacramento, CA 95814
Attn: Cathy Van Aken, Senior Assistant Attorney General

Re: Resolution Pursuant to Section 6586.7(a) of the California Government Code

In accordance with Section 6586.7(a) of the California Government Code, enclosed is a certified copy of Resolution 01-2007 of the Modesto Public Financing Authority, adopted on April 3, 2007, entitled "A RESOLUTION OF THE MODESTO PUBLIC FINANCING AUTHORITY APPROVING AND AUTHORIZING THE ISSUANCE AND SALE OF NOT TO EXCEED \$65,000,000 AGGREGATE PRINCIPAL AMOUNT OF LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS, SERIES 2007; APPROVING THE FORMS OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN INDENTURE, A SUBLEASE, A FACILITY LEASE, A PURCHASE CONTRACT, AN AUCTION AGREEMENT, A BROKER-DEALER AGREEMENT, A SWAP AGREEMENT AND THE ESCROW AGREEMENTS; APPROVING THE FORM OF AND AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT; AND APPROVING CERTAIN OTHER RELATED ACTIONS."

CITY OF MODESTO

By: _____

Wayne Padilla

Finance Director, City of Modesto

Office of the Attorney General
 Government Law Section
 1300 I Street
 Sacramento, CA 95814
 Attn: Cathy Van Aken, Senior Assistant Attorney
 General

RETURN SERVICE REQUESTED

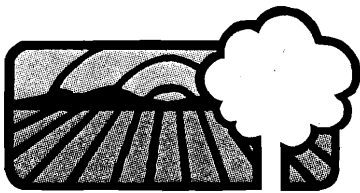
P.O. Box 642, Modesto, CA 95353



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1. Article Addressed to: OFFICE OF THE ATTORNEY GENERAL GOVERNMENT LAW SECTION 1300 I STREET SACRAMENTO CA 95814 ATTN: CATHY VAN AKEN		B. Received by (Printed Name) C. Date of Delivery	
		D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No	
		3. Service Type <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.	
		4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes	
2. Article Number (Transfer from service label)		7004 1350 0002 8170 2062	

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 7004 1350 0002 8170 2062

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Total Postage & Fees \$	
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PS Form 3800, June 2002 See Reverse for Instructions	



CITY of MODESTO

P.O. Box 642, Modesto, CA 95353

RETURN SERVICE REQUESTED

California Debt and Investment Advisory
Commission
915 Capitol Mall, Room 400
Sacramento, CA 95814

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<ul style="list-style-type: none"> Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits. 		<p>A. Signature <input type="checkbox"/> Agent <input type="checkbox"/> Addressee X</p>	
<p>1. Article Addressed to: CALIFORNIA DEBT & INVESTMENT ADVISORY COMMISSION 915 CAPITOL MALL, RM 400 SACRAMENTO CA 95814</p>		<p>B. Received by (Printed Name) C. Date of Delivery</p>	
		<p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No</p>	
<p>2. Article Number (Transfer from service label) 7004 1350 0002 8170 2079</p>		<p>3. Service Type <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.</p>	
		<p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes</p>	

7004 1350 0002 8170 2079

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Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees \$	
<p>Sent To CALIF DEBT + INVESTMENT ADVISORY COM Street, Apt. No., or PO Box No. 915 CAPITOL MALL, RM 400 City, State, ZIP+4 SACRAMENTO CA 95814</p>	
<p>PS Form 3800, June 2002 See Reverse for Instructions</p>	

**MODESTO PUBLIC FINANCING AUTHORITY
RESOLUTION NO. 01-2007**

A RESOLUTION OF THE MODESTO PUBLIC FINANCING AUTHORITY APPROVING AND AUTHORIZING THE ISSUANCE AND SALE OF NOT TO EXCEED \$65,000,000 AGGREGATE PRINCIPAL AMOUNT OF LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS, SERIES 2007; APPROVING THE FORMS OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN INDENTURE, A SUBLEASE, A FACILITY LEASE, A PURCHASE CONTRACT, AN AUCTION AGREEMENT, A BROKER-DEALER AGREEMENT, A SWAP AGREEMENT AND THE ESCROW AGREEMENTS; APPROVING THE FORM OF AND AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT; AND APPROVING CERTAIN OTHER RELATED ACTIONS

WHEREAS, the Modesto Public Financing Authority (the "Authority") is a joint exercise of powers authority duly organized and existing under Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, as amended (the "Act") and pursuant to a Joint Exercise of Powers Agreement, dated as of December 1, 1989, by and between the City of Modesto (the "City") and the Industrial Development Authority of the City of Modesto; and

WHEREAS, the Authority is authorized under the Act to lease and/or purchase real property and to issue bonds for the financing and refinancing of public capital improvements whenever there are significant public benefits; and

WHEREAS, the Authority previously issued its Lease Revenue Bonds, Series 1997 (John Thurman Field Renovation Project) (the "1997 Bonds") and Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "1998 Bonds") to assist the City in the financing of certain public capital improvements located in the City, including John Thurman field, a City-County administration building, a public parking garage, a communication dispatch center, the police headquarters, various public

parks and miscellaneous city properties; and

WHEREAS, the City has determined to refund all of the 1997 Bonds and a portion of the 1998 Bonds; and

WHEREAS, the Authority desires to approve the sale and issuance of not to exceed \$65,000,000 in aggregate principal amount of Lease Revenue Refunding and Capital Improvement Bonds, Series 2007, in one or more series of bonds (the "Series 2007 Bonds"), pursuant to an indenture (the "Indenture") by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), for the purposes of (i) providing funds to finance certain additional improvements to John Thurman field, (ii) providing funds to refund all of the 1997 Bonds and a portion of the 1998 Bonds, and (iii) paying the costs of issuance therefore (collectively, the "2007 Project"); and

WHEREAS, Section 5922 of the California Government Code provides that in connection with, or incidental to, the issuance or carrying of bonds, any public entity may enter into any contracts which the public entity determines to be appropriate to place the obligations represented by the bonds, in whole or in part, on the interest rate, cash flow or other basis desired by the public entity, including without limitation contracts commonly known as interest rate swap agreements, to hedge payment, rate, spread or similar exposure; and

WHEREAS, in order to minimize debt service and maximize benefits to the City, the Authority proposes to issue the Series 2007 Bonds with a variable interest rate and to execute a swap agreement providing for a fixed swap rate on the Series 2007 Bonds (the "Swap") and the Authority will execute the Swap using the ISDA Master Agreement and

related Schedule, Credit Support Annex and Confirmation (collectively, the “Swap Agreement”) by and between the Authority and Bank of America, N.A. (the “Swap Provider”); and

WHEREAS, pursuant to Section 5922 of the Government Code of the State of California, the Authority hereby finds and determines that the Swap Agreement is entered into in connection with, or incidental to, the issuance of the Series 2007 Bonds, will reduce the amount and duration of interest rate risk with respect to the Series 2007 Bonds and will result in a lower cost of borrowing when used in combination with the Series 2007 Bonds; and

WHEREAS, the Authority proposes to enter into an escrow agreement related to the 1997 Bonds (the “1997 Escrow Agreement”) by and between the Authority and an escrow agent thereunder (the “1997 Escrow Agent”) and an escrow agreement related to the 1998 Bonds (the “1998 Escrow Agreement” and together with the 1997 Escrow Agreement, the “Escrow Agreements”) by and between the Authority and an escrow agent thereunder (the “1998 Escrow Agent” and together with the 1997 Escrow Agent, the “Escrow Agents”); and

WHEREAS, the Authority previously leased certain properties to the City pursuant to a Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002 (as so amended, the “1998 Lease”) under which the City is obligated to make lease payments for the lease of properties thereunder (the “Leased Property”); and

WHEREAS, pursuant to Section 7.2 of the 1998 Lease, the City may sublease the

Leased Property or any portions thereof, as provided in the 1998 Lease; and

WHEREAS, in consideration of the Authority's assistance in financing the 2007 Project through the issuance of the Series 2007 Bonds and in consideration of the corresponding reduction in lease payments payable by the City under the 1998 Lease as a result of the partial refunding of the 1998 Bonds, the City will sublease to the Authority, pursuant to a sublease (the "Sublease") by and between the City and the Authority and in accordance with the terms of the 1998 Lease, the Leased Property, as more fully described in Exhibit A of the Sublease; and

WHEREAS, the Authority will lease back to the City the Leased Property pursuant to the terms of a Facility Lease (the "Facility Lease") pursuant to which the City will pay Base Rental Payments therefor, all under and in accordance with the Constitution and laws of the State of California, including the Act; and

WHEREAS, pursuant to the terms of the 1998 Lease, the obligation of the City to make lease payments under the 1998 Lease will remain the obligations of the City and no portion of the Leased Property subleased to the Authority pursuant to the Sublease will be used for a purpose other than a governmental function authorized under the provisions of the Constitution and laws of the State of California; and

WHEREAS, the Series 2007 Bonds are expected to be initially executed and delivered as auction rate securities; and

WHEREAS, the Trustee and The Bank of New York (the "Auction Agent") propose to execute and enter into an Auction Agreement (the "Auction Agreement") acknowledged and agreed to by the Authority, relating to the performance of the Auction

Agent's duties thereunder; and

WHEREAS, the Auction Agent, Banc of America Securities LLC, as broker-dealer (the "Broker-Dealer") and the Authority propose to execute and enter into a Broker-Dealer Agreement (the "Broker-Dealer Agreement"), relating to the performance of certain duties with respect to the Auction Agent and Broker-Dealer; and

WHEREAS, the Authority proposes to execute and enter into a bond purchase contract (the "Purchase Contract") with Banc of America Securities LLC (the "Underwriter") and the City, pursuant to which the Underwriter will purchase the Series 2007 Bonds for reoffering to the public; and

WHEREAS, the Authority proposes to approve of and deem final the Preliminary Official Statement relating to the Series 2007 Bonds (the "Preliminary Official Statement") for purposes of Rule 15c2-12 of the Securities and Exchange Act of 1934, as amended, and to execute and deliver an Official Statement (the "Official Statement") relating to the Series 2007 Bonds and to authorize the distribution of the Preliminary Official Statement to prospective purchasers and the Official Statement to actual purchasers of the Series 2007 Bonds; and

WHEREAS, all acts, conditions and things required by the Constitution and laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the transactions authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such transactions for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, it is hereby resolved by the Commission of the Modesto Public Financing Authority (the "Commission"), as follows:

Section 1. Findings. The Commission hereby finds and determines that the foregoing recitals are true and correct and that it is desirable and furthers the public purpose to assist the City in the financing of the 2007 Project through the actions authorized hereby.

Section 2. Approval of Issuance of Series 2007 Bonds. The Commission hereby authorizes and approves the issuance of the Series 2007 Bonds in the aggregate principal amount not to exceed \$65,000,000, on the terms and conditions set forth in, and subject to the limitations specified in, the Indenture. The Series 2007 Bonds will be dated, will bear interest at the rates, will mature on the dates, will be issued in the form, will be subject to redemption, and will be as otherwise provided in said Indenture as the same is completed as provided in this Resolution.

Section 3. Indenture. The proposed form of the Indenture presented to this meeting and on file with the Authority is hereby approved. The Chairperson, Vice Chairperson, Executive Director and Auditor and Treasurer of the Authority (each, an "Authorized Officer") are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Indenture in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 4. Facility Lease. The proposed form of the Facility Lease presented to this meeting and on file with the Authority is hereby approved. The Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the

Authority, to execute and deliver the Facility Lease in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. Sublease. The proposed form of the Sublease presented to this meeting and on file with the Authority is hereby approved. The Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Sublease in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 6. Purchase Contract. The proposed form of the Purchase Contract presented to this meeting and on file with the Authority is hereby approved. The Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Purchase Contract in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided that the aggregate principal amount of the Series 2007 Bonds shall not exceed \$65,000,000, the interest rate on the Series 2007 Bonds shall not exceed twelve percent (12%) per annum and the underwriting discount (excluding any original issue discount) shall not exceed 0.5% of the principal amount of the Series 2007 Bonds sold.

Section 7. Auction Agreement. The proposed form of the Auction Agreement presented to this meeting and on file with the Authority is hereby approved.

Section 8. Broker-Dealer Agreement. The proposed form of the Broker-Dealer Agreement presented to this meeting and on file with the Authority is hereby approved.

The Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Broker-Dealer Agreement in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 9. Escrow Agreements. The proposed forms of the Escrow Agreements presented to this meeting and on file with the Authority are hereby approved. The Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver each of the Escrow Agreements in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 10. Swap Agreement. The proposed form of the Swap Agreement presented to this meeting and on file with the Authority is hereby approved. The Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to negotiate the Swap Agreement with the Swap Provider, to execute and deliver the Swap Agreement with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided that the Swap Agreement shall be in an aggregate notional amount not to exceed \$65,000,000, at a nominal swap rate not to exceed 4.5 percent (4.5%) per annum against receipt of a variable rate equal to the interest rate on the Series 2007 Bonds.

Section 11. Official Statement. The form of Preliminary Official Statement of

the Authority relating to the Series 2007 Bonds presented to this meeting and on file with the Authority is hereby approved. Any of the Authorized Officers is hereby authorized to certify that said Preliminary Official Statement, with such changes therein as such Authorized Officer executing the same shall approve, is as of its date "deemed final" for purposes of Rule 15c2 12 of the Securities and Exchange Commission. Any of the Authorized Officers is hereby authorized and directed to execute for and on behalf of the Authority a final Official Statement, in substantially the form of the Preliminary Official Statement, with such changes therein (and additions thereto to reflect the terms of the sale of the Series 2007 Bonds) as such Authorized Officer shall approve after consultation with Bond Counsel, such approval to be evidenced by the execution and delivery thereof. The Underwriter is hereby authorized to distribute copies of said Preliminary Official Statement to persons who may be interested in the purchase of the Series 2007 Bonds and are directed to deliver copies of the final Official Statement to all actual purchasers of the Series 2007 Bonds.

Section 12. Attestations. The Secretary of the Authority is hereby authorized and directed to attest the signatures of the Chairperson, Vice Chairperson, Executive Director and the Auditor and Treasurer of the Authority in connection with the execution and delivery of the Series 2007 Bonds and the documents approved by this Resolution.

Section 13. Other Actions. The Chairperson, Vice Chairperson, Executive Director, Auditor and Treasurer and Secretary of the Authority are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate, carry out, give effect to and comply with the terms and intent of this Resolution, the Indenture, the Sublease, the Facility Lease, the Auction Agreement, the Broker-Dealer

Agreement, the Escrow Agreements, the Purchase Contract, the Official Statement and the Series 2007 Bonds and the consummation of the transactions contemplated hereby and to consummate the issuance, sale and delivery of the Series 2007 Bonds. The Authorized Officers are hereby further authorized and directed, individually or jointly, to execute and deliver, on behalf of the Authority, any other agreements, certificate, consent, request, approval, notice, amendment, confirmation, supplement or revision permitted or required to be delivered pursuant to the documents authorized hereby or otherwise as may be necessary or desirable in connection with the financing of the 2007 Project without further authorization by this Commission including, without limitation, a tax certificate, agreements relating to the engagement of verification agents, printers, bond insurers or other credit providers, one or more investment agreements (or amendments thereto), escrow float agreements, guaranteed investment contracts, forward delivery agreements or other investment vehicles for moneys in any of the funds or accounts held by the Trustee or the Escrow Agents. Any actions heretofore taken by such officers in furtherance of any of the transactions authorized herein are hereby ratified, confirmed and approved.

Section 14. Effective Date. This Resolution shall take effect immediately upon its passage.

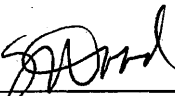
The foregoing resolution was introduced at a regular meeting of the Commission of the Modesto Public Financing Authority held on the 3rd of April, 2007, by Commissioner Hawn, who moved its adoption, which motion being duly seconded by Commissioner Dunbar, was upon roll call carried and the resolution adopted by the following vote:

AYES: Commissioners: Dunbar, Hawn, Keating, Marsh, O'Bryant, Olsen, Mayor Ridenour
NOES: Commissioners: None
ABSENT: Commissioners: None

ATTEST: Jean Morris
JEAN MORRIS, Secretary

(SEAL)

APPROVED AS TO FORM:

By 
SUSANA ALCALA WOOD,
City Attorney, acting as Authority General Counsel

THIS IS TO CERTIFY THAT THIS
IS A TRUE COPY OF THE DOCUMENT ON
FILE WITH THIS OFFICE.
DATE 4/12/07

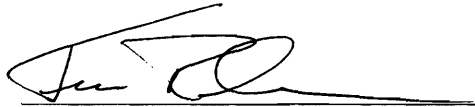
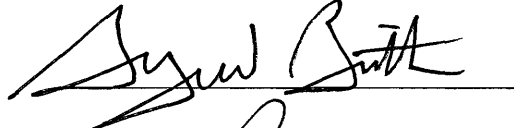
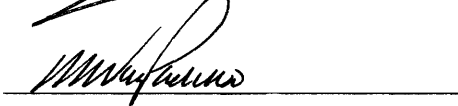

Jean Morris
SIGNATURE
CITY CLERK
CITY OF MODESTO, CA

MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CLOSING CERTIFICATE OF THE CITY

The undersigned, the Finance Director/Treasurer and City Clerk, respectively, of the City of Modesto (the "City"), a charter city and municipal corporation duly organized and existing under the laws of the State of California, hereby certify on behalf of the City, in connection with the Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the "Series 2007 Bonds"), as follows:

1. The officers identified below are duly authorized by the City Council of the City to execute on behalf of the City, certain documents, certificates and agreements relating to the Certificates and that pursuant to such authority certain documents, certificates and agreements have been executed by such persons, and attested to by the signature of the City Clerk of the City, and, each of the undersigned by their signature confirms that the other signatures set forth below are genuine or an authorized facsimile signature:

<u>Name</u>	<u>Official Title</u>	<u>Signature</u>
Jim Ridenour	Mayor	
George W. Britton	City Manager	
Wayne Padilla	Finance Director/Treasurer	
Jean Morris	City Clerk	

2. The undersigned further certify that authorized officers of the City have executed the following documents on behalf of the City:

- (a) Facility Lease (the "Facility Lease"), dated as of April 1, 2007, by and between the City and the Modesto Public Financing Authority (the "Authority");
- (b) Sublease (the "Sublease"), dated as of April 1, 2007, by and between the City and the Authority;

- (c) Bond Purchase Contract, dated April 11, 2007 (the "Purchase Contract"), by and among the City, the Authority and Banc of America Securities LLC, as Underwriter;
- (d) Tax Certificate, dated April 18, 2007 (the "Tax Certificate") for the Series 2007 Bonds;
- (e) the Official Statement, dated April 11, 2007 (the "Official Statement"); and
- (f) the Continuing Disclosure Agreement, dated April 18, 2007 (the "Continuing Disclosure Agreement"), by and between the City and The Bank of New York Trust Company, N.A., as dissemination agent.

3. The undersigned further certify that the following persons are now, and at all times since April 3, 2007 have been, the duly appointed or elected, qualified and acting members of the City Council:

Name	Office
Jim Ridenour	Mayor
Brad Hawn	Vice Mayor
Bob Dunbar	Councilmember
Brad Hawn	Councilmember
Janice Keating	Councilmember
Garrad Marsh	Councilmember
Kristin Olsen	Councilmember

4. The undersigned further certify that:

(i) the representations and warranties of the City contained in the Facility Lease, the Sublease, the Purchase Contract, Tax Certificate and Continuing Disclosure Agreement (collectively, the "City Documents") are accurate in all material aspects, as and if made on the date hereof;

(ii) the City Documents have been duly executed and delivered and each constitutes a valid and legally binding obligation of the City enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought;

(iii) the resolution of the City, adopted on April 3, 2007, at a meeting of the City Council duly called, noticed and conducted, at which a quorum was present and acting throughout, authorizing the execution, delivery and due performance of the City Documents, is in full force and effect at the date hereof and has not been amended, modified or supplemented; and the resolution of the City, adopted on February 10, 1998, at a meeting of the City Council duly called, noticed and conducted, at which a quorum was present and acting throughout, is in full force and effect at the date hereof and has not been amended, modified or supplemented

(iv) the City has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied on or prior to the date hereof;

(v) subsequent to the date of the Official Statement and on or prior to the date of such certificate, there has been no material adverse change in the condition (financial or otherwise) of the City, whether or not arising in the ordinary course of the operations of the City, as described in the Official Statement;

(vi) the Official Statement does not contain any untrue or misleading statement of a material fact and does not omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading;

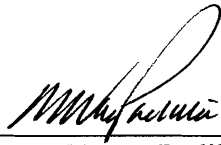
(vii) the total rental payable under the Facility Lease for each Rental Payment Period (as defined in the Facility Lease) represents the fair rental value of the Leased Property (as defined in the Facility Lease) for each such period; and

(viii) any easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of recordation of the Facility Lease in the office of the County Recorder of the County of Stanislaus will not materially impair the use of the Leased Property.


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Dated: April 18, 2007

CITY OF MODESTO

By: 

Wayne Padilla
Finance Director/Treasurer

By: 

Jean Morris
City Clerk



CLTA Standard Coverage Policy of Title Insurance

Fidelity National Title Insurance Company
A STOCK COMPANY

POLICY NUMBER 27-01-90- 254920

CLTA STANDARD COVERAGE POLICY OF TITLE INSURANCE

SUBJECT TO THE EXCLUSIONS FROM COVERAGE, THE EXCEPTIONS FROM COVERAGE CONTAINED IN SCHEDULE B AND THE CONDITIONS AND STIPULATIONS, FIDELITY NATIONAL TITLE INSURANCE COMPANY a California corporation, herein called the Company, insures, as of Date of Policy shown in Schedule A, against loss or damage, not exceeding the Amount of Insurance stated in Schedule A, sustained or incurred by the insured by reason of:

1. Title to the estate or interest described in Schedule A being vested other than as stated therein;
2. Any defect in or lien or encumbrance on the title;
3. Unmarketability of the title;
4. Lack of a right of access to and from the land;

and, in addition, as to an insured lender only:

5. The invalidity or unenforceability of the lien of the insured mortgage upon the title;
6. The priority of any lien or encumbrance over the lien of the insured mortgage, said mortgage being shown in Schedule B in the order of its priority;
7. The invalidity or unenforceability of any assignment of the insured mortgage, provided the assignment is shown in Schedule B, or the failure of the assignment shown in Schedule B to vest title to the insured mortgage in the named insured assignee free and clear of all liens.

The Company will also pay the costs, attorneys' fees and expenses incurred in defense of the title or the lien of the insured mortgage, as insured, but only to the extent provided in the Conditions and Stipulations.

IN WITNESS WHEREOF, FIDELITY NATIONAL TITLE INSURANCE COMPANY has caused this Policy to be signed and sealed by its duly authorized officers as of Date of Policy shown in Schedule A.

Fidelity National Title Insurance Company



BY

[Handwritten signature]

President

ATTEST

[Handwritten signature]

Secretary

Countersigned: _____

Authorized Signature

SCHEDULE A

FILE NO. 904379 MG

POLICY NO. 27-01-90-254920

DATE OF POLICY **MARCH 11, 1998** AT 8:00 A.M.

AMOUNT: \$61,430,000.00

FEE: \$39,950.00

1. NAME OF INSURED:

CITY OF MODESTO AND HARRIS TRUST COMPANY OF CALIFORNIA, AS TRUSTEE AND
BANK OF NEW YORK TRUST COMPANY, N.A., AS TRUSTEE

2. THE ESTATE OR INTEREST IN THE LAND DESCRIBED OR REFERRED TO HEREIN
IS AT DATE OF POLICY:

A leasehold as created by that certain lease dated MARCH 1, 1998,
executed by MODESTO PUBLIC FINANCING AUTHORITY, as lessor, and CITY OF
MODESTO, as lessee, and recorded **MARCH 11, 1998** as Instrument no.
98-22319 for its term, upon and subject to all of the provisions
contained therein.

3. THE ESTATE OR INTEREST REFERRED TO HEREIN IS AT DATE OF POLICY
VESTED IN:

CITY OF MODESTO

4. THE LAND REFERRED TO IN THIS POLICY IS SITUATED IN THE COUNTY OF
STANISLAUS STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

SEE ATTACHED EXHIBIT "A"

Form T-1350

THIS POLICY VALID ONLY IF SCHEDULE B IS ATTACHED

SCHEDULE B
EXCEPTIONS FROM COVERAGE

This policy does not insure against loss or damage (and the Company will not pay costs, attorney's fees of expenses) which arise by reason of:

PART I

All matters set forth in paragraphs 1 through 5 inclusive on the inside of the cover of this policy under the caption Part I of Schedule B.

PART II

AT THE DATE HEREOF, ITEMS TO BE CONSIDERED AND EXCEPTIONS TO COVERAGE IN ADDITION TO THE PRINTED EXCEPTIONS AND EXCLUSIONS IN SAID POLICY FORM WOULD BE AS FOLLOWS:

PARCEL NO. 1

1. **The fact** that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.

Redevelopment

Agency: City of Modesto

Recorded: November 27, 1991, as Instrument No. 094041 of Official Records

2. **Covenants, conditions and restrictions** (deleting therefrom any restrictions indicating any preference, limitation or discrimination based on race, color, religion, sex, handicap, familial status or national origin) as set forth in the document

Recorded: March 4, 1907 in Book 107, Page 88 of Deeds

PARCEL NO. 2

3. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: O. McHenry

Purpose: Ditch rights

Recorded: December 7, 1903 in Volume 88 of Deeds, page 228

Affects: The exact location and extent of said easement is not disclosed of record.

4. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as delineated or as offered for dedication, on the map of said tract.

Tract: 7 PM 68

Recorded: December 9, 1969

Purpose: Ellison Drive and Wolcott Way

Affects: West 25 feet and South 25 feet

5. **Rights of the public** as to any portion of the land lying within the area commonly known as Anson Way.

6. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document;

Granted to: Pacific Bell, a corporation
Purpose: Underground community facilities
Recorded: December 19, 1991, Instrument No. 099969 of Official Records
Affects: Northerly five (5) feet

PARCEL NO. 3

7. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as delineated or as offered for dedication, on the map of said tract.

Purpose: Public Utility
Affects: North and East 10 feet of the premises

8. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: Pacific Telephone and Telegraph Company, a California Corporation
Purpose: Aerial and underground communication facilities
Recorded: January 10, 1984, Instrument No. 34259, Book 3759, Page 328 of Official Records
Affects: Location not disclosed

PARCEL NO. 4

9. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: City of Modesto
Purpose: Public Utilities
Recorded: March 7, 1988, as Instrument No. 013839 of Official Records
Affects: Parcel 2 herein

10. **The fact** that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.

Redevelopment
Agency: City of Modesto
Recorded: November 27, 1991, as Instrument No. 094041, of Official Records

PARCEL NO. 5

11. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document;

Granted to: Modesto Irrigation District (No representation is made as to the present ownership of said easement)
Purpose: Electrical facilities
Recorded: June 1, 1989, Instrument No. 039796, of Official Records
Affects: Southwesterly 5.00 feet of the Northwesterly 5.00 feet of Lot 8

12. **A deed of trust** to secure an indebtedness in the amount shown below, and any other obligations secured thereby

Amount: \$700,000.00
Dated: February 23, 1991
Trustor: Mathew Ward and John L. Ward, III
Trustee: First American Title Insurance Company, a California corporation
Beneficiary: John L. Ward
Address: 1028 - 10th Street, Modesto, CA 95354
Loan No.: None shown
Recorded: March 12, 1991, Instrument No. 018047, of Official Records.
Affects: Lots 29 and 30 of Parcel 1

13. **A deed of trust** to secure an indebtedness in the amount shown below, and any other obligations secured thereby

Amount: \$700,000.00
Dated: February 23, 1991
Trustor: Mathew Ward and John L. Ward, III
Trustee: First American Title Insurance Company, a California corporation
Beneficiary: John L. Ward
Address: 1028 - 10th Street, Modesto, CA 95354
Loan No.: None shown
Recorded: March 12, 1991, Instrument No. 018048, of Official Records.
Affects: Lots 31 and 32 of Parcel 1

14. **A pending Court Action** as disclosed by a recorded notice:

Plaintiff: Redevelopment Agency of the City of Modesto, a public entity
Defendant: Mathew Ward; John L. Ward, III; First American Title Insurance Company, a California corporation, John L. Ward; and Does I through XVI, inclusive
County: Stanislaus
Court: Superior
Case No.: 148362
Nature of Action: Condemn and acquire for a public use
Attorney: Michael R. Nave, Esq., Meyers, Nave, Riback, Silver & Wilson
Address: 777 Davis Street, Suite 300, San Leandro, CA 94577
Recorded: May 21, 1997, as Instrument No. 039334, of Official Records

15. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as retained in a document;

Retained by: City of Modesto
Purpose: Utility
Recorded: November 19, 1997, Instrument No. 095109, of Official Records

PARCEL NO. 6

16. **A deed of trust** to secure an indebtedness in the amount shown below, and any other obligations secured thereby

Amount: \$None shown
Dated: May 24, 1991
Trustor: California Housing Securities, Inc.
Trustee: American Securities Company, a corporation
Beneficiary: Wells Fargo Bank, National Association
Recorded: June 13, 1991, Instrument No. 044188, of Official Records.

17. **A pending Court Action** as disclosed by a recorded notice:

Plaintiff: Wells Fargo Bank, N.A., A National Banking Association
Defendant: California Housing Securities, Inc., a California Corporation; Jess A. Rodrigues, an individual; all persons unknown, claiming any legal or equitable right, title, estates, lien or interest in the property described in the complaint adverse to plaintiff's title, or any cloud on plaintiff's title thereto; and Does 1 through 250

County: Stanislaus

Court: Superior

Case No.: 273083

Nature of

Action: Judicial foreclosure of a first deed of trust Wells Fargo Bank holds against the property

Recorded: April 10, 1992, as Instrument No. 032974, of Official Records

18. **A pending Court Action** as disclosed by a recorded notice:

Plaintiff: United States of America

Defendant: Real property at A) 412 Heather Point Lane, La Selva Beach, California, APN 046-061-25; and B) the adjoining parcel, APN 046-061-36; and C) currency in the amount of \$1,868,829.75

County: Northern District of California

Court: United States District Court

Case No.: C 93 20353 RMW

Nature of

Action: Judicial determination that a promissory note made by Jess Rodrigues in favor of Wells Fargo Bank, dated May 24, 1991, and a corresponding deed of trust pledging that real property 1011 "J" Street, Modesto, Stanislaus County, California, Stanislaus County Assessor Parcel Number 105-3704-530, including all appurtenances and improvements thereon are forfeit to the United States

Recorded: June 22, 1994, as Instrument No. 062479, of Official Records

19. **A pending Court Action** as disclosed by a recorded notice:

Plaintiff: Redevelopment Agency of the City of Modesto, A Municipal Corporation

Defendant: California Housing Securities, Inc.; Jess A. Rodrigues; American Securities Company, A Corporation; Wells Fargo Bank, N.T.S.A.; United States of America; and Does 1 through XVI, inclusive

County: Stanislaus

Court: Superior

Case No.: 85213

Nature of

Action: To condemn and acquire for a public use

Recorded: March 20, 1996, as Instrument No. 022949, of Official Records

20. **A pending Court Action** as disclosed by a recorded notice:

Plaintiff: Redevelopment Agency of the City of Modesto, A Municipal Corporation

Defendant: California Housing Securities, Inc.; Jess A. Rodrigues; American Securities Company, A Corporation; Wells Fargo Bank, N.T.S.A.; United States of America; and Does 1 through XVI, inclusive

County: Stanislaus

Court: Superior

Case No.: 85213

Nature of

Action: To condemn and acquire for a public use

Recorded: April 1, 1996, as Instrument No. 026259, of Official Records

21. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as retained in a document;

Retained by: City of Modesto
Purpose: Utility
Recorded: November 19, 1997, Instrument No. 095109, of Official Records

22. **The burdens** and privileges contained in the document

Entitled: Notice of Landmark Preservation Site Designation
Regarding: F.W. Woolworth Sign
Executed by: The Modesto City Council
Recorded: November 27, 1990, as Instrument No. 098186, of Official Records
Affects: Lots 23 and 24

PARCEL NO. 7

23. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document;

Granted to: City and County of San Francisco, a Municipal Corporation
Purpose: The right of ingress and egress over the land herein described to the right of way for aqueduct and electric transmission line adjoining Parcel 1
Recorded: December 11, 1923, Instrument No. 15883, Book 47 Page 253 of Official Records
Affects: The exact location and extent of said easement is not disclosed of record.

24. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document;

Granted to: The Pacific Telephone and Telegraph Company, a corporation
Purpose: Right of way for a telephone line, with rights incidental thereto, together with the right of ingress thereto and egress therefrom
Recorded: November 17, 1971, Instrument No. 44459, Book 2433, Page 195 of Official Records
Affects: The exact location and extent of said easement is not disclosed of record.

25. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document;

Granted to: Pacific Bell, a Pacific Telesis Company
Purpose: Communication facilities
Recorded: March 3, 1987, Instrument No. 062955, of Official Records
Affects: The exact location and extent of said easement is not disclosed of record.

PARCEL NO. 8

26. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document;

Granted to: Modesto Irrigation District, an irrigation district
Purpose: Right of Way, with the right to construct, place, inspect, maintain and replace thereon poles, crossarms, wires, cables, service lines, fixtures, anchors and guys, together with the right of ingress thereto and egress therefrom
Recorded: February 25, 1964 in Volume 1926, Page 15, as Instrument No. 7835 of Official Records
Affects: East 20 feet

27. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as delineated or as offered for dedication, on the map of said tract.

Purpose: Planting
Affects: Southerly 3 feet

Purpose: Public Utility
Affects: Southerly 10 feet and Westerly 10 feet

28. **Covenants, conditions and restrictions** (deleting therefrom any restrictions indicating any preference, limitation or discrimination based on race, color, religion, sex, handicap, familial status or national origin) as set forth in the document

Recorded: March 2, 1978 in Volume 3027 Page 17, as Instrument No. 55552, of Official Records

Said covenants, conditions and restrictions provide that a violation thereof shall not defeat the lien of any mortgage or deed of trust made in good faith and for value.

29. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document;

Granted to: Pacific Bell, a Pacific Telesis Company
Purpose: Communication facilities
Recorded: March 3, 1987, Instrument No. 062955, of Official Records
Affects: The exact location and extent of said easement is not disclosed of record.

PARCEL NO. 9

30. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document;

Granted to: Modesto Irrigation District
Purpose: Right to pass and repass over said land adjacent to Modesto Irrigation District Lateral No. 2, with men, teams and otherwise, and with such material as may be necessary for the construction, repair, operation and maintenance thereof
Recorded: October 27, 1903 in Volume 87, Page 109, of Deeds
Affects: The exact location and extent of said easement is not disclosed of record.

31. **A covenant and agreement** entitled "Agreement"

Executed by: City of Modesto
In favor of: Modesto Irrigation District, an irrigation district
Recorded: April 12, 1979, Instrument No. 64681, Book 3177, Page 132 of Official Records

Which among other things provides: Electric power transmission line.

Reference is hereby made to said document for full particulars.

32. **Direct Special Assessments** of the Empire Union School District's Community Facilities District No. 1987-1 which are disclosed by that certain Notice recorded December 2, 1987 as Instrument No. 134151. Said Assessments are included and collected with the general and Special Taxes of the County of Stanislaus hereinabove referred to.

33. **Rights of the public** as to any portion of the land lying within the area commonly known as El Pasado Drive, Capistrano Drive and North Riverside Drive.

PARCEL NO. 10

34. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: Idaho Investment Co., Limited, a corporation
Purpose: Ditch rights
Recorded: June 3, 1915 in Volume 215 at Page 573 of Deeds
Affects: The exact location and extent of said easement is not disclosed of record.

35. **Direct Special Assessments** of the Empire Union School District's Community Facilities District No. 1987-1 which are disclosed by that certain Notice recorded December 2, 1987 as Instrument No. 134151. Said Assessments are included and collected with the general and Special Taxes of the County of Stanislaus hereinabove referred to.

PARCEL NO. 11

36. **Any irregularities, reservations** or other matters which would be disclosed by an examination of the proceedings occasioning the abandonment or vacation of Castle St., Auburn St. and alley, a certified copy of the Resolution was recorded February 16, 1929, as Instrument No. 2214 in Volume 318 at Page 343 of Official Records.

Affects: Portion of Block 603

37. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: City of Modesto
Purpose: Public Utilities
Recorded: March 27, 1981, Instrument No. 57962, Book 3426, Page 420 of Official Records
Affects: East 10 feet

38. **The fact** that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.

Redevelopment

Agency: City of Modesto
Recorded: November 27, 1991, Instrument No. 094041, of Official Records

PARCEL NO. 12

39. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document;

Granted to: Modesto Irrigation District
Purpose: Aboveground electrical facilities
Recorded: January 19, 1989, as Instrument No. 003767, of Official Records
Affects: Portion of Lots 21, 22, 23 and 24

40. **Matters** contained in that certain document entitled "Notice of Landmark Preservation Site Designation" dated December 5, 1989, executed by Modesto City Council, recorded January 23, 1990 as Instrument No. 006491 of Official Records, which document, among other things, contains or provides for: "Designation as a Landmark Preservation site"

Reference is hereby made to said document for full particulars.

41. **The fact** that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.

Redevelopment

Agency: City of Modesto
Recorded: November 27, 1991, Instrument No. 094041, of Official Records

PARCEL NO. 13

42. **Matters** contained in that certain document entitled "Notice of Landmark Preservation Site Designation" dated December 5, 1989, executed by Modesto City Council, recorded January 23, 1990 as Instrument No. 006490 of Official Records, which document, among other things, contains or provides for: "Designation as a Landmark Preservation site".

Reference is hereby made to said document for full particulars.

43. **The fact** that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.

Redevelopment

Agency: City of Modesto
Recorded: November 27, 1991, Instrument No. 094041, of Official Records

PARCEL NO. 14

44. **The fact** that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.

Redevelopment

Agency: City of Modesto
Recorded: November 27, 1991, Instrument No. 094041, of Official Records

PARCEL NO. 15

45. **A covenant and agreement** entitled "Property Management Agreement"

By and Between: the City of Modesto and the Economic Development Administration, United States of America
Recorded: August 3, 1979 in Book 3222 Page 361, as Instrument No. 8147 of Official Records

Which among other things provides: Covenants and Agreements concerning use and transfer of subject property.

Reference is hereby made to said document for full particulars.

46. **The fact** that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.

Redevelopment

Agency: City of Modesto
Recorded: November 27, 1991, Instrument No. 094041, of Official Records

PARCEL NO. 16

47. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document;

Granted to: The Modesto Irrigation District, a public corporation
Purpose: Electrical facilities
Recorded: November 9, 1984, Instrument No. 22835, Book 018, Page 1703 of Official Records
Affects: Reference is made to said document for full particulars.

PARCEL NO. 17

48. **The fact** that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.
Redevelopment

Agency: City of Modesto
Recorded: November 27, 1991, Instrument No. 094041, of Official Records

PARCEL NO. 18

49. **The fact** that said land is included within a project area of the Redevelopment Agency shown below, and that proceedings for the redevelopment of said project have been instituted under the Redevelopment Law (such redevelopment to proceed only after the adoption of the redevelopment plan) as disclosed by a document.
Redevelopment

Agency: City of Modesto
Recorded: November 27, 1991, Instrument No. 094041, of Official Records

PARCEL NO. 19

50. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as delineated or as offered for dedication, on the map of said tract.

Purpose: Public Utility
Affects: South 5 feet, North 10 feet and East 10 feet

PARCEL NO. 20

51. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: O. McHenry
Purpose: Ditch
Recorded: January 20, 1904 in Volume 86 of Deeds, at page 333
Affects: The exact location and extent of said easement is not disclosed of record.

52. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document;

Granted to: Modesto Irrigation District
Purpose: Aboveground electrical facilities
Recorded: March 26, 1985, Instrument No. 043925, Book 038, Page 1460 of Official Records
Affects: Reference is made to said document for full particulars.

PARCEL NO. 21

53. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document;

Granted to: City of Modesto

Purpose: Public utilities

Recorded: June 13, 1974, Instrument No. 49730, Book 2635, Page 179 of Official Records

Affects: Reference is made to said document for full particulars.

PARCEL NO. 22

54. **Rights of the public** as to any portion of the land lying within the area commonly known as the alleys running north and south along the east boundary and along the west line of Lot 2.

THE FOLLOWING AFFECT AS SHOWN UNDER EACH EXCEPTION

55. **A Site lease (Parks Project and Police Headquarters Building)** with certain terms, covenants, conditions and provisions set forth therein.

Lessor: CITY OF MODESTO

Lessee: MODESTO PUBLIC FINANCING AUTHORITY

Recorded: **MARCH 11, 1998**, Instrument No. 98-22315 of Official Records

Affects Parcel Nos. 1, 2, 4, 5, 7, 8, 9, 10, 11, 12, 13, 14, 16, 17, 18, 19, 20, 21 & 22.

56. **A lease (Parking Garage)** with certain terms, covenants, conditions and provisions set forth therein.

Lessor: REDEVELOPMENT AGENCY OF THE CITY OF MODESTO

Lessee: MODESTO PUBLIC FINANCING AUTHORITY

Recorded: **MARCH 11, 1998**, Instrument No. 98-22316 of Official Records

Affects Parcel No. 15

57. **A lease (Communications Dispatch Center)** with certain terms, covenants, conditions and provisions set forth therein.

Lessor: CITY OF MODESTO

Lessee: MODESTO PUBLIC FINANCING AUTHORITY

Recorded: **MARCH 11, 1998**, Instrument No. 98-22317 of Official Records

Affects Parcel No. 3

58. **A lease** with certain terms, covenants, conditions and provisions set forth therein.

Lessor: CITY-COUNTY CAPITAL IMPROVEMENTS AND FINANCING AGENCY

Lessee: MODESTO PUBLIC FINANCING AUTHORITY

Recorded: **MARCH 11, 1998**, Instrument No. 98-22318 of Official Records

Affects: Parcel No. 6

59. **The effect of any failure** to comply with the terms, covenants, conditions and provisions of the lease described or referred to in Schedule A.

END OF ITEMS

EXHIBIT "A" LEGAL DESCRIPTION

Parcel No. 1 -- Graceda Park

All of Blocks 531, 532 and 533 as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 2 -- Floyd Park

Parcels A and B as per Parcel Map filed October 9, 1969 in Volume 7 of Parcel Maps, Page 68, Stanislaus County Records.

Parcel No. 3 -- Communication Facility

An undivided one-half interest in the following:
Parcel 2 as per Parcel Map filed September 24, 1979 in Volume 29 of Parcel Maps, Page 100, Stanislaus County Records.

Parcel No. 4 -- Police Facility

Lots 1 thru 32, inclusive, in Block 71 of the CITY OF MODESTO, as per map recorded December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

TOGETHER WITH

All that real property in the State of California, County of Stanislaus, City of Modesto, being a portion of the Northeast quarter of Section 32, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, described as follows:

That portion of the 20-foot alley in Block 71 as delineated on the Official Map of the City of Modesto, as per map filed December 21, 1942, in Volume 15 of Maps, Stanislaus County Records, described as follows:

Beginning at the most Southerly corner of Lot 16 in said Block 71, said point being on the Northeastern line of said 20.00 foot alley in Block 71; thence along said Northeastern line of said alley, North 43° 29' 30" West, 150.00 feet, to the most Southerly corner of Lot 10 in Block 71; thence South 46° 30' 30" West, 20.00 feet, to the most Northerly corner of Lot 22 in Block 71, said point being on the Southwestern line of the 20.00 foot alley in Block 71; thence along said Southwestern line of said alley, South 43° 29' 30" East, 150.00 feet, to the most Easterly corner of Lot 17 in Block 71, said point being on the Northwestern line of 80.00 foot "F" Street; thence along said Northwestern line of "F" Street, North 46° 30' 30" East, 20.00 feet, to the point of beginning.

Parcel No. 5 -- Block 67 Redevelopment Agency

Lots 1 through 7 and 25 through 32 in Block 67 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records

Together with:

All that portion of Lot 8 in Block 67 of the City of Modesto described as follows:

Beginning at the most Northerly Corner of said Lot 8, thence South 43° 31' 06" East along the northeasterly line of said lot, a distance of 20.14 feet; thence South 46° 27' 30" West a distance of 150.09 feet to the center line of said alley; thence North 43° 31' 16" West along said center line a distance of 20.11 feet to the point of intersection with the southwesterly extension of the Northwesterly line of Lot 8; thence North 46° 26' 46" East along said extension and said Northwesterly line of Lot 8, a distance of 150.09 feet to the point of beginning.

Also Together with:

All that portion of Lots 23 and 24 in Block 67 described as follows: Beginning at the most westerly corner of Lot 24, thence North 46° 27' 01" East along the northwesterly line of said Lot 24, a distance of 95.17 feet; thence South 43° 32' 30" East, a distance of 33.11 feet; thence South 46° 27' 30" West, a distance of 95.18 feet to a point on the southwesterly line of Lot 23; thence North 43° 31' 28" West, along said southwesterly line of Lot 23 and the southwesterly line of Lot 24 a distance of 33.10 feet to the point of beginning.

Excepting therefrom the following described property:

All that portion of Lot 25 in Block 67 described as follows: Beginning at the most easterly corner of Lot 25; thence South 46° 27' 01" West along the southeasterly line of said Lot 25, a distance of 44.92 feet; thence North 43° 32' 30" West, a distance of 4.91 feet; thence North 46° 27' 30" East, a distance of 54.92 feet to the centerline of the alley as shown on said map of Block 67; thence South 43° 31' 16" East, along said alley centerline, a distance of 4.90 feet, to the point of intersection with the northeasterly extension of the southeasterly line of said Lot 25; thence South 46° 27' 01" West along said extension, a distance of 10.00 feet to the point of beginning.

Parcel No. 6 -- Block 67 City-County Capital Improvements and Financing Agency

An undivided one-half interest in and to the following:

Lots 8 through 24 in Block 67 of the City of Modesto as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Together with the following described property:

All that portion of Lot 25 in Block 67 described as follows: Beginning at the most easterly corner of Lot 25; thence South 46° 27' 01" West along the southeasterly line of said Lot 25, a distance of 44.92 feet; thence North 43° 32' 30" West, a distance of 4.91 feet; thence North 46° 27' 30" East, a distance of 54.92 feet to the centerline of the alley as shown on said map of Block 67; thence South 43° 31' 16" East, along said alley centerline, a distance of 4.90 feet, to the point of intersection with the northeasterly extension of the southeasterly line of said Lot 25; thence South 46° 27' 01" West along said extension, a distance of 10.00 feet to the point of beginning.

Excepting therefrom the following described property:

All that portion of Lot 8 in Block 67 of the City of Modesto described as follows:

Beginning at the most Northerly Corner of said Lot 8, thence South 43° 31' 06" East along the northeasterly line of said lot, a distance of 20.14 feet; thence South 46° 27' 30" West a distance of 150.09 feet to the center line of said alley; thence North 43° 31' 16" West along said center line a distance of 20.11 feet to the point of intersection with the southwesterly extension of the Northwesterly line of Lot 8; thence North 46° 26' 46" East along said extension and said Northwesterly line of Lot 8, a distance of 150.09 feet to the point of beginning.

Also excepting therefrom the following described property:

All that portion of Lots 23 and 24 in Block 67 described as follows: Beginning at the most westerly corner of Lot 24, thence North 46° 27' 01" East along the northwesterly line of said Lot 24, a distance of 95.17 feet; thence South 43° 32' 30" East, a distance of 33.11 feet; thence South 46° 27' 30" West, a distance of 95.18 feet to a point on the southwesterly line of Lot 23; thence North 43° 31' 28" West, along said southwesterly line of Lot 23 and the southwesterly line of Lot 24 a distance of 33.10 feet to the point of beginning.

Parcel no. 7 -- Wesson Park

Parcel No. 1 as per Parcel Map filed January 28, 1980 in Volume 30 of Parcel Maps, Page 13, Stanislaus County Records.

Parcel No. 8 -- Hollywood Park

Lot 1 in Block 13158 of Hollywood Park No. 2 as per Map filed February 28, 1978 in Book 27 of Maps, Page 44, Stanislaus County Records.

Parcel No. 9-- Riverside Park

Parcel A:

Parcels 1 and 1-A as per Parcel Map recorded May 16, 1966 in Book 1 of Parcel Maps, Page 134, Stanislaus County Records.

Excepting Therefrom Parcels B-1 and B-2 as per Parcel Map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

Parcel B:

Parcel No. A as per map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

Parcel No. 10 -- Sipherd Park

Parcel B as per map recorded August 14, 1974 in Book 19 of Parcel Maps, Page 75, Stanislaus County Records.

Parcel No. 11 -- Morris Community Center

All of Block 603 of the City of Modesto as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 12 -- McHenry Mansion

Lots 17 through 24 in Block 122 of the City of Modesto as per Map file December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 13 -- McHenry Museum

Lots 27 through 32 in Block 113 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Excepting therefrom Lot 27, the Southeasterly 3 feet of the Southwesterly 97 feet thereof.

Parcel No. 14 -- Senior Citizens Center

Lots 18 through 31 in Block 590 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 15 -- Parking Structure

Lot 5 through 12 in Block 68 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 16 -- Parking Lot # 3

Lots 29, 30, 31 and 32 in Block 94 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 17 -- Parking Lot # 25

Lots 28 through 32 in Block 55 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 18 -- Fire Station # 1

Lots 17 through 26 in Block 81 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 19 -- Fire Station # 3

Lots 1 and 2 in Block 2283 of Dry Creek Estates No. 1 as per Map filed December 13, 1966 In Volume 21 of Maps, Page 55, Stanislaus County Records.

Parcel No. 20 -- Fire Station # 6

Parcel No. C as per Parcel Map filed August 17, 1977 in Book 25 of Parcel Maps, Page 83, Stanislaus County Records.

Parcel No. 21 -- Fire Station # 7

Parcel A as per Parcel Map filed June 27, 1974 in Volume 19 of Maps, Page 51, Stanislaus County Records.

Parcel No. 22 -- Fire Station #. 5

PARCEL 1:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at a point on the east line of said Lot 2 located on the centerline of a 50 foot public road designated as Oakdale Road on said map, which point is located North 0° 30' West 396 feet from the southeast corner of said Lot 2; thence from said point of beginning parallel to the south line of said Lot 2, North 88° 30' West 660 feet to a point on the west line of said Lot 2; thence North 0° 30' West along said west line of said Lot 2 a distance of 153.73 feet; thence east parallel with the south line of said Lot 2, a distance of 660 feet to a point on the east line of said Lot 2, located on the center line of said Oakdale Road; thence along the east line of said Lot 2 and the centerline of said Oakdale Road, South 0° 30' East 174.24 feet to the point of beginning.

ALSO EXCEPTING THEREFROM all that portion thereof lying northerly of the north line of Burchell Court (formerly Northern Boulevard) extending westerly to the west line of Lot 2.

ALSO EXCEPTING THEREFROM all that portion thereof lying within Briggsmore Avenue, Burchell Court and McHenry Avenue.

ALSO EXCEPTING THEREFROM all that certain property described in Deed to Chester D. Chambers, recorded March 10, 1964 in Book 1929 at Page 641, and in Deed to S.W.A.P., a Joint Venture, recorded July 10, 1962 in Book 1780 at Page 145, Stanislaus County Records.

PARCEL 2:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, Section 17, Township 3 South, Range 9 East, M.D.B. & M., described as follows:

COMMENCING at a point on the southerly line of the property conveyed to Chester D. Chambers by Deed recorded May 7, 1959 in Volume 1545 of Official Records at Page 321, as Instrument No. 13137, Stanislaus County Records, said point being the northeastern corner of Parcel "E" on the western line of Timothy Avenue as shown on the map entitled "Survey of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6, Record of Surveys, page 53, Stanislaus County Records; thence along a line at right angles to the western line of Timothy Avenue, North 89° 30' East, 30.00 feet to a point on the northerly extension of the centerline of Timothy Avenue; thence along said northerly extension, North 00° 30' West, 46.90 feet to the true point of beginning; thence North 7° 52' 29" East, 84.51 feet to a point on the northern line of said Chambers property, which is also the southern line of the property conveyed to the City of Modesto by Deed recorded October 11, 1957, as Instrument No. 26217, Stanislaus County Records, said line also being the southern line of Parcel "A"

as per map of Record of Survey filed July 6, 1962 in Volume 9 of Surveys, Page 25, Stanislaus County Records;

(continued)

Order No.: 904378 A

Legal Description - Continued

thence along said line, South 88° 32' 30" East, 142.76 feet to a 3/4 inch iron pipe at the southeastern corner of said Parcel "A", said corner being the northeast corner of said Chambers property which is also a point on the western line of a 20 foot alley conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, at Page 695, as Instrument No. 29947, Stanislaus County Records; thence along said western line, South 00° 30' East, 60.58 feet; thence South 82° 47' 55" West, 155.59 feet to the point of beginning.

PARCEL 3:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at the northeast corner of Parcel A, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed July 6, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the north line of Parcel "A", South 89° 46' 50" West 135.63 feet to the true point of beginning; thence continuing along said north line South 89° 46' 50" West 120.54 feet; thence South 37° 57' 43" East 166.35 feet to the southwest corner of property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence along the west line of the City of Modesto property as conveyed by Deed above referred to and the northerly extension of said westerly line North 7° 52' 29" East 132.90 feet, more or less, to the true point of beginning.

PARCEL 4:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at the northeast corner of Parcel D, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence North 83° 31' 30" West along the north line of said Parcel D and its westerly extension, a distance of 155.02 feet, more or less, to the centerline of Timothy Avenue, as shown on the Record of Survey above referred to; thence North 0° 30' West, along the northerly extension of said centerline of Timothy Avenue to the southwest corner of the property conveyed to the City of Modesto by Deed recorded March 10, 1964, in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence North 82° 47' 55" East along the south line of the City of Modesto property, as conveyed by Deed above referred to, to the southeast corner thereof, said point being on the west line of the property conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, Page 695, as Instrument No. 29947, Stanislaus County Records; thence south along the west line of the City of Modesto property as conveyed by Deed last above referred to, 71.83 feet, more or less, to the point of beginning.

PARCEL 5:

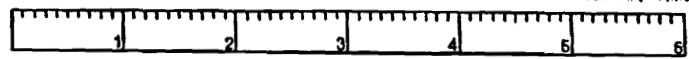
All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

COMMENCING at the 3/4 inch iron pipe set for the northeastern corner of Parcel "A", as per map of Record of Survey filed July 26, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the northern line of said Parcel "A", South 89° 46' 50" West, 135.63 feet to the northeastern corner of the property conveyed to Chester D. Chambers by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 641, as Instrument No. 9844, Stanislaus County Records; thence along the eastern line of the Chambers property and the western line of the property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records, South 07° 52' 29" West, 132.90 feet to the southwestern corner of the City property as conveyed by Deed above referred to, and the true point of beginning; thence South 00° 30' 00" East, 48.44 feet, more or less, to a point on the southern line of property conveyed to Chester D. Chambers by Deed recorded May 7, 1959, as Instrument No. 13137, Stanislaus County Records, said point being on the centerline of the 60.00 foot Timothy Avenue, as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence along said southern line of the property conveyed to Chambers by Deed last above referred to and the north line of Timothy Avenue as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records, North 88° 30' West, 30.02 feet to a point on the western line of Timothy Avenue, as shown on said Record of Surveys; thence along said western line, North 00° 30' 00" West, 0.52 feet; thence along a tangent curve concave to the southwest having a radius of 15.00 feet, a central angle of 46° 11' 13" and an arc length of 12.09 feet to a point of reverse curvature from which a radial line bears North 43° 18' 47" East; thence along said reverse curve concave to the east, having a radius of 50.00 feet, a central angle of 98° 43' 30" and an arc length of 86.15 feet; thence along a radial line, South 37° 57' 43" East, 50.00 feet to the southwest corner of the property conveyed to the City of Modesto by the Deed referred to and the true point of beginning.

Stanislaus, CA, 1996-97 - 110-06-01-000, 510-00-01-000, 510-00-01-000, 510-00-01-000

904376

TRW-REDI
1-800-345-7334



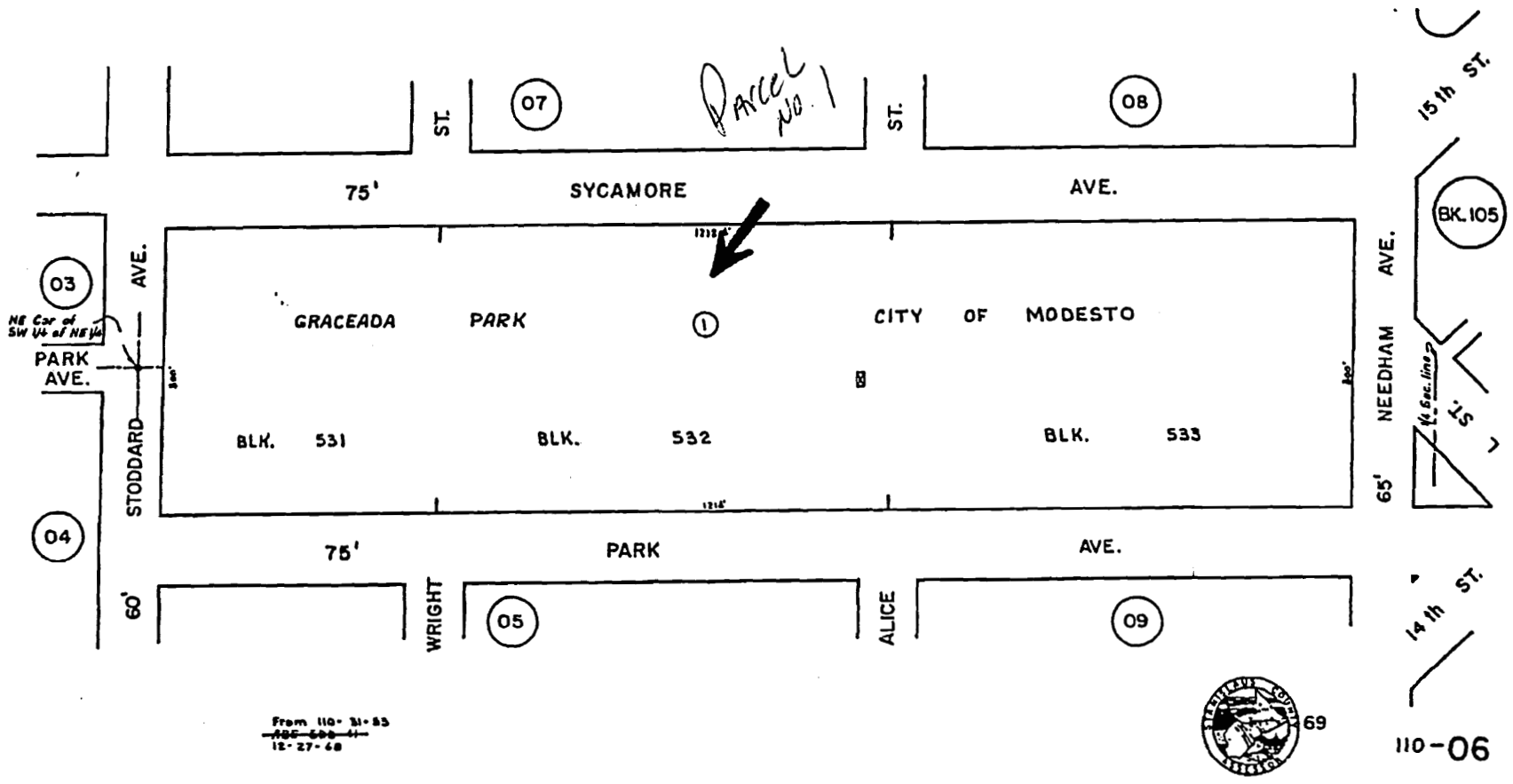
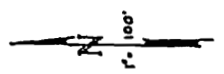
SCALE IN 1/10 OF AN INCH

POR. NE 1/4 SECTION 29 T.3 S. R.9 E. M. D. B. & M.
CITY OF MODESTO - BLKS. 531, 532, 533

002001

110-06

THIS MAP FOR
ASSESSMENT PURPOSES ONLY

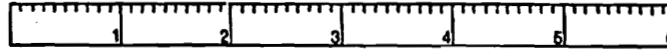


From 110-31-83
~~12-27-48~~



110-06

TRW-REDI
1-800-345-7334



SCALE IN 1/16 OF AN INCH

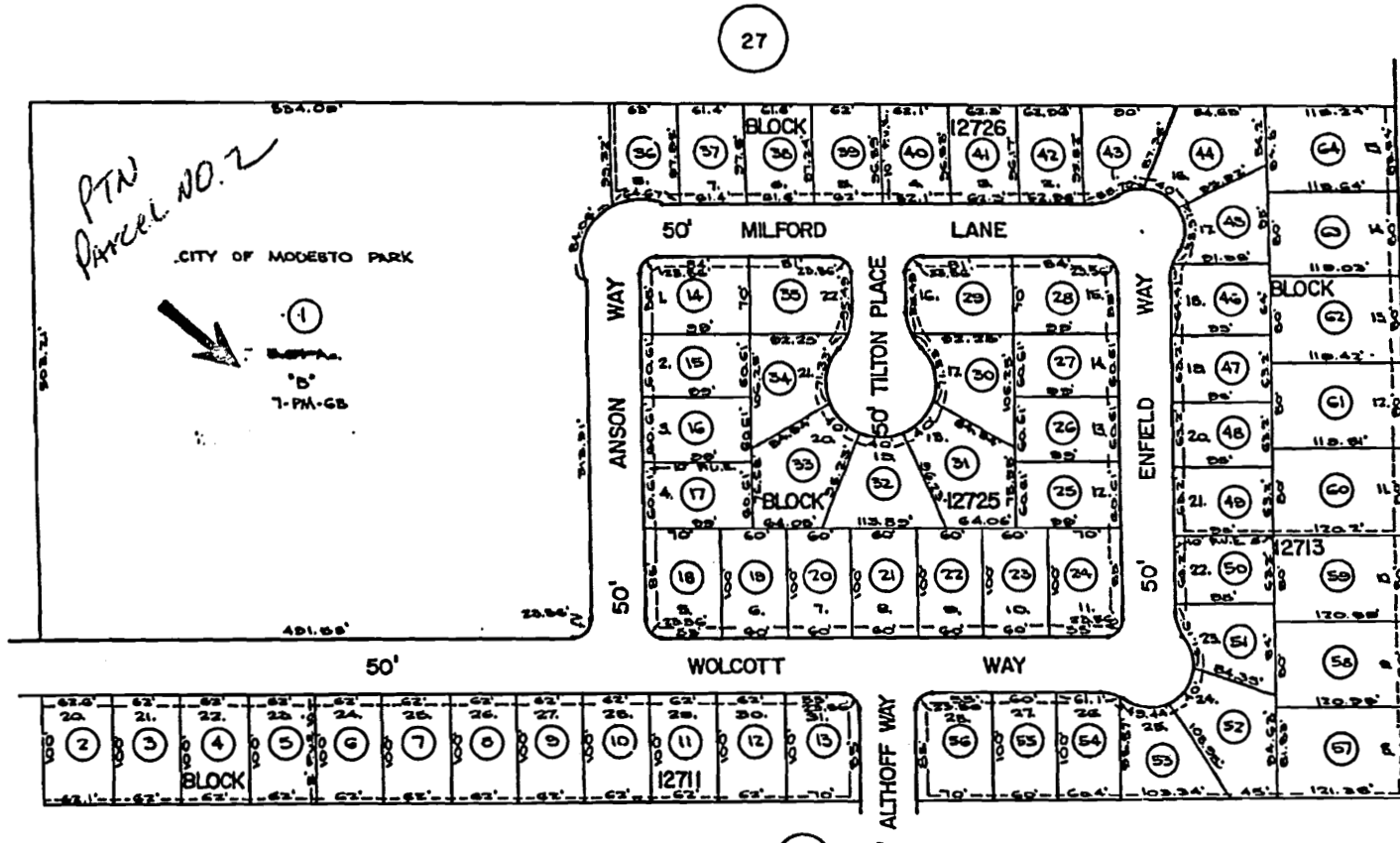
PORTION SE 1/4 SECTION 15 T.3S. R.9E. M.D.B.&M.
ROSE TERRACE NO. 3

002 008

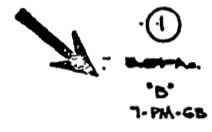
THIS MAP FOR
ASSESSMENT PURPOSES ONLY

66-01

26



PTN Parcel NO. 2

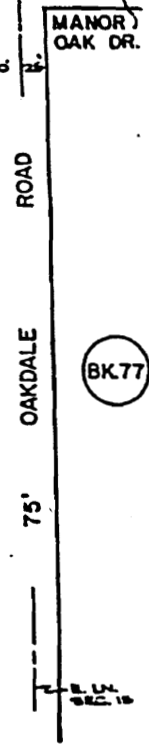


FROM 13-25
ABE 899-77
R.M. 23-2
5-30-71

19

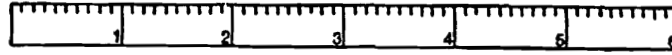


72



66-01

TRW-REDI
1-800-345-7334



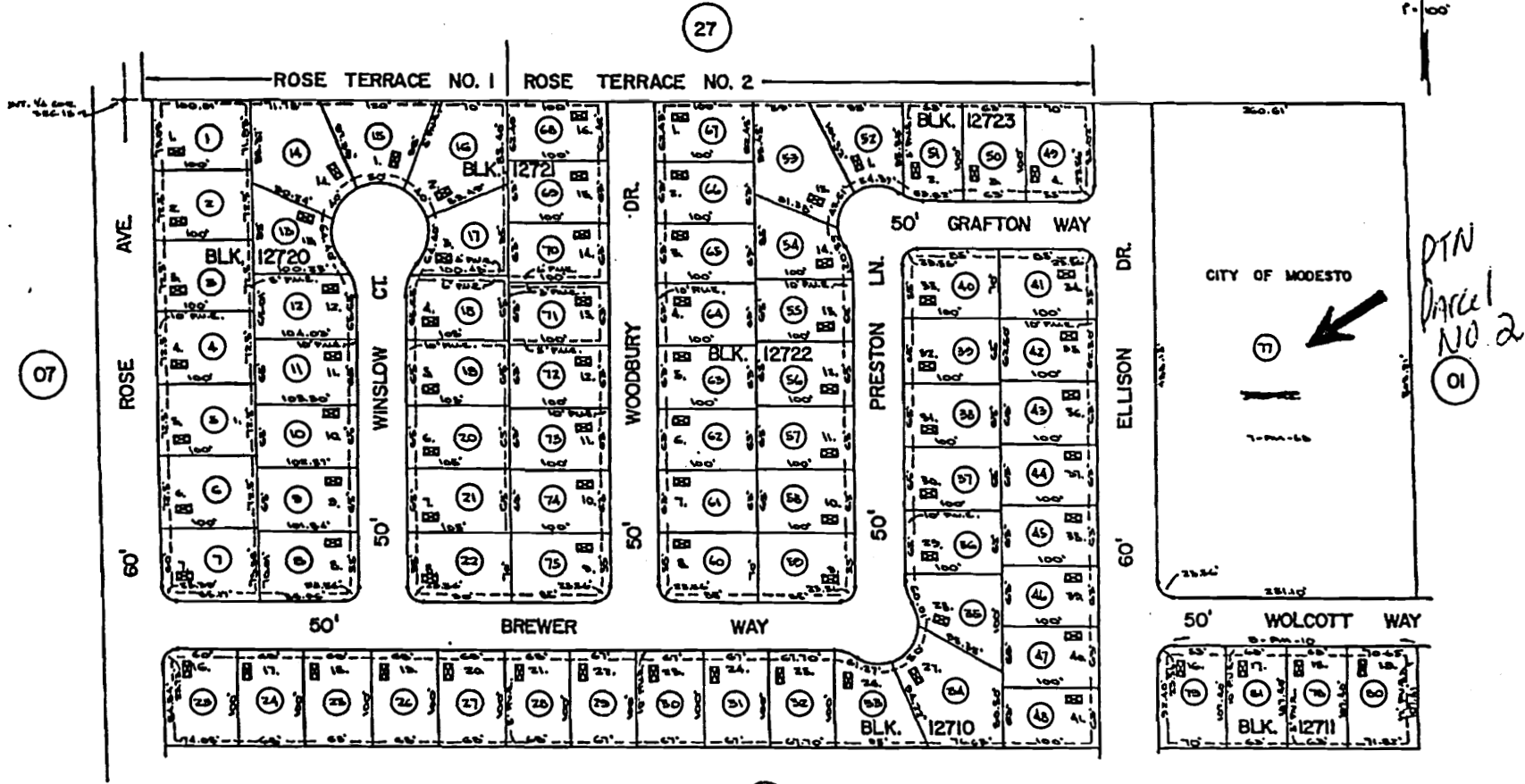
SCALE IN 1/10 OF AN INCH

PORTION SE1/4 SECTION 15 T.3S. R.9E. M.D.B.&M.
ROSE TERRACE NO. 1 & 2

002 008

66-26

THIS MAP FOR
ASSESSMENT PURPOSES ONLY



DTN
Parcel
NO 2
01

CITY OF MODESTO

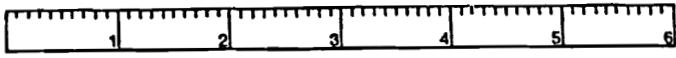


FROM 18-99-74
E.M. 22-10-72-73
10-22-75



66-26

TRW-REDI
1-800-345-7334



SCALE IN 1/16 OF AN INCH

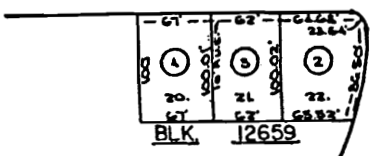
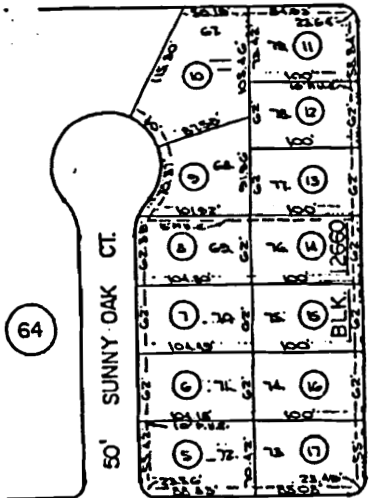
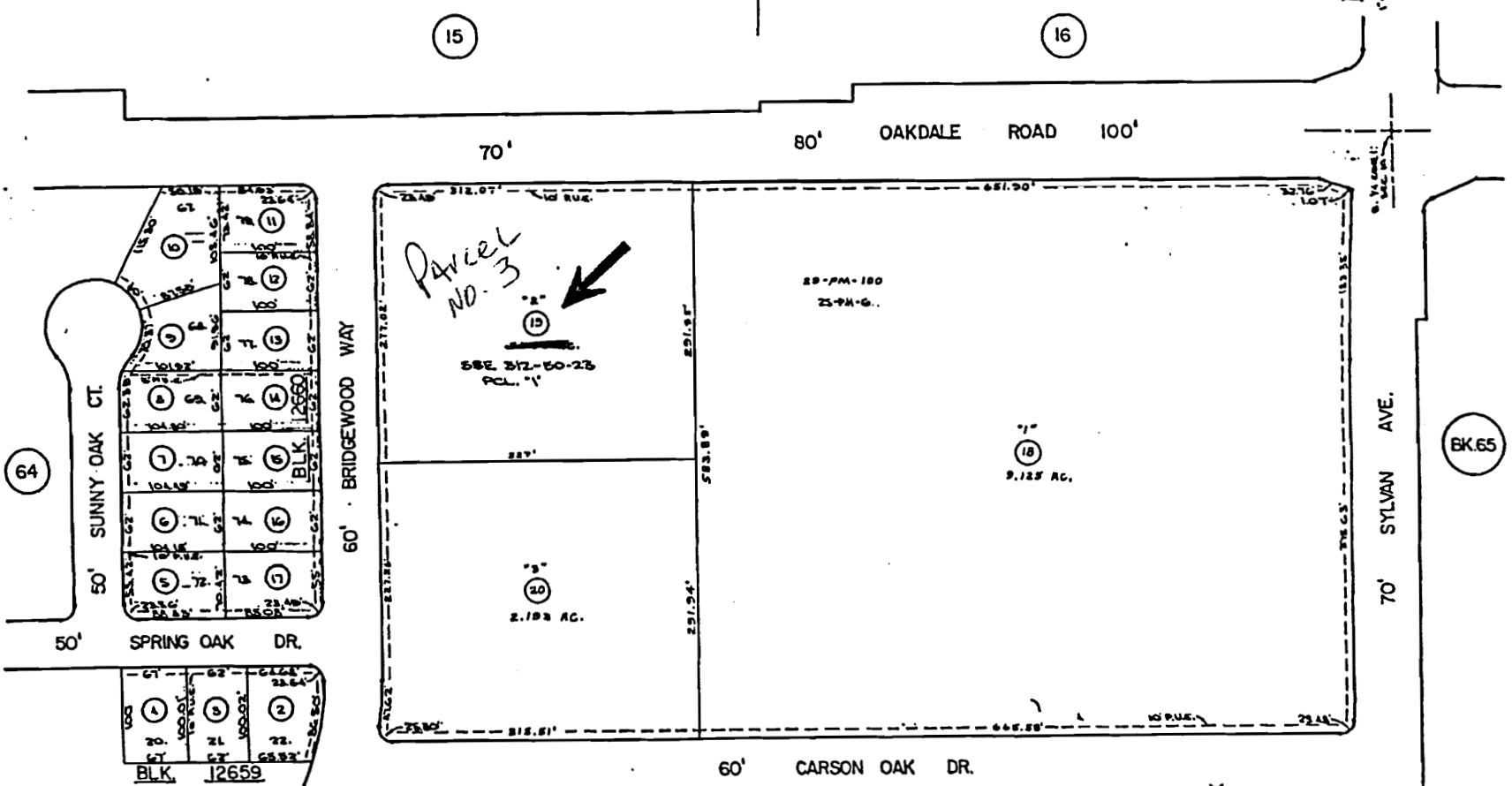
PORTION NE 1/4 SECTION 10 T.3S. R.9E. M.D.B. & M.

002 008

52-63

BEYERWOOD EAST NO.2 - LTS. 67-79 BLK.12660, 20-22 BLK.12659

THIS MAP FOR
ASSESSMENT PURPOSES ONLY



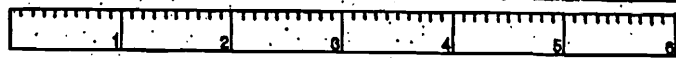
FROM 32-13
P.M. 71-46
3-28-78 UPDATED 8-1-82

52



52-63

TRW-REDI
1-800-345-7334



SCALE IN 1/16 OF AN INCH

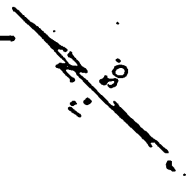
PORTION NE 1/4 SECTION 32 T.3S. R.9 E. M. D. B. & M.
CITY OF MODESTO - BLK. 71

002001

106 - 40

29

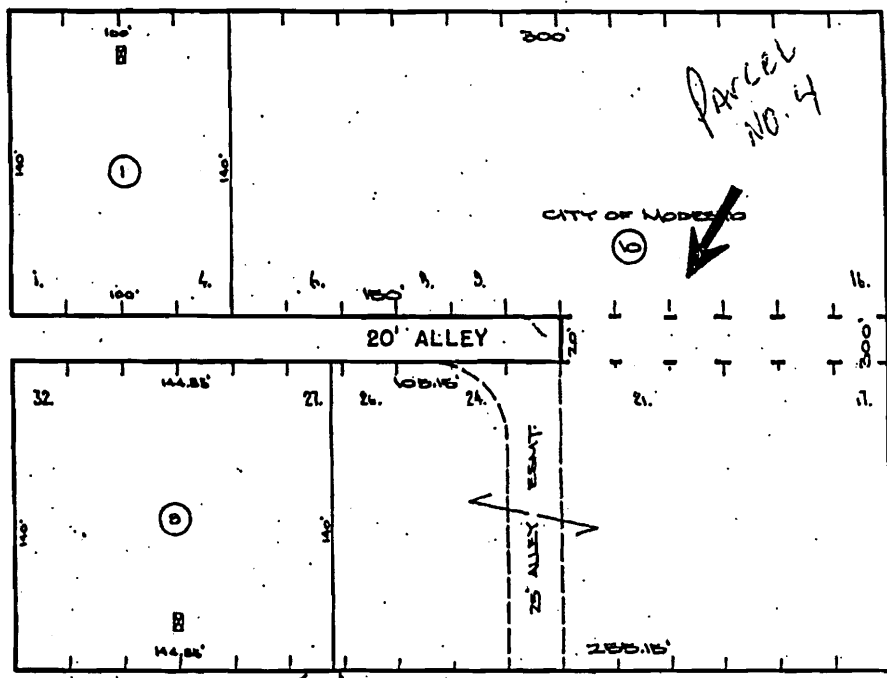
THIS MAP FOR
ASSESSMENT PURPOSES ONLY



80' 11th ST.

41

80' G ST.



80' F ST.

39

80' 10th ST.

FROM 103-22
2-19-88, UPDATED 6-7-88

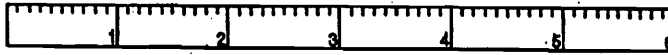
43



106 - 40

904379-D

TRW-REDI
1-800-345-7334



SCALE IN 1/16 OF AN INCH

THIS MAP FOR
ASSESSMENT PURPOSES ONLY

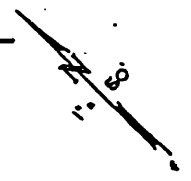
PORTION SE 1/4 SECTION 29 T.3S. R.9 E. M.D.B. & M.
CITY OF MODESTO-BLK. 67

002 001

105 - 37

27

80' 11th ST. 80'

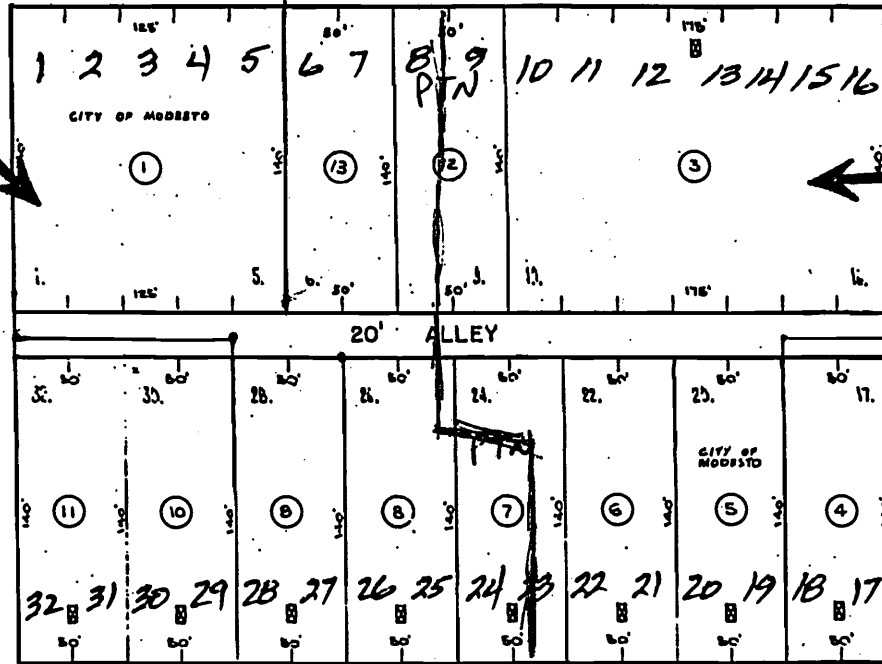


No. 5 Parcel

Parcel No. 6

36

80' K ST. 80'



38

80' J ST. 80'

80' 10th ST. 80'

FROM 103-15
DATE REPORTED 7-28-84

42

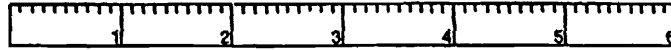


70.87

105 - 37

Stanislaus, CA, 1996-97 - US 95-32-337-000

TRW-REDI
1-800-345-7334

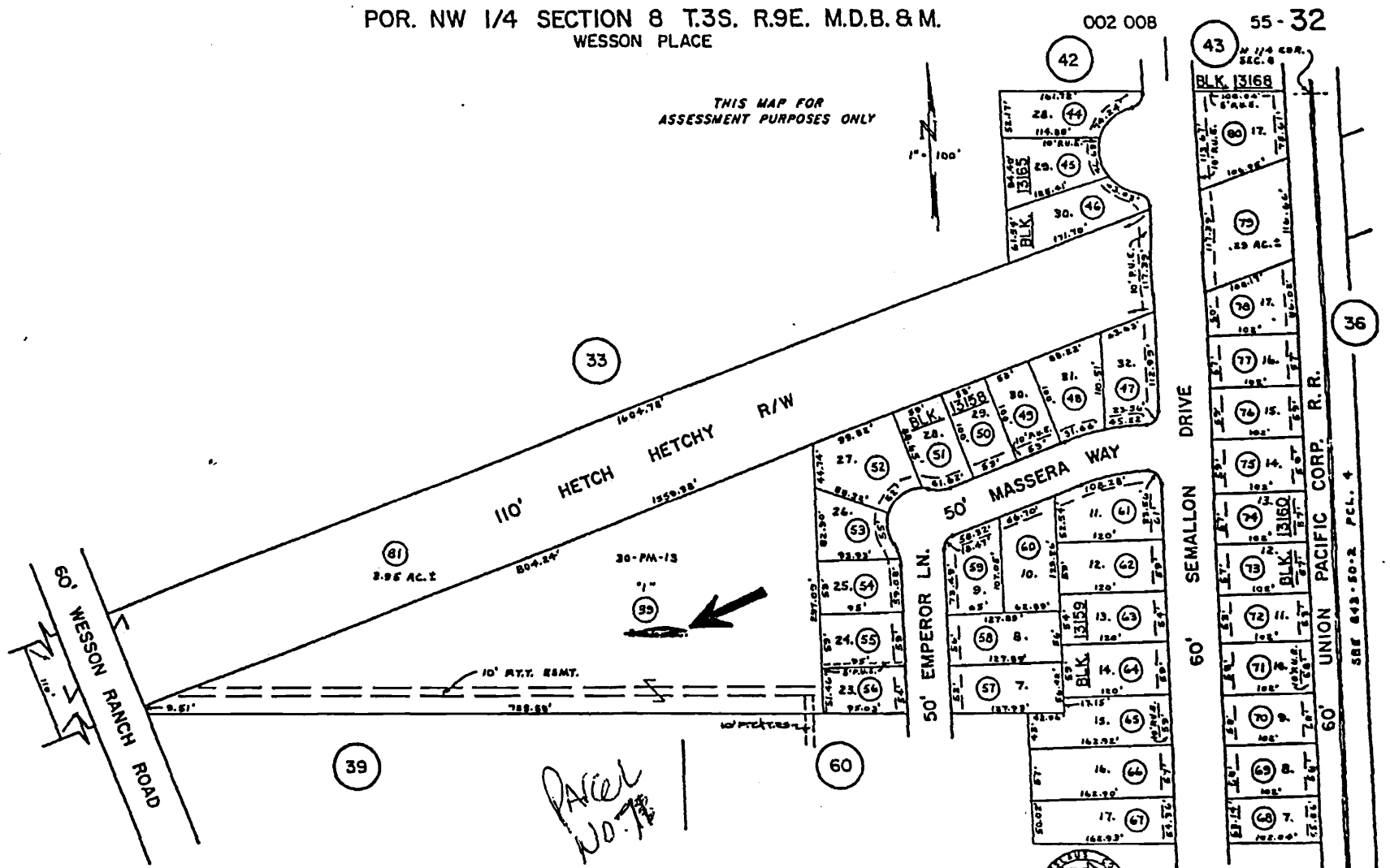
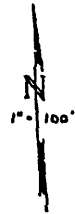


SCALE IN 1/10 OF AN INCH

POR. NW 1/4 SECTION 8 T.3S. R.9E. M.D.B. & M.
WESSON PLACE

002 008

THIS MAP FOR
ASSESSMENT PURPOSES ONLY



*Parcel
NO. 72*

FROM 55-32
30-M-94
REDRAWN 4-21-86
UPDATED 10-27-86



82,87

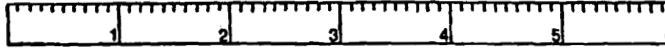
55-32

36

UNION PACIFIC CORP. R. R.
SBE 843-50-2 PCL. +

Stanislaus, CA, 1996-97 - 055-39-01-000, 976 W UNION AV, MCDONALD'S UN

TRW-REDI
1-800-345-7334



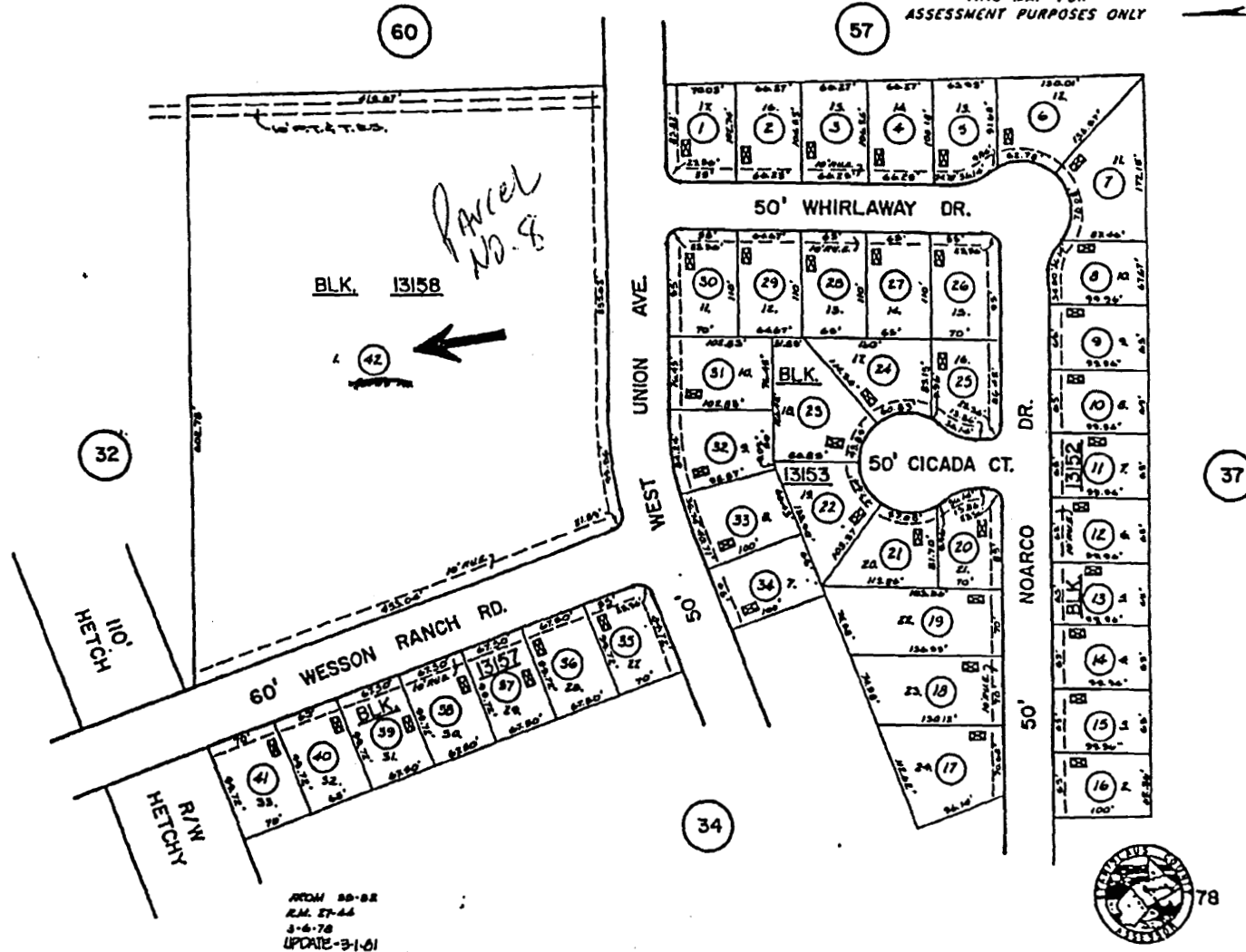
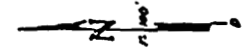
SCALE IN 1/10 OF AN INCH

PORTION NW 1/4 SECTION 8 T.3S. R.9E. M.D.B.&M.
HOLLYWOOD PARK NO.2

002008

55-39

THIS MAP FOR
ASSESSMENT PURPOSES ONLY



FROM 55-82
R.M. 27-44
3-6-78
UPDATE-3-1-01



55-39

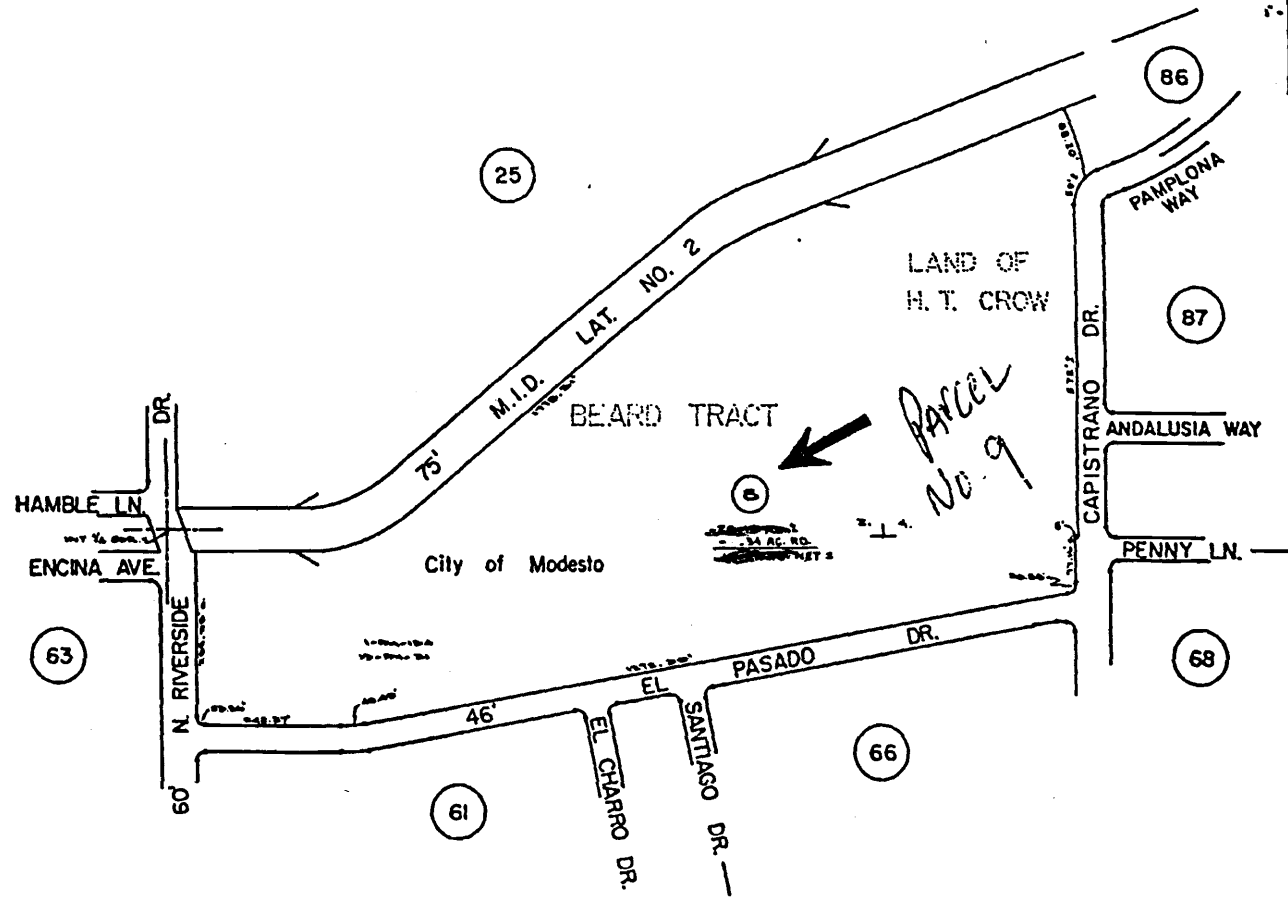
Stanislaus, CA, 1996-97 - 033-28-06-000, RIVERSIDE AV, MCDONALD'S, C...

PORTION E1/2 SECTION 26 T.3S. R.9E. M.D.B. & M.
LAND OF H.T. CROW - POR. LOT 4
BEARD TRACT - POR. LOT 2

002 013

33-28

THIS MAP FOR
ASSESSMENT PURPOSES ONLY

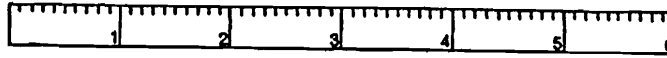


FROM 7-26, 82-83
W.A. 2-26, 3-10
B-2-77
UPDATED 3-4-82



33-28

TRW-REDI
1-800-345-7334



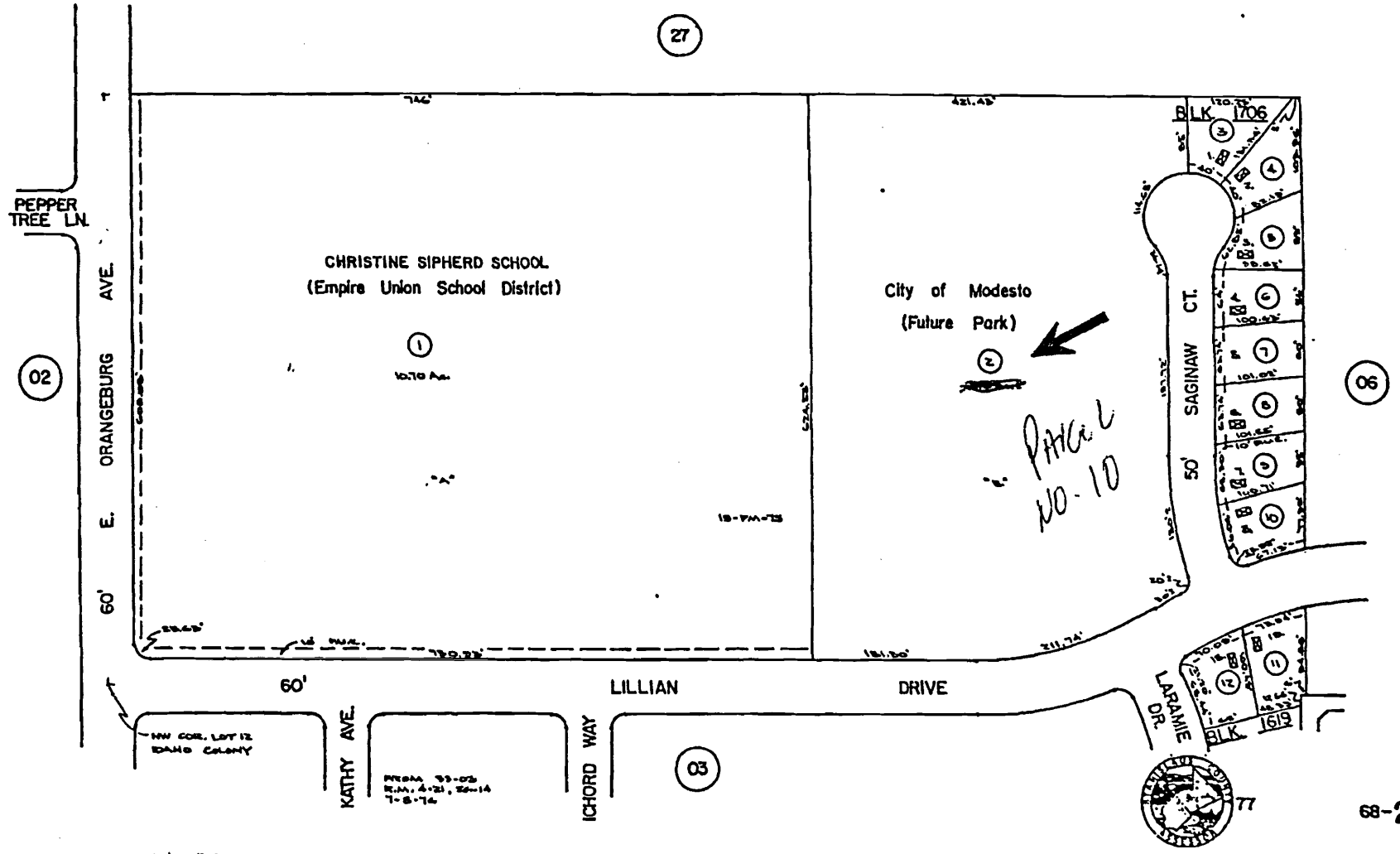
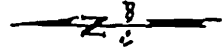
SCALE IN 1/16 OF AN INCH

PORTION NW1/4 SECTION 24 T3S. R.9E. M.D.B.&M.
LINCOLN MANOR NO. 3
IDAHO COLONY - LOT 12

002 013

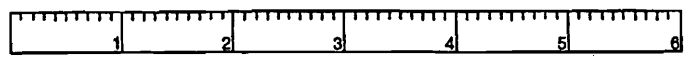
68-28

THIS MAP FOR
ASSESSMENT PURPOSES ONLY



68-28

TRW-REDI
1-800-345-7334



SCALE IN 1/16 OF AN INCH

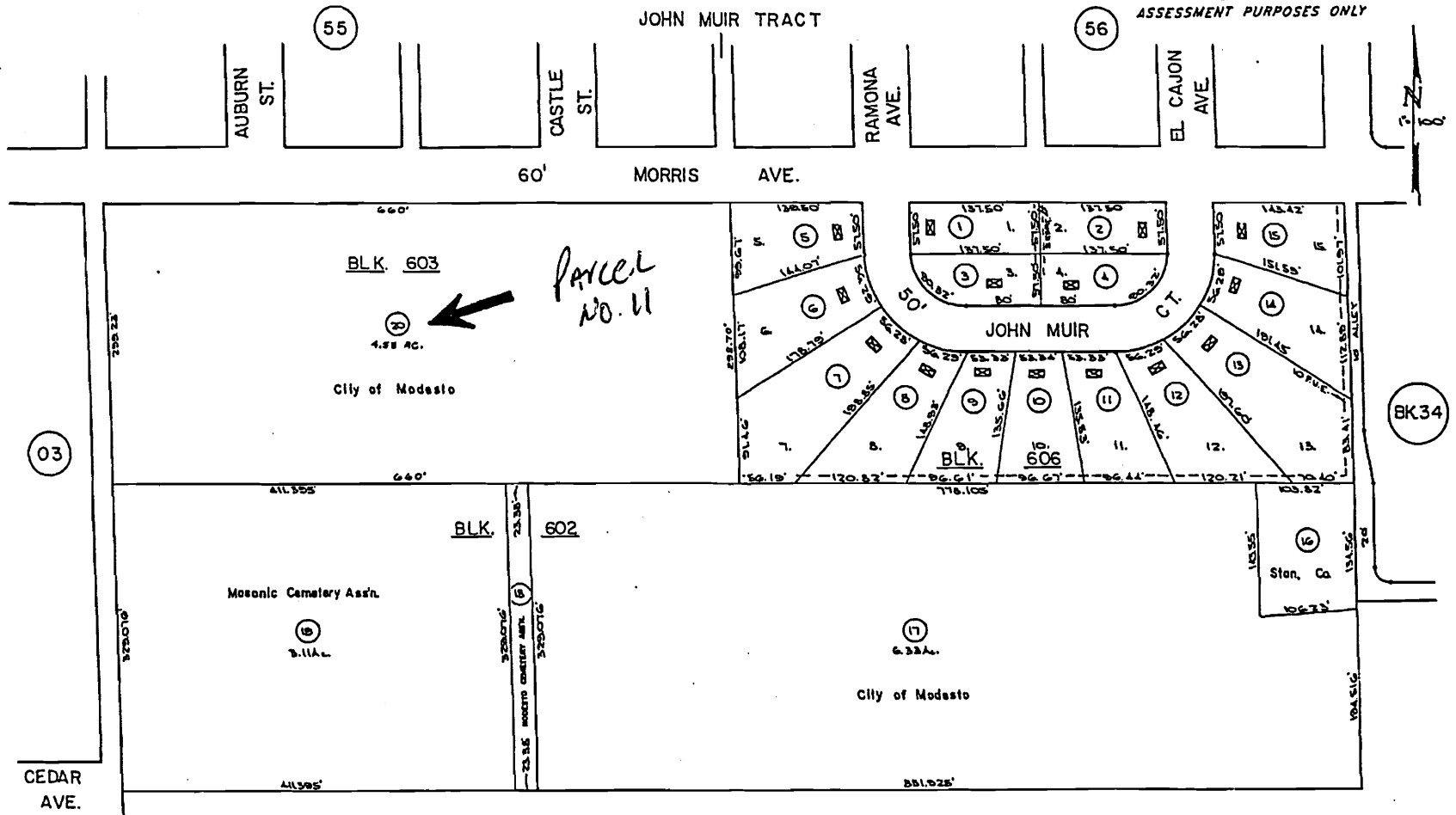
PORTION NE 1/4 SECTION 28 T.3S. R.9E. M.D.B.&M.

002 001 111-57

CITY OF MODESTO - BLKS. 602, 603 & 606

JOHN MUIR TRACT

THIS MAP FOR
ASSESSMENT PURPOSES ONLY



BLK. 603

4.28 AC.

City of Modesto

Parcel No. 11

BLK. 602

Masonic Cemetery Ass'n.

3.11 AC.

JOHN MUIR

BLK. 606

City of Modesto

Stan. Co

FROM 112-03.04,05, 111-53,54,57
E.M. 11-41
3-24-78 UPDATED 3-1-82

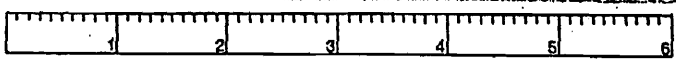


63,79

111-57

Stanislaus, CA, 1996-97 - 105-07-05-000, 906 15TH ST., MODESTO, CA 95304

TRW-REDI
1-800-345-7334



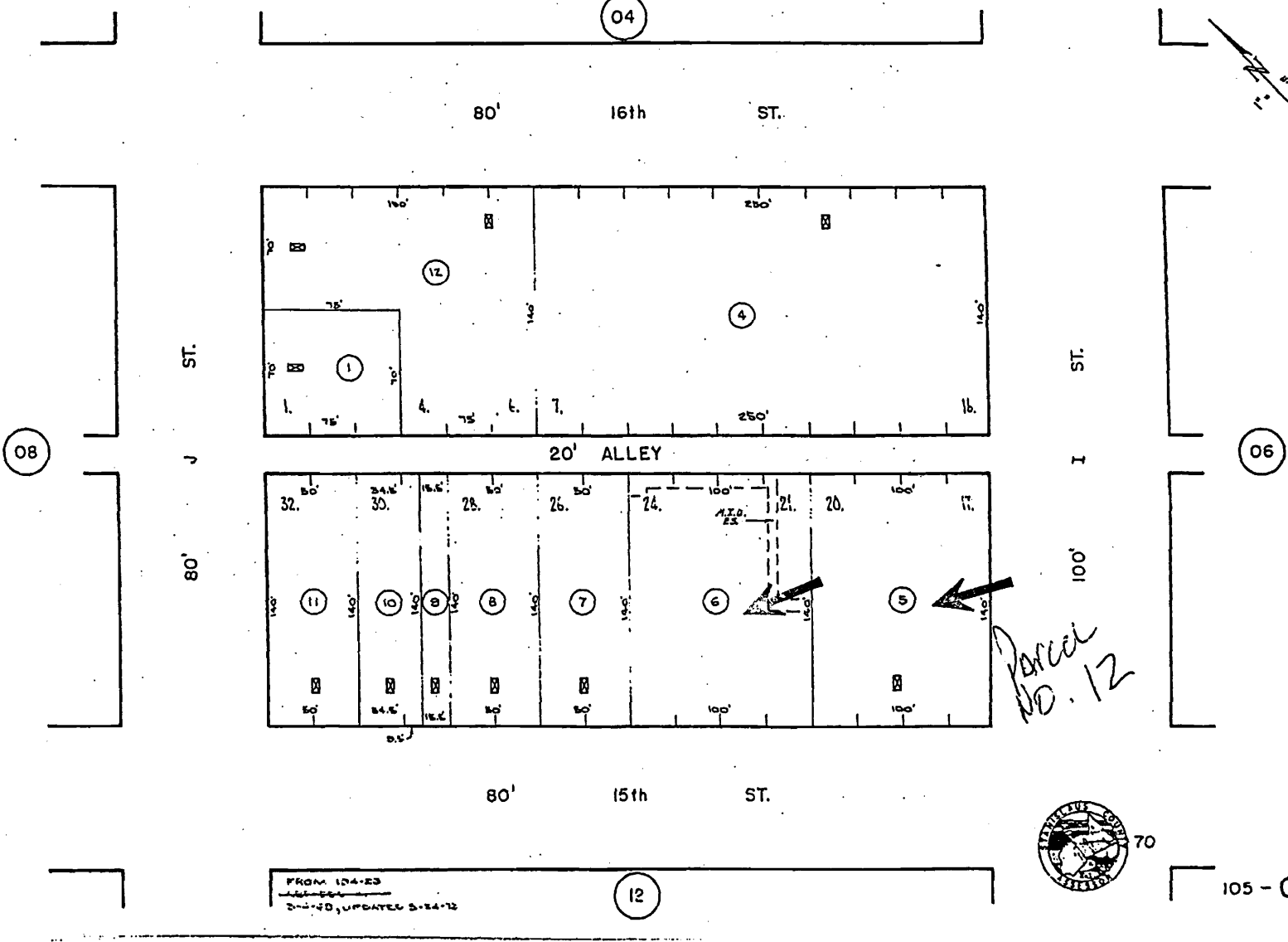
SCALE IN 1/10 OF AN INCH

THIS MAP FOR
ASSESSMENT PURPOSES ONLY

PORTION SE 1/4 SECTION 29 T.3S. R.9E. M. D. B. & M.
CITY OF MODESTO - BLK. 122

002 001

105 - 07



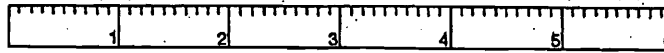
FROM 104-23
2-2-20, UPDATED 2-24-12



105 - 07

Stanislaus, CA, 1996-97 - 105-13-12-000, 1402 14 ST, MODESTO CA Sheet 1 of 1

TRW-REDI
1-800-345-7334



SCALE IN 1/16 OF AN INCH

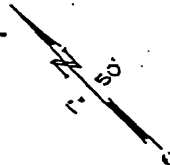
THIS MAP FOR
ASSESSMENT PURPOSES ONLY

PORTION SE 1/4 SECTION 29 T.3S. R.9 E. M. D. B. & M.
CITY OF MODESTO-BLK. 113

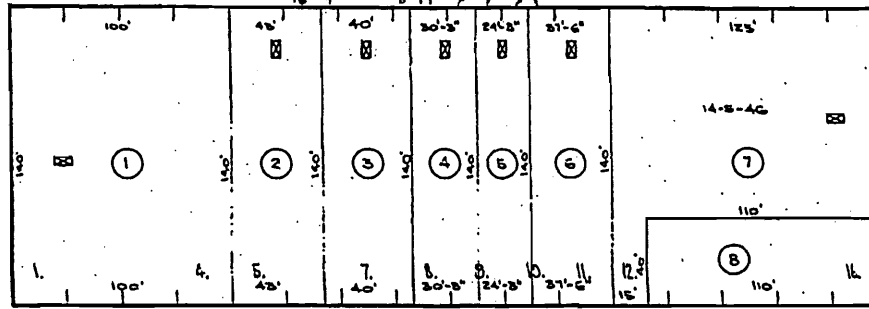
002001

105 - 13

06



80' 15th ST.



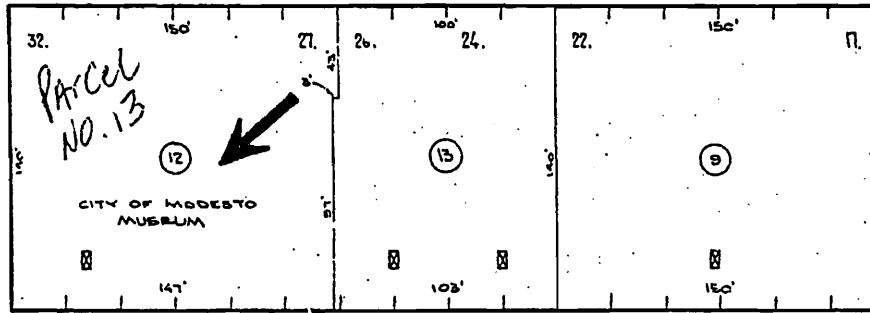
20' ALLEY

100' I ST.

80' H ST.

12

BK.106



80' 14th ST.

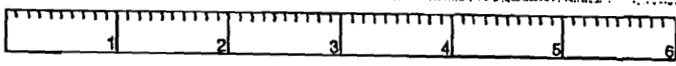


FROM 124-H
DATE 3-15-76

14

105 - 13

TRW-REDI
1-800-345-7334



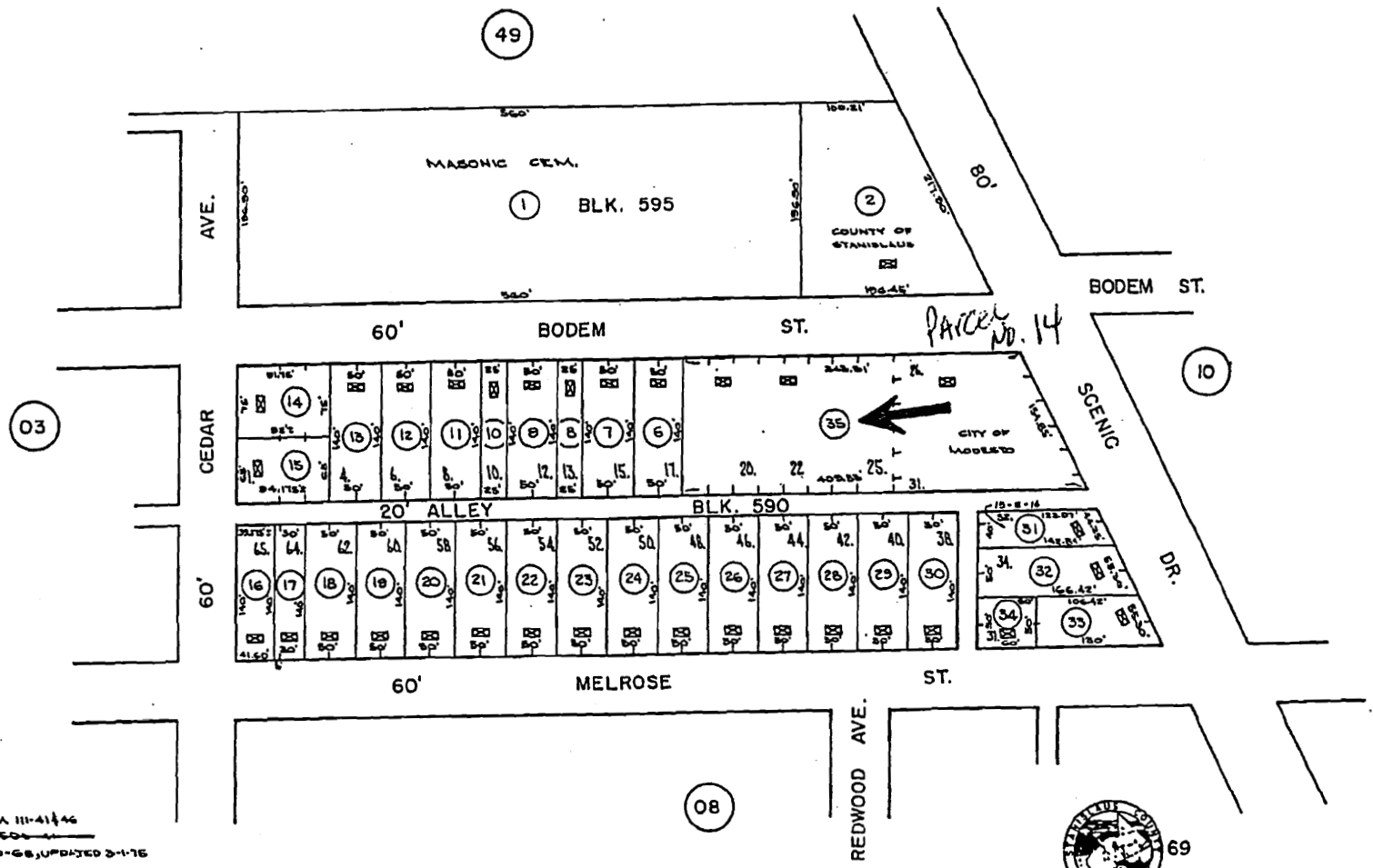
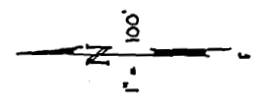
SCALE IN 1/10 OF AN INCH

PORTION NW 1/4 SECTION 28 T.3S.R.9E.M.D.B.&M.
CITY OF MODESTO - BLKS. 590 & 595

002001

111 - 09

THIS MAP FOR
ASSESSMENT PURPOSES ONLY



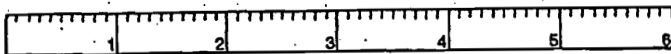
FROM 111-41446
12-30-68, UPDATED 3-1-75



111 - 09

Stanislaus, CA, 1996-97 - 105-24-09-000, 12 ST, MODESTO, CA SHEET 1 OF 3

TRW·REDI
1-800-345-7334



SCALE IN 1/16 OF AN INCH

THIS MAP FOR
ASSESSMENT PURPOSES ONLY

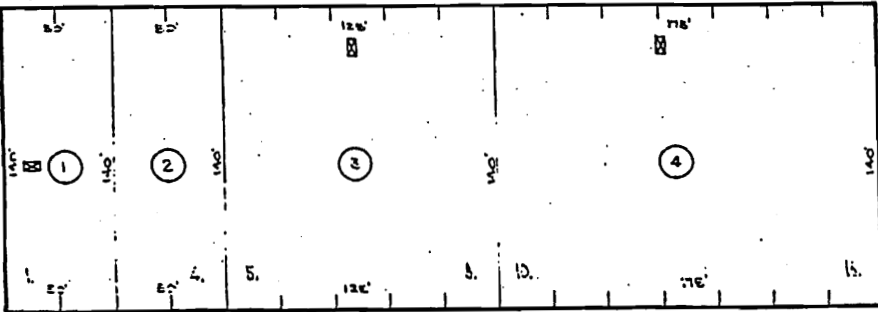
PORTION SE 1/4 SECTION 29 T.3S. R.9E. M.D.B. & M.
CITY OF MODESTO-BLK.94

002 001.

105 - 24

14

80' 13th ST.



ST.

ST.

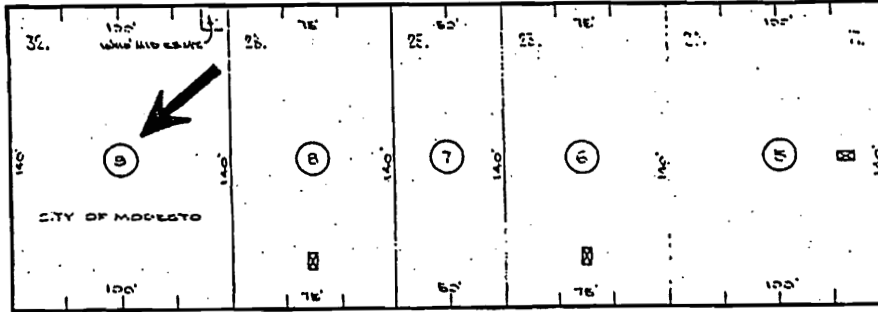
23

I

20' ALLEY

H

BK.106



100'

80'

*Parcel
No. 16*

CITY OF MODESTO

80' 12th ST.



70

105 - 24

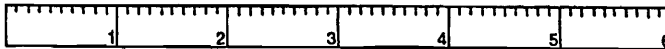
FRONT LOT-41
2 - 140'

25

25 - 140'

Stanislaus, CA, 1996-97 - 105-40-15-000, 1 S1, MUEBSTER, CA SHEET 1.0

TRW-REDI
1-800-345-7334



SCALE IN 1/10 OF AN INCH

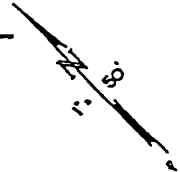
THIS MAP FOR
ASSESSMENT PURPOSES ONLY

PORTION SE 1/4 SECTION 29 T.3S. R.9 E. M. D. B. & M.
CITY OF MODESTO-BLK. 55

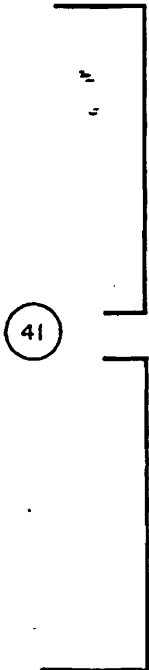
002001

105-40

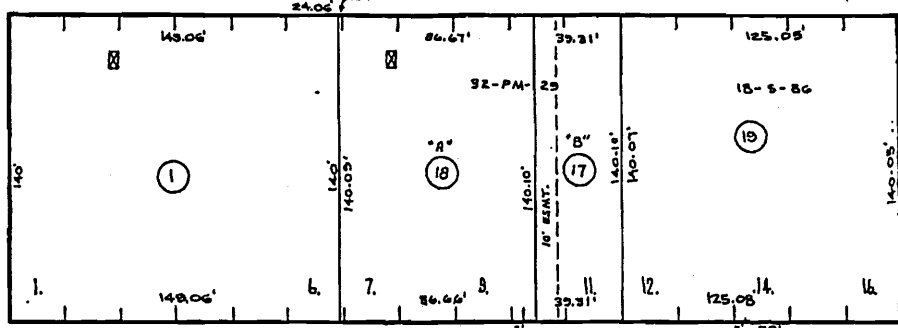
39



80' 10th ST. 80'



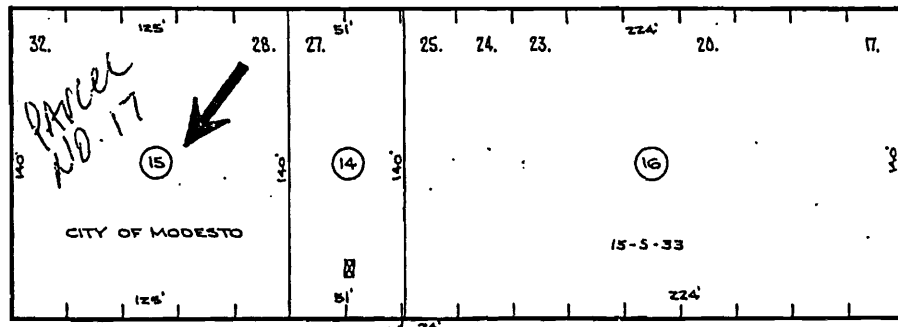
I ST. 100'



20' ALLEY

H ST. 80'

BK.106



UNION PACIFIC CORP. R.R.

88' 9th ST. 88'



70

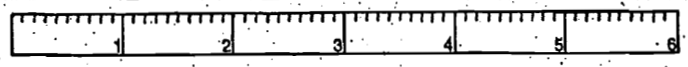
MAY 19 1994 94

105-40

FROM 103-06
3-17-89, UPDATED 8-1-82, 2-22-84

(BK.104)

TRW•REDI
1-800-345-7334



SCALE IN 1/16 OF AN INCH

THIS MAP FOR
ASSESSMENT PURPOSES ONLY

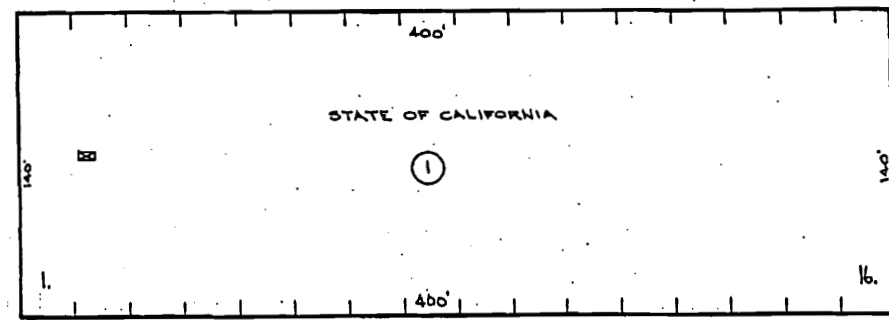
PORTION NE 1/4 SECTION 32 T.3S.R.9E. M. D. B. & M.
CITY OF MODESTO-BLK. 81

002 001

106 - 29

26

80' 12th ST.



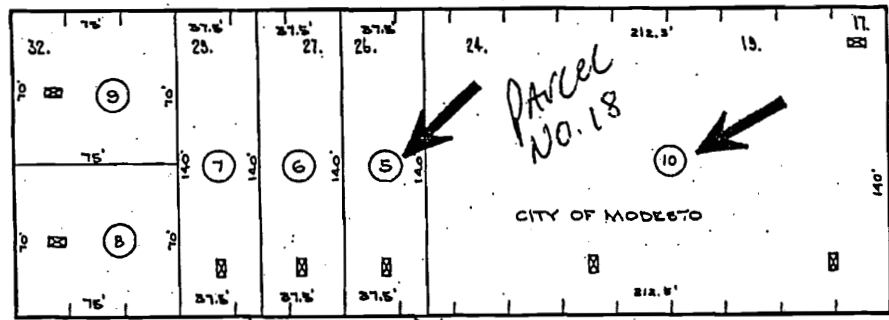
80' G ST.

80' F ST.

28

30

20' ALLEY



80' 11th ST.



70

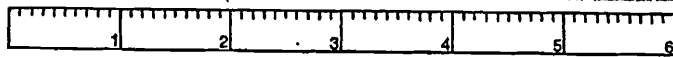
FROM 103-32
1-14-88
2-13-88 UPDATED 3-1-91

40

106 - 29

Stanislaus, CA, 1996-97 - 034-19-48-000, EDGEBROOK DR., M... ..

TRW-REDI
1-800-345-7334



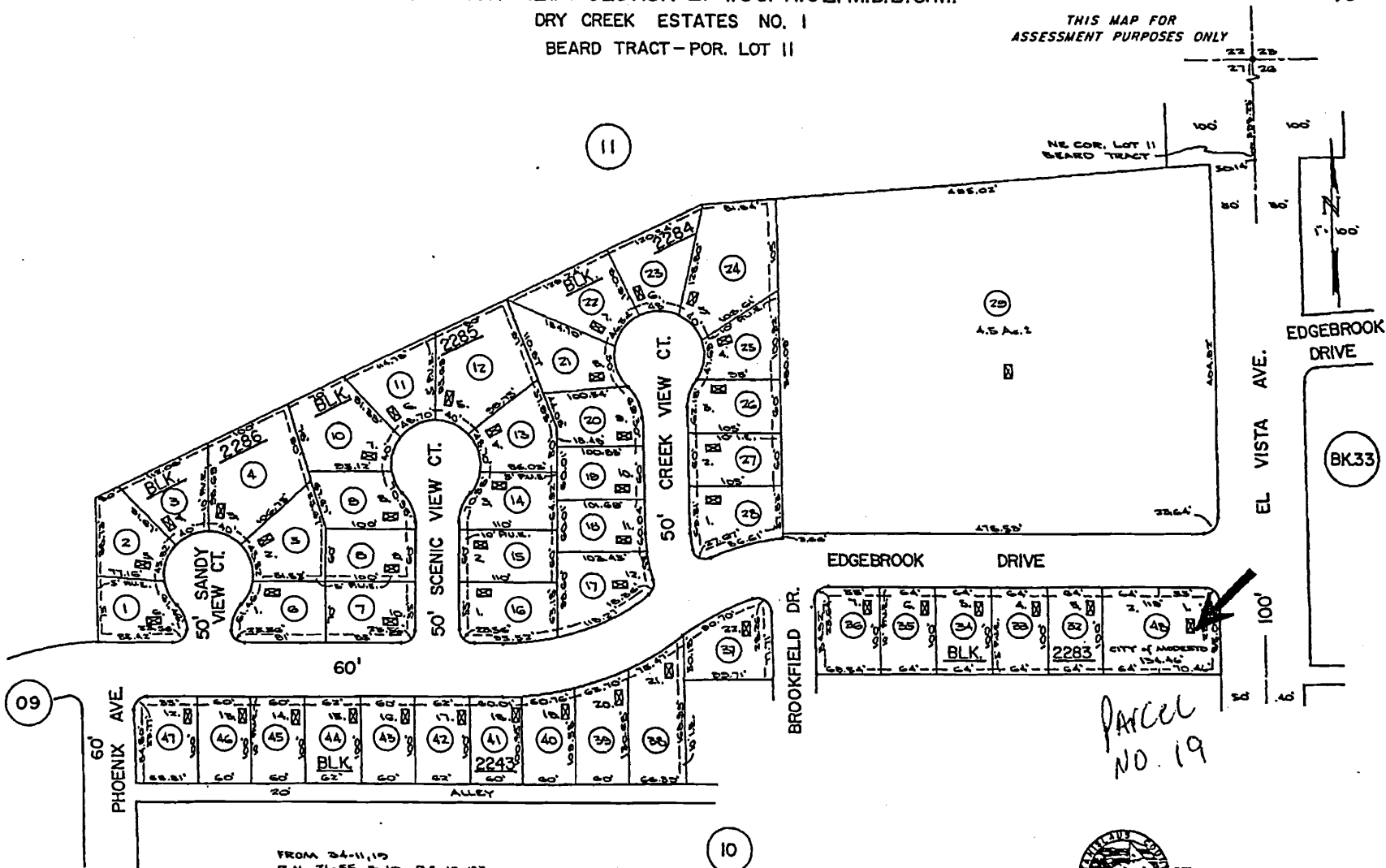
SCALE IN 1/10 OF AN INCH

PORTION NE 1/4 SECTION 27 T.3S. R.9E. M.D.B.&M.
DRY CREEK ESTATES NO. 1
BEARD TRACT - POR. LOT 11

2 01

34-19

THIS MAP FOR
ASSESSMENT PURPOSES ONLY



FROM 24-11-19
R.M. 21-55, 2-10, R.S. 10-181
2-1-78

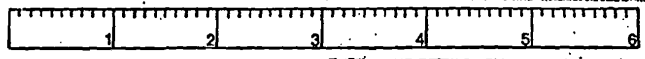


PARCEL
NO. 19

34-19

Stanislaus, CA, 1996-97 - 076-42-14-000, 2700 STANDIFORD AV, MODESIO CA 95330-0114

TRW•REDI
1-800-345-7334

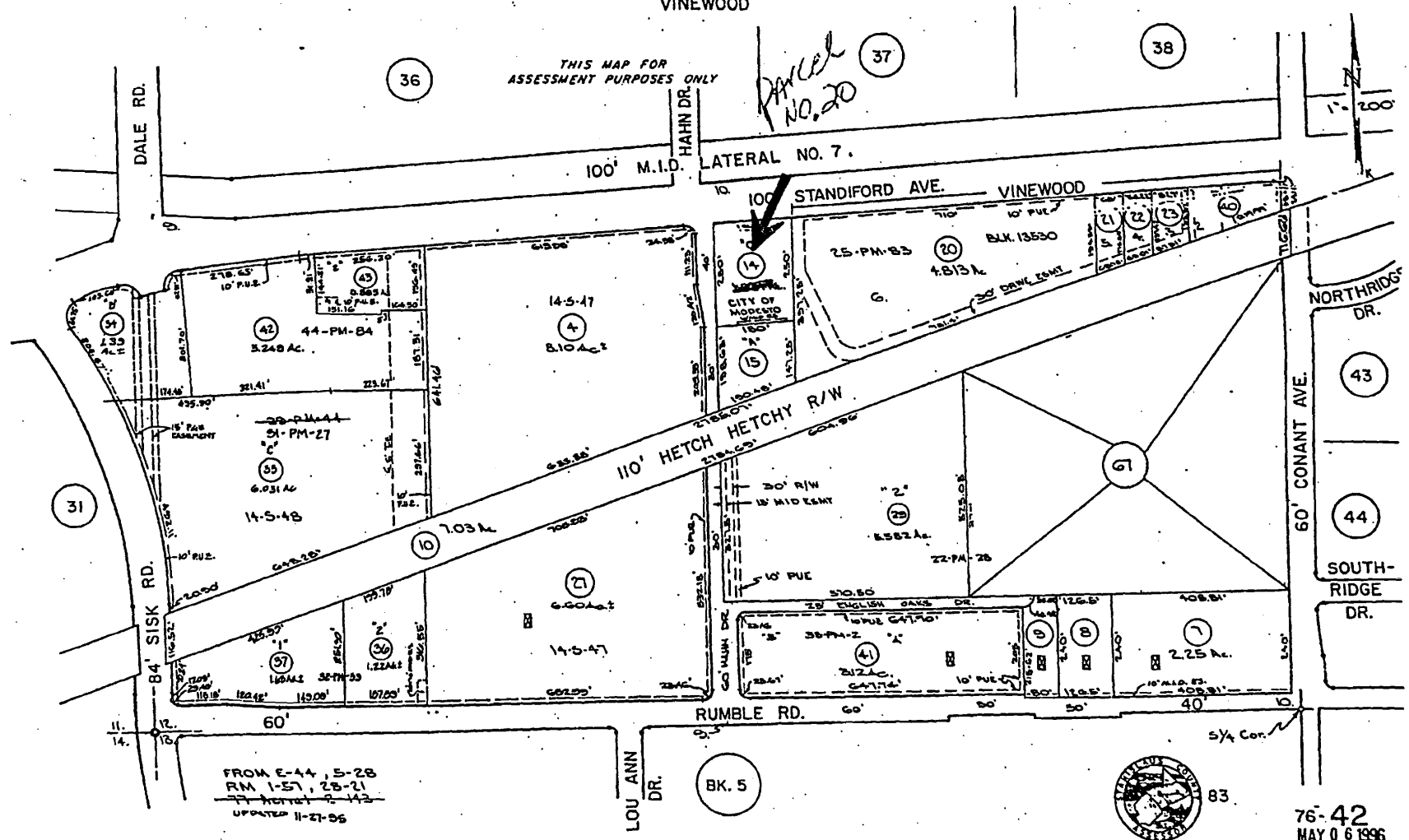


SCALE IN 1/10 OF AN INCH

PORTION SW 1/4 SECTION 12 T.3 S. R.8 E. M.D.B. & M.
MCKINNEY COLONY LOTS 9 & 10
VINEWOOD

002 009

76-42



FROM E-44, 5-28
RM 1-57, 28-21
UPDATED 11-21-95

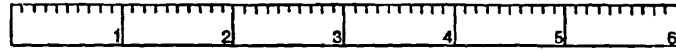


83

76-42
MAY 06 1996

Stanislaus, CA, 1996-97 - 052-13-28-000, 1800 MABLE AV., MIDDLETOWN, CA 95301-1277

TRW-REDI
1-800-345-7334



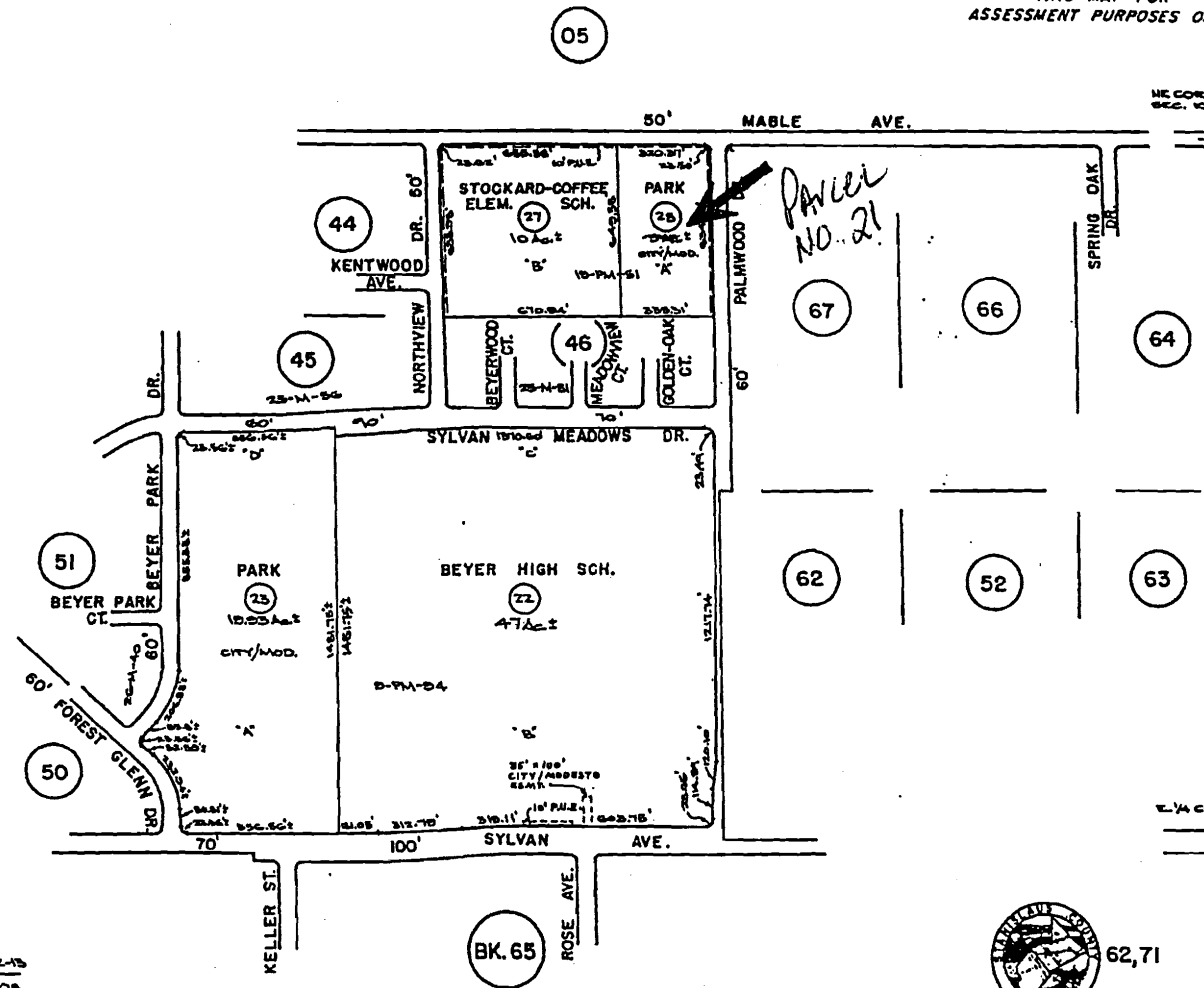
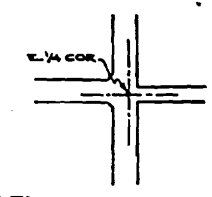
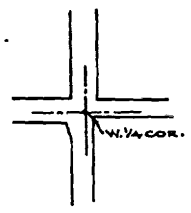
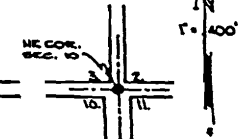
SCALE IN 1/16 OF AN INCH

POR. N 1/2 SEC. 10 T.3S. R.9 E.M.D.B.& M.

002 008

52 - 13

THIS MAP FOR
ASSESSMENT PURPOSES ONLY



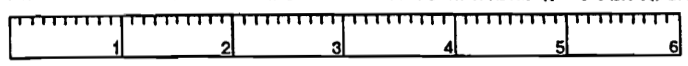
FROM 13-00, 52-13
REDRAWN 2-1-78
UPDATED 10-23-87



62,71

52 - 13

TRW-REDI
1-800-345-7334



SCALE IN 1/10 OF AN INCH

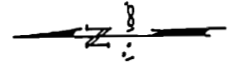
PORTION SE 1/4 SECTION 17 T.3 S. R.9 E. M.D.B. & M.

002 001

119-05

FRESNO TRACT - PDR. LOTS 1 & 2
HUDELSON TRACT - BLOCK 6198

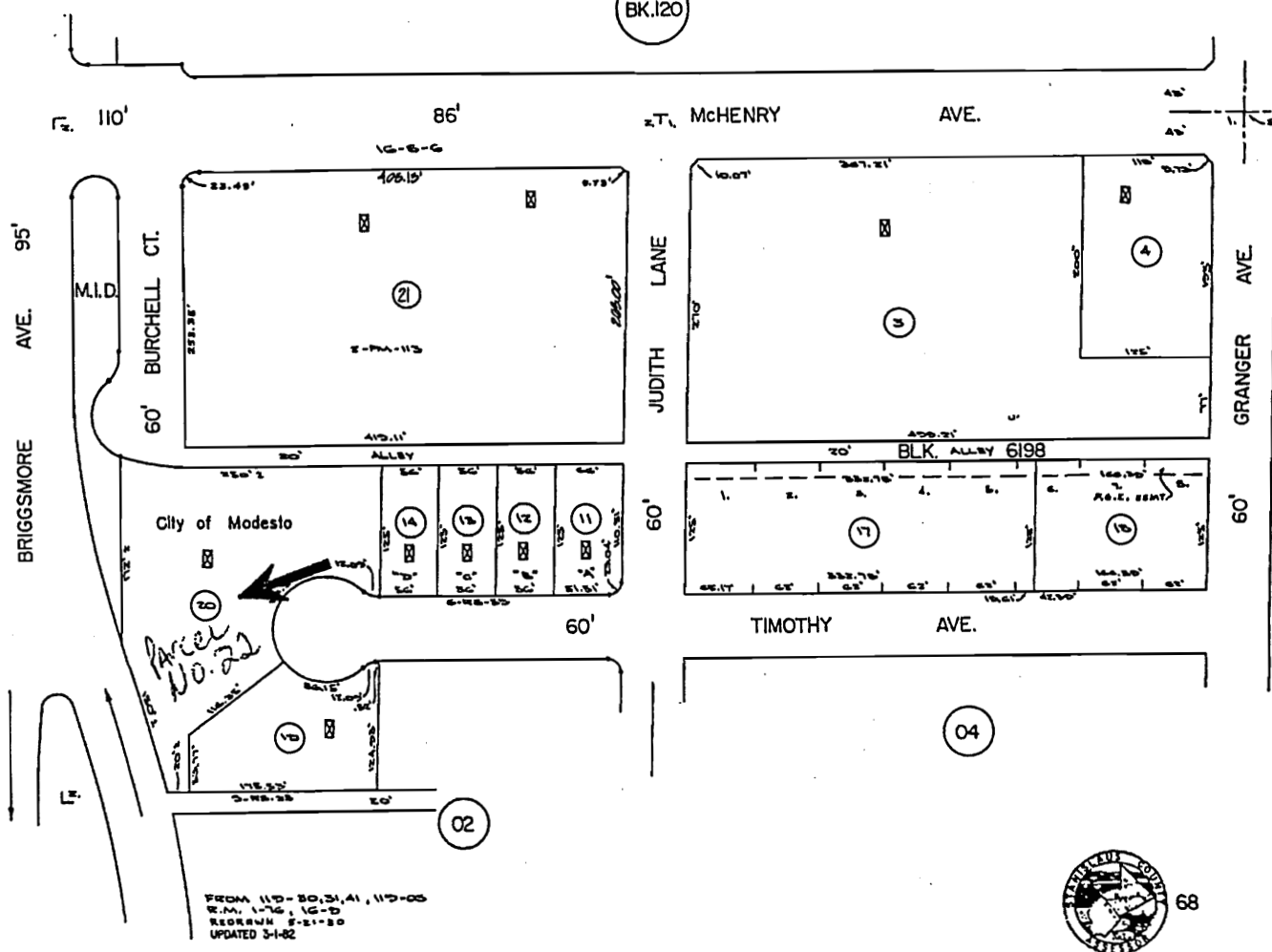
THIS MAP FOR
ASSESSMENT PURPOSES ONLY



BK.120

BK.59

06



City of Modesto

Parcel 20.22

FROM 110-20,31,110-05
S.N.A. 1-75, 10-8
REGRAN 2-21-80
UPDATED 3-1-82



68

119-05

(c) Whenever the Company shall have brought an action or interposed a defense as required or permitted by the provisions of this policy, the Company may pursue any litigation to final determination by a court of competent jurisdiction and expressly reserves the right, in its sole discretion, to appeal from any adverse judgment or order.

(d) In all cases where this policy permits or requires the Company to prosecute or provide for the defense of any action or proceeding, an insured shall secure to the Company the right to so prosecute or provide defense in the action or proceeding, and all appeals therein, and permit the Company to use, at its option, the name of such insured for this purpose. Whenever requested by the Company, an insured, at the Company's expense, shall give the Company all reasonable aid (i) in any action or proceeding, securing evidence, obtaining witnesses, prosecuting or defending the action or proceeding, or effecting settlement, and (ii) in any other lawful act which in the opinion of the Company may be necessary or desirable to establish the title to the estate or interest or the lien of the insured mortgage, as insured. If the Company is prejudiced by the failure of an insured to furnish the required cooperation, the Company's obligations to such insured under the policy shall terminate, including any liability or obligation to defend, prosecute, or continue any litigation, with regard to the matter or matters requiring such cooperation.

5. PROOF OF LOSS OR DAMAGE

In addition to and after the notices required under Section 3 of these Conditions and Stipulations have been provided the Company, a proof of loss or damage signed and sworn to by each insured claimant shall be furnished to the Company within 90 days after the insured claimant shall ascertain the facts giving rise to the loss or damage. The proof of loss or damage shall describe the defect in, or lien or encumbrance on the title, or other matter insured against by this policy which constitutes the basis of loss or damage and shall state, to the extent possible, the basis of calculating the amount of the loss or damage. If the Company is prejudiced by the failure of an insured claimant to provide the required proof of loss or damage, the Company's obligations to such insured under the policy shall terminate, including any liability or obligation to defend, prosecute, or continue any litigation, with regard to the matter or matters requiring such proof of loss or damage.

In addition, an insured claimant may reasonably be required to submit to examination under oath by any authorized representative of the Company and shall produce for examination, inspection and copying, at such reasonable times and places as may be designated by any authorized representative of the Company, all records, books, ledgers, checks, correspondence and memoranda, whether bearing a date before or after Date of Policy, which reasonably pertain to the loss or damage. Further, if requested by any authorized representative of the Company, the insured claimant shall grant its permission, in writing, for any authorized representative of the Company to examine, inspect and copy all records, books, ledgers, checks, correspondence and memoranda in the custody or control of a third party, which reasonably pertain to the loss or damage. All information designated as confidential by an insured claimant provided to the Company pursuant to this Section shall not be disclosed to others unless, in the reasonable judgment of the Company, it is necessary in the administration of the claim. Failure of an insured claimant to submit for examination under oath, produce other reasonably requested information or grant permission to secure reasonably necessary information from third parties as required in this paragraph, unless prohibited by law or governmental regulation, shall terminate any liability of the Company under this policy as to that insured for that claim.

6. OPTIONS TO PAY OR OTHERWISE SETTLE CLAIMS: TERMINATION OF LIABILITY

In case of a claim under this policy, the Company shall have the following additional options:

(a) To Pay or Tender Payment of the Amount of Insurance or to Purchase the Indebtedness.

(i) to pay or tender payment of the amount of insurance under this policy together with any costs, attorneys' fees and expenses incurred by the insured claimant, which were authorized by the Company, up to the time of payment or tender of payment and which the Company is obligated to pay; or

(ii) in case loss or damage is claimed under this policy by the owner of the indebtedness secured by the insured mortgage, to purchase the indebtedness secured by the insured mortgage for the amount owing thereon together with any costs, attorneys' fees and expenses incurred by the insured claimant which were authorized by the Company up to the time of purchase and which the Company is obligated to pay.

If the Company offers to purchase the indebtedness as herein provided, the owner of the indebtedness shall transfer, assign, and convey the indebtedness and the insured mortgage, together with any collateral security, to the Company upon payment therefor.

Upon the exercise by the Company of the option provided for in paragraph (i), all liability and obligations to the insured under this policy, other than to make the payment required in that paragraph, shall terminate, including any liability or obligation to defend, prosecute, or continue any litigation, and the policy shall be surrendered to the Company for cancellation.

Upon the exercise by the Company of the option provided for in paragraph (ii) the Company's obligation to an insured Lender under this policy for the claimed loss or damage, other than the payment required to be made, shall terminate, including any liability or obligation to defend, prosecute or continue any litigation.

(b) To Pay or Otherwise Settle With Parties Other than the Insured or With the Insured Claimant.

(i) to pay or otherwise settle with other parties for or in the name of an insured claimant any claim insured against under this policy, together with any costs, attorneys' fees and expenses incurred by the insured claimant which were authorized by the Company up to the time of payment and which the Company is obligated to pay; or

(ii) to pay or otherwise settle with the insured claimant the loss or damage provided for under this policy, together with any costs, attorneys' fees and expenses incurred by the insured claimant which were authorized by the Company up to the time of payment and which the Company is obligated to pay.

Upon the exercise by the Company of either of the options provided for in paragraphs b(i) or b(ii), the Company's obligations to the insured under this policy for the claimed loss or damage, other than the payments required to be made, shall terminate, including any liability or obligation to defend, prosecute or continue any litigation.

7. DETERMINATION AND EXTENT OF LIABILITY

This policy is a contract of indemnity against actual monetary loss or damage sustained or incurred by the insured claimant who has suffered loss or damage by reason of matters insured against by this policy and only to the extent herein described.

(a) The liability of the Company under this policy to an insured lender shall not exceed the least of:

(i) the Amount of Insurance stated in Schedule A, or, if applicable, the amount of insurance as defined in Section 2(c) of these Conditions and Stipulations;

(ii) the amount of the unpaid principal indebtedness secured by the insured mortgage as limited or provided under Section 8 of these Conditions and Stipulations or as reduced under Section 9 of these Conditions and Stipulations, at the time loss or damage insured against by this policy occurs, together with interest thereon; or

(iii) the difference between the value of the insured estate or interest as insured and the value of the insured estate or interest subject to the defect, lien or encumbrance insured against by this policy.

(b) In the event the insured lender has acquired the estate or interest in the manner described in Section 2(a) of these Conditions and Stipulations or has conveyed the title, then the liability of the Company shall continue as set forth in Section 7(a) of these Conditions and Stipulations.

(c) The liability of the Company under this policy to an insured owner of the estate or interest in the land described in Schedule A shall not exceed the least of:

(i) the Amount of the Insurance stated in Schedule A; or,

(ii) the difference between the value of the insured estate or interest as insured and the value of the insured estate or interest subject to the defect, lien or encumbrance insured against by this policy.

(d) The Company will pay only those costs, attorneys' fees and expenses incurred in accordance with Section 4 of these Conditions and Stipulations.

8. LIMITATION OF LIABILITY

(a) If the Company establishes the title, or removes the alleged defect, lien or encumbrance, or cures the lack of a right of access to or from the land, or cures the claim of unmarketability of title, or otherwise establishes the lien of the insured mortgage, all as insured, in a reasonably diligent manner by any method, including litigation and the completion of any appeals therefrom, it shall have fully performed its obligations with respect to that matter and shall not be liable for any loss or damage caused thereby.

(b) In the event of any litigation, including litigation by the Company or with the Company's consent, the Company shall have no liability for loss or damage until there has been a final determination by a court of competent jurisdiction, and disposition of all appeals therefrom, adverse to the title, or, if applicable, to the lien of the insured mortgage, as insured.

(c) The Company shall not be liable for loss or damage to any insured for liability voluntarily assumed by the insured in settling any claim or suit without the prior written consent of the Company.

(d) The Company shall not be liable to an insured lender for: (i) any indebtedness created subsequent to Date of Policy except for advances made to protect the lien of the insured mortgage and secured thereby and reasonable amounts expended to prevent deterioration of improvements; or (ii) construction loan advances made subsequent to Date of Policy, except construction loan advances made subsequent to Date of Policy for the purpose of financing in whole or in part the construction of an improvement to the land which at Date of Policy were secured by the insured mortgage and which the insured was and continued to be obligated to advance at and after Date of Policy.

9. REDUCTION OF INSURANCE; REDUCTION OR TERMINATION OF LIABILITY

(a) All payments under this policy, except payments made for costs, attorneys' fees and expenses, shall reduce the amount of insurance pro tanto. However, as to an insured lender, any payments made prior to the acquisition of title to the estate or interest as provided in Section 2(a) of these Conditions and Stipulations shall not reduce pro tanto the amount of insurance afforded under this policy as to any such insured, except to the extent that the payments reduce the amount of the indebtedness secured by the insured mortgage.

(b) Payment in part by any person of the principal of the indebtedness, or any other obligation secured by the insured mortgage, or any voluntary partial satisfaction or release of the insured mortgage, to the extent of the payment, satisfaction or release, shall reduce the amount of insurance pro tanto. The amount of insurance may thereafter be increased by accruing interest and advances made to protect the lien of the insured mortgage and secured thereby, with interest thereon, provided in no event shall the amount of insurance be greater than the Amount of Insurance stated in Schedule A.

(c) Payment in full by any person or the voluntary satisfaction or release of the insured mortgage shall terminate all liability of the Company to an insured lender except as provided in Section 2(a) of these Conditions and Stipulations.

10. LIABILITY NONCUMULATIVE

It is expressly understood that the amount of insurance under this policy shall be reduced by any amount the Company may pay under any policy insuring a mortgage to which exception is taken in Schedule B or to which the insured has agreed, assumed, or taken subject, or which is hereafter executed by an insured and which is a charge or lien on the estate or interest described or referred to in Schedule A, and the amount so paid shall be deemed a payment under this policy to the insured owner.

The provisions of this Section shall not apply to an insured lender, unless such insured acquires title to said estate or interest in satisfaction of the indebtedness secured by an insured mortgage.

11. PAYMENT OF LOSS

(a) No payment shall be made without producing this policy for endorsement of the payment unless the policy has been lost or destroyed, in which case proof of loss or destruction shall be furnished to the satisfaction of the Company.

(b) When liability and the extent of loss or damage has been definitely fixed in accordance with these Conditions and Stipulations, the loss or damage shall be payable within 30 days thereafter.



Fidelity National Title Company
OF CALIFORNIA

3425 Coffee Road, Suite C • Modesto, CA 95355
(209) 529-0231 • FAX (209) 572-2805

Mark Blake
C/O Brown & Wood LLP
555 California Street 50th Floor
San Francisco, CA 94104

DATE: April 16, 1998
ESCROW NO:
PROPERTY ADDRESS:
, Modesto, California

Enclosed please find the following:

Reinsurance agreement to attach to your title policy

Sincerely,

Mike Grgich

enclosure(s)

**AMERICAN LAND TITLE ASSOCIATION
FACULTATIVE REINSURANCE AGREEMENT (9-24-94)**

These facultative reinsurance provisions, including Schedule I, constitute the Facultative Reinsurance Agreement entered into by and between Ceder and each Reinsurer shown in Schedule I.

PROVISIONS

WHEREAS, Ceder has assumed or is about to assume a title insurance risk pursuant to its policy or policies shown in Schedule I, herein called the Policy; and

WHEREAS, Ceder desires to retain, unceded, a Primary Loss Risk under the Policy and to cede and reinsure all or part of the excess Loss Risk in the amounts and proportionate shares shown in Schedule I; and

WHEREAS, Ceder and Reinsurer desire to arrange for the allocation of protection to the party entitled to the protection of the Policy, herein called the Insured; and

WHEREAS, Reinsurer desires to assume its share of Secondary Loss Risk shown in Schedule I.

NOW, THEREFORE, it is mutually agreed between Ceder and each Reinsurer as follows:

1. CEDER'S CESSION AND WARRANTY

Ceder, to induce Reinsurer to accept the offer of reinsurance, represents and warrants that Ceder has made disclosure of (a) the Policy being reinsured, and (b) any extrahazardous risk of which Ceder has actual knowledge. Ceder shall immediately upon issuance of the Policy forward a conformed copy to Reinsurer and pay its premium for reinsurance.

Ceder cedes to Reinsurer the Reinsurer's coordinate and proportionate share of the Secondary Loss Risk shown in Schedule I and Ceder shall retain without reinsurance hereunder the entire amount of the Primary Loss Risk shown in Schedule I, and the unceded portion, if any, of the Secondary Loss Risk

2. REINSURER'S ASSUMPTION

Reinsurer assumes its coordinate and proportionate share of Secondary Loss Risk shown in Schedule I and not the coordinate and proportionate share, if any, of Ceder or of any other Reinsurer.

The liability of Reinsurer shall begin simultaneously with that of Ceder under the Policy, without notice of the issuance of its Policy or payment of the reinsurance premium.

The liability of Reinsurer and any loss payable by Reinsurer under this Agreement shall be limited to expressed contractual liability of Ceder under the Policy, not including punitive or exemplary damages, and does not include any other contractual or any noncontractual liability of Ceder.

3. DIRECT ACCESS

Provided Insured shall give to Reinsurer notice of any claim under the Policy within a reasonable time after notice of the claim is given to or received by Ceder and is pursuing its remedies under the Policy against Ceder, unless prevented by law or regulation, then in the event that under the terms of the Policy Insured has sustained loss or losses which, in the aggregate, exceeds Ceder's Primary Loss Risk, the liability of Reinsurer under this Agreement shall be extended to and in favor of Insured. Failure to so notify as provided in this paragraph shall not defeat the rights of the Insured hereunder unless Reinsurer shall establish that it was actually prejudiced by the failure, and then only to the extent of the prejudice. Thereafter, if Insured requests payment of Reinsurer's liability under this Agreement directly to Insured, then this Agreement may be enforced by Insured directly against Reinsurer to the extent of Reinsurer's liability to Ceder hereunder, without diminution, defense, setoff or counterclaim which Reinsurer may have against Ceder. Any defense to liability which Ceder has against Insured shall inure to Reinsurer. Reinsurer agrees that Insured shall have the right to commence a legal action to enforce this Agreement against it in the state in which the land is located or in any state where Reinsurer is qualified to do business, provided that when any service of process is made in any action, a copy is sent by Registered or Certified Mail to Reinsurer at its address set forth in Schedule I.

4. NOTICES, INVESTIGATION AND SETTLEMENT OF CLAIMS

Ceder shall have full charge of the investigation, negotiation, litigation and settlement of all claims under the Policy. Upon receipt of notice from Insured of a claim under the Policy or upon learning of a potential claim thereunder, Ceder shall notify Reinsurer of the claim or potential claim. Ceder shall notify Reinsurer of any proposed substantial payments or settlement of such claim and shall give Reinsurer reasonable opportunity to investigate the claim at its own expense. Failure to so notify as provided in this paragraph shall not defeat the rights of Ceder hereunder unless Reinsurer shall be actually prejudiced by the failure, and then only to the extent of the prejudice.

Reinsurer shall have the right, but shall not be obligated, to join in any action brought by or against Ceder under the Policy. Reinsurer shall have the right, through such representatives as it may designate, to inspect and copy, at any reasonable time at the office of Ceder, any and all searches, abstracts, certificates, correspondence, attorneys' opinions, intra-company communications and other documents and records relating to the Policy. This right is and shall continue to be a right in rem and shall follow and attach to said documents and records regardless of changes in ownership or possession.

Unless Insured has given Reinsurer notice that Insured intends to enforce this Agreement directly against Reinsurer and requests payment of Reinsurer's liability under this Agreement directly to Insured, as provided in Section 3 of this Agreement, Reinsurer shall pay the amount of its liability determined hereunder to Ceder within fifteen days after notice and demand by Ceder. Each payment by Reinsurer to Ceder shall satisfy pro tanto the amount of Reinsurer's liability hereunder to Insured and Ceder. The payment shall be received by Ceder, if not by way of reimbursement, in trust to be paid to or for the account of Insured, together with all other amounts similarly applicable, in satisfaction of Ceder's liability under the Policy.

If Insured shall give notice to Reinsurer that Insured intends to enforce this Agreement directly against Reinsurer and requests payment of Reinsurer's liability under this Agreement directly to Insured, as provided in Section 3 of this Agreement,

SCHEDULE I

1. The parties hereto are (a) FIDELITY NATIONAL TITLE INSURANCE COMPANY, a corporation of the State of California, formerly an Arizona corporation, having its principal office in Irvine, California as Ceder, and (b) Each Reinsurer named in 3(b) herein.

2. Ceder's Policy, identified herein and reinsured hereby, assumes a title insurance risk in the aggregate amount of \$61,430,000 (SIXTY ONE MILLION FOUR HUNDRED THIRTY THOUSAND DOLLARS).

The land described in the Policy is located in: STANISLAUS COUNTY, CALIFORNIA

<u>POLICY NO.</u>	<u>INSURED</u>	<u>TYPE OF POLICY</u>	<u>POLICY AMOUNT</u>
27-01-90 254920	CITY OF MODESTO AND HARRIS TRUST COMPANY OF CALIFORNIA, AS TRUSTEE	OWNERS	\$61,430,000

3. The distribution of the title insurance risk is:

	<u>PRIMARY LOSS RISK</u>		<u>SECONDARY LOSS RISK</u>	
			<u>Amount</u>	<u>Share</u>
(a)	RETAINED BY CEDER \$5,000,000	and	\$37,000,000	.6557
(b)	CEDED TO, REINSURED WITH, AND ASSUMED BY:			

<u>Reinsurer</u>	<u>State of Incorporation</u>	<u>Amount</u>	<u>Share</u>
FIDELITY NATIONAL TITLE INSURANCE COMPANY OF NEW YORK	NEW YORK	\$19,430,000	.3443

4. This Schedule I is part of and incorporated by reference the provisions of the American Land Title Association Facultative Reinsurance Agreement (9-24-94).

IN WITNESS WHEREOF, the undersigned each has caused this Agreement to be executed as of the date set forth below:

CEDER

FIDELITY NATIONAL TITLE INSURANCE
COMPANY
17911 VON KARMAN AVENUE, SUITE 300
IRVINE, CALIFORNIA 92614

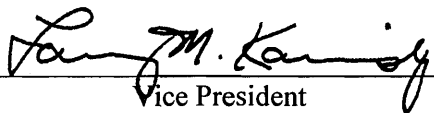
By: 
Vice President

Date of Execution: April 14, 1998

Reinsurance File No. 2485-98C-27

REINSURER

FIDELITY NATIONAL TITLE INSURANCE
COMPANY OF NEW YORK
17911 VON KARMAN AVENUE, SUITE 300
IRVINE, CALIFORNIA 92614

By: 
Vice President

Date of Execution: April 14, 1998

Reinsurance File No. 2485-98A-26

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007


CERTIFICATE OF RISK MANAGER

I have read and am familiar with provisions of Article V of the Facility Lease, dated as of April 1, 2007 (the "Facility Lease") by and between the Modesto Public Financing Authority and the City of Modesto. I have also reviewed and am familiar with the policies of insurance or certificates evidencing such insurance obtained by the City, as the lessee named in the Facility Lease, as required by Article V of the Facility Lease. In my opinion, such insurance policies satisfies the requirements of Article V of the Facility Lease, are actuarially sound and afford reasonable coverage for the risks required to be insured against. The insurance in the amounts and covering the risks required by Article V of the Facility Lease is now in effect.

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Dated: April 18, 2007

CITY OF MODESTO

By: 
Mary Akin
Risk Manager

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CLOSING CERTIFICATE OF THE REDEVELOPMENT AGENCY

The undersigned, Jim Ridenour, Chairperson of the Redevelopment Agency of the City of Modesto (the "Redevelopment Agency") and Jean Morris, Secretary of the Redevelopment Agency, hereby certify as follows:

1. they are now, and at all times since April 1, 2007 have been, duly qualified Chairperson and Secretary of the Redevelopment Agency.

2. the Redevelopment Agency is a public body, corporate and politic, duly organized and existing under the laws of the State of California;

3. by all necessary official action of the Redevelopment Agency, the Redevelopment Agency duly authorized and approved the execution and delivery of the Site Lease (Parking Garage), dated as of March 1, 1998 (the "Parking Garage Site Lease") by and between the Redevelopment Agency and the Modesto Public Financing Agency and the performance by the Redevelopment Agency of the obligations on its parts contained therein;

4. compliance with the provisions on the Redevelopment Agency's part contained in the Parking Garage Site Lease do not in any material respect conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Redevelopment Agency is a party or is otherwise subject, nor does any compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the Redevelopment Agency under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided in the Parking Garage Site Lease;

5. the Redevelopment Agency is not in any material respect in breach of or default under any applicable law or administrative regulation of the State or the United States of America or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Redevelopment Agency is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute a default or an event of default under any such instrument;

6. there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body pending or, to the best knowledge of the Redevelopment Agency, threatened against the Redevelopment Agency in any material respect affecting the existence of the Redevelopment Agency or the titles of its officers to their respective offices or in any way contesting or affecting the validity or enforceability of

the Parking Garage Site Lease or contesting the powers of the Redevelopment Agency or its Redevelopment Agency to perform its obligations under the Parking Garage Site Lease, or which would have a material adverse effect on the Redevelopment Agency's ability to perform its obligations under the Parking Garage Site Lease;

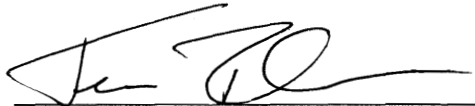
7. the Parking Garage Site Lease constitutes a valid and legally binding obligation of the Redevelopment Agency enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought; and

8. the resolution of the Redevelopment Agency, Resolution No. 2-98, adopted on February 10, 1998, at a meeting of the Board of Directors of the Redevelopment Agency duly called, noticed and conducted, at which a quorum was present and acting throughout, a certified copy of which is attached as Exhibit A hereto, authorizing the execution, delivery and due performance of the Parking Garage Site Lease, is in full force and effect at the date hereof and has not been amended, modified or supplemented.

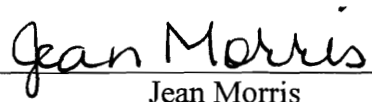
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Dated: April 18, 2007

REDEVELOPMENT AGENCY OF THE CITY OF
MODESTO

By: 

Jim Ridenour
Chair

By: 

Jean Morris
Secretary

EXHIBIT A

CERTIFICATE REGARDING REDEVELOPMENT AGENCY RESOLUTION

I, Jean Morris, hereby certify that I am the Secretary of the Board of Directors of the Redevelopment Agency of the City of Modesto (the "Redevelopment Agency"), a public body, corporate and politic, duly organized and existing under the laws of the State of California, and that as such I am authorized to execute this Certificate on behalf of the Redevelopment Agency.

I hereby further certify that the attached resolution is a full, true and correct copy of Resolution No. 2-98, adopted at the regular meeting of the Board of Directors of the Redevelopment Agency held on February 10, 1998, of which meeting all of the members of the Commission had due notice and at which a quorum was present and acting throughout.

I hereby further certify that I have carefully compared the same with the original resolution so adopted at said meeting and that it is a full, true and correct copy of said resolution; and that said resolution has not been amended, modified or rescinded since the date of adoption and is now in full force and effect.

Dated: April 18, 2007

REDEVELOPMENT AGENCY OF THE CITY OF
MODESTO

By:



Jean Morris
Secretary

MODESTO REDEVELOPMENT AGENCY
RESOLUTION NO. 2-98

A RESOLUTION OF THE REDEVELOPMENT AGENCY OF
THE CITY OF MODESTO AUTHORIZING THE EXECUTION
AND DELIVERY OF A SITE LEASE, A REIMBURSEMENT
AGREEMENT AND AUTHORIZING AND APPROVING SUCH
OTHER DOCUMENTS AND THE TAKING OF ALL
NECESSARY ACTION IN CONNECTION THEREWITH

WHEREAS, the Redevelopment Agency of the City of Modesto (the "Agency") is a redevelopment agency, a public body, corporate and politic duly created, established and authorized to transact business and exercise its powers, all under and pursuant to the Community Redevelopment Law (Part 1 of Division 24 of the Health and Safety Code of the State of California, the "Law"); and

WHEREAS, the Agency has the general purpose of redevelopment and the elimination of blight and the provision of public facilities as set forth in the Redevelopment Plan; and

WHEREAS, the City of Modesto (the "City"), the County of Stanislaus (the "County") and the City-County Capital Improvements and Financing Agency (the "Financing Agency"), in conjunction with the Agency, have determined to undertake a mixed-use development, including, among other uses, the construction and acquisition of the improvements for retail and office uses, a public parking garage, a City-County administration building, more commonly known as the 10th Street Place Project (the "10th Street Place Project") to be located in the Downtown Redevelopment Project Area (the "Project Area"), together with other public capital improvements, including the rehabilitation of a Communications Dispatch Center and the acquisition and construction of a Police Headquarters Building (collectively, the "Project"); and

WHEREAS, in order to implement the 10th Street Place Project, the City, the County, the Redevelopment Agency and the Agency have entered into, among other documents, a Master Agreement (the "Master Agreement"), dated July 22, 1997, which agreement sets forth responsibilities of the parties with respect to the development of the 10th Street Place Project; and

WHEREAS, in furtherance of the Project, the Financing Agency has agreed to undertake on behalf of the Agency the acquisition, construction and equipping of a component of the Project consisting of a Public Parking Garage and certain other related capital improvements (the "Agency Improvements"); and

WHEREAS, pursuant to Health and Safety Code Section 33445 of the Law, the Agency is authorized, as provided in its redevelopment plan, to assist in the installation and construction of public improvements within the Project Area; and

WHEREAS, Section 33445 of the Law provides, in part, that notwithstanding Section 33440 of the Law, an agency may, with the consent of the legislative body, pay all or part of the value of the land for and the cost of the installation and construction of any building, facility, structure, or other improvement which is publicly owned either within or without the project area, if the legislative body determines that the improvements are of benefit to the project area, no other reasonable means of financing the improvements are available to the community and the payment of funds by the agency will eliminate one or more of the blighting conditions within the project area; and

WHEREAS, on July 27, 1997 the Agency held a public hearing and pursuant to Resolution No. 23-97 made, with the consent of the City Council of the City, the findings required by Section 33445 of the Law; and

WHEREAS, the Agency has determined to direct the execution of a Site Lease (as hereinafter defined) pursuant to which the Agency will lease certain real property to the Modesto Public Financing Authority (the "Authority"), a joint exercise of powers authority duly organized and existing under a Joint Exercise of Powers Agreement, dated as of December 1, 1989, between the City and the Industrial Development Authority of the City of Modesto, and the Authority will in turn lease the Site, together with the improvements to be constructed or installed thereon, to the City to the City; and

WHEREAS, in consideration of the delivery of the Site Lease, the Authority will provide for the financing of the Project, together with the refunding of certain obligations of the City, through the issuance of its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "Bonds"); and

WHEREAS, the Agency desires to support the construction and provision of the Agency Improvements (as further described in Exhibit A to the Reimbursement Agreement as described below), such improvements to be initially paid from the proceeds of the Bonds; and

WHEREAS, the Agency has had presented to it and has considered the following:

(1) A form of Site Lease (the "Site Lease"), by and between the Agency and the Authority pursuant to which the Agency will lease certain real property to the Authority; and

(2) A form of Reimbursement Agreement (the "Reimbursement Agreement"), by and between the Agency and the City, pursuant

to which the Agency will agree to reimburse the City for the costs of the Agency Improvements.

WHEREAS, all acts, conditions and things required by the Law, and by all other laws of the State of California, to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of said documents exist, have happened, and have been performed in regular and due time, form and manner as required by law, and the Agency is now duly authorized and empowered, pursuant to each and every requirement of law, in the manner and upon the terms herein provided;

NOW, THEREFORE, BE IT RESOLVED, by the Redevelopment Agency as follows:

SECTION 1. Declaration of Board. This Board hereby specifically finds and declares that the actions authorized hereby constitute and are public affairs of the Agency and that the statements, findings and determinations of the Board set forth in the preambles above and in the documents approved herein are true and correct.

SECTION 2. Approval of Site Lease. The Site Lease, substantially in the form submitted to this meeting, is hereby approved, and the Chairperson, Executive Director, or the Secretary of the Agency (collectively, the "Authorized Officers"), are hereby authorized and directed to execute and deliver, for and in the name of and on behalf of the Agency, the Site Lease with such additions, changes and corrections as said officers may approve upon consultation with Agency Counsel and Brown & Wood LLP, as Bond Counsel to the Agency ("Bond Counsel"), such approval to be conclusively evidenced by the execution and delivery of the Site Lease.

SECTION 3. Reimbursement Agreement. The proposed form of Reimbursement Agreement on file with the Secretary of the Agency, is hereby approved. Any of the Authorized Officers are hereby directed to execute and deliver the Reimbursement Agreement in substantially said form, with such additions thereto or changes therein as such officers may require, recommend or approve upon consultation with Agency Counsel and Bond Counsel to the Agency, such approval to be conclusively evidenced by the execution and delivery thereof.

SECTION 4. Other Actions. The Chairperson, Executive Director, Secretary and the other officers of the Agency are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate the execution and delivery of the Reimbursement Agreement and the Site Lease. Such actions previously taken by such officers are hereby ratified, confirmed and approved.

SECTION 5. Effect. This Resolution shall take effect immediately upon its passage.

The foregoing resolution was introduced at a special meeting of the Redevelopment Agency of the City of Modesto held on the 10th day of February, 1998, by Agency Member Smith, who moved its adoption, which motion being duly seconded by Agency Member Friedman, was upon roll call carried and the resolution adopted by the following vote:

AYES: Agency Members: Conrad, Fisher, Friedman,
Smith, Chairperson Lang
NOES: Agency Members: Serpa
ABSENT: Agency members: Dobbs

ATTEST: Jean Adams
JEAN ADAMS, Secretary

(SEAL)

APPROVED AS TO FORM:

By: Michael D. Milich
MICHAEL D. MILICH, General Counsel

This document is a correct copy of the original on file in this office which has not been revised and is now in full force and effect.
ATTEST:
Jean Adams
JEAN ADAMS, Secretary of the Redevelopment Agency of the City of Modesto, Stanislaus County of Stanislaus, State of California.



MINUTES

MODESTO REDEVELOPMENT AGENCY

City Council Chambers, City Hall
801 11th Street
Modesto, California

MINUTES
SPECIAL REDEVELOPMENT AGENCY MEETING
TUESDAY, FEBRUARY 10, 1998, AT 4:00 P.M.

Roll Call - Present: Agency Members Conrad, Fisher, Friedman, Serpa, Smith,
Chairperson Lang

Absent: Agency Member Dobbs

CONSENT ITEMS - ROLL CALL VOTE REQUIRED: Items A

ACTION: (Friedman/Fisher, unan.; Dobbs, absent)

MINUTES

CONSENT

A. Approval of the minutes of the special Redevelopment Agency meeting of
January 6, 1998
(Motion approving needed.)

ACTION: By motion (Friedman/Fisher, unan.; Dobbs, absent) minutes
approved.

(Clerk to handle)

ORAL COMMUNICATIONS

B. Steve Burke spoke regarding downtown rejuvenation.

NEW BUSINESS

C. Consider 10th Street Place Bond Financing.
(Resolution authorizing the execution and delivery of a site lease, a
reimbursement agreement and authorizing and approving related documents
and action in connection therewith needed.)

ACTION: Res. 2-98 adopted (Smith/Friedman, majority; Serpa, no; Dobbs,
absent) authorizing the execution and delivery of a site lease, a
reimbursement agreement and authorizing and approving related
documents and action in connection therewith.

(CDD to handle)

D. Consider Amendment to 10th Street Place Staging Agreement.
(Resolution approving a change to the 10th Street Place Staging
Agreement and authorizing the Executive Director to execute the
Amendment to the Agreement needed.)

ACTION: Res. 3-98 adopted (Friedman/Lang, unan.; Dobbs, absent) approving
a change to the 10th Street Place Staging Agreement and
authorizing the Executive Director to execute the Amendment to the
Agreement.

(CDD to handle)

E. Consider authorizing Executive Director to execute an amendment to the
Master Agreement between the County of Stanislaus, the Modesto
Redevelopment Agency, the City of Modesto, and the City/County Capital
Improvements and Financing Joint Powers Agency to eliminate the service
parcel within the JPA site and to approve a lot line adjustment.
(Resolution authorizing execution of amendment to agreement needed.)

ACTION: Res. 4-98 adopted (Friedman/Smith, unan.; Dobbs, absent)
authorizing execution of amendment to agreement.

(CDD to handle)

F. MATTERS TOO LATE FOR THE AGENDA

None.

CLOSED SESSION

G. The meeting will adjourn to the Chairperson's chambers for a Closed
Session to consider the following:

CONFERENCE WITH LEGAL COUNSEL - ANTICIPATED LITIGATION

Significant exposure to litigation pursuant to subdivision (b) of
Section 54956.9 of the Government Code: One case.

A significant exposure to litigation against the Modesto redevelopment
Agency exists based on the following facts and circumstances: There is

a dispute with the Lessee of the real property located at 1002 9th Street over the amount of relocation benefits that the RDA is obligated to pay under State law.

CONFERENCE WITH LEGAL COUNSEL - EXISTING LITIGATION

Name of cases: Redevelopment Agency of the City of Modesto vs. Matthew Ward, et al., Stanislaus County Superior Court Case No. 148362.

ADJOURNMENT

Meeting adjourned to Closed Session at 7:06 p.m. Counsel returned at 7:35 p.m. to report no action had been taken.

ATTEST: Jean Adams
JEAN ADAMS, Agency Secretary

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CLOSING CERTIFICATE OF THE FINANCING AGENCY

The undersigned, Jim Ridenour, Vice-Chair of the City-County Improvements and Financing Agency (the "Financing Agency") and Christine Ferraro Tallman, Secretary of the Financing Agency, hereby certify as follows:

1. they are now, and at all times since April 10, 2007 have been, duly qualified President and Secretary of the Financing Agency.

2. the Financing Agency is a joint exercise of powers Financing Agency, duly organized and existing under laws of the State of California;

3. by all necessary official action of the Financing Agency, the Financing Agency duly authorized and approved the execution and delivery of the Facilities Lease (City-County Administration Building), dated as of March 1, 1998 (the "Administration Building Lease") by and between the Financing Agency and the Modesto Public Financing Authority and the performance by the Financing Agency of the obligations on its parts contained therein;

4. compliance with the provisions on the Financing Agency's part contained in the Administration Building Lease, does not in any material respect conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Financing Agency is a party or is otherwise subject, nor does any compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the Financing Agency under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided in the Administration Building Lease;

5. the Financing Agency is not in any material respect in breach of or default under any applicable law or administrative regulation of the State or the United States of America or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Financing Agency is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute a default or an event of default under any such instrument;

6. there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body pending or, to the best knowledge of the Financing Agency, threatened against the Financing Agency in any material respect affecting the existence of the Financing Agency or the titles of its officers to their respective offices or in any way contesting or affecting the validity or enforceability of the Administration Building Lease or contesting the powers of the Financing Agency or its

Financing Agency to enter into, adopt or perform its obligations under the Administration Building Lease, or which would have a material adverse effect on the Financing Agency's ability to perform its obligations under the Administration Building Lease;


7. the Administration Building Lease constitutes a valid and legally binding obligation of the Financing Agency enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought; and

8. the resolution of the Financing Agency, Resolution No. 98-1, adopted on February 10, 1998, at a meeting of the Commission of the Financing Agency duly called, noticed and conducted, at which a quorum was present and acting throughout, a certified copy of which is attached as Exhibit A hereto, authorizing the execution, delivery and due performance of the Administration Building Lease, is in full force and effect at the date hereof and has not been amended, modified or supplemented.

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Dated: April 18, 2007

CITY-COUNTY IMPROVEMENTS AND
FINANCING AGENCY

By: 

Jim Ridenour
Vice-Chair

By: 

Christine Ferraro Tallman
Secretary

EXHIBIT A

CERTIFICATE REGARDING FINANCING AGENCY RESOLUTION

I, Christine Ferraro Tallman, hereby certify that I am the Secretary of the Commission of the City-County Improvements and Financing Agency (the "Financing Agency"), a joint exercise of powers authority organized under the laws of the State of California, and that as such I am authorized to execute this Certificate on behalf of the Financing Agency.

I hereby further certify that the attached resolution is a full, true and correct copy of Resolution No. 98-1, adopted at the regular meeting of the Commission of the Financing Agency held on February 10, 1998, of which meeting all of the members of the Commission had due notice and at which a quorum was present and acting throughout.

I hereby further certify that I have carefully compared the same with the original resolution so adopted at said meeting and that it is a full, true and correct copy of said resolution; and that said resolution has not been amended, modified or rescinded since the date of adoption and is now in full force and effect.

Dated: April 18, 2007

CITY-COUNTY IMPROVEMENTS AND
FINANCING AGENCY

By: Christine Ferraro Tallman
Christine Ferraro Tallman
Secretary

CITY-COUNTY CAPITAL IMPROVEMENTS
AND FINANCING AGENCY

Resolution No. 98-1

A RESOLUTION OF THE CITY-COUNTY CAPITAL IMPROVEMENTS AND FINANCING AGENCY AUTHORIZING THE EXECUTION AND DELIVERY OF A FACILITIES LEASE (CITY-COUNTY BUILDING) AND AUTHORIZING AND APPROVING SUCH OTHER DOCUMENTS AND THE TAKING OF ALL NECESSARY ACTION IN CONNECTION THEREWITH

RESOLVED, by the Commission of the City-County Capital Improvements and Financing Agency:

WHEREAS, the City-County Capital Improvements and Financing Agency (the "Agency"), a joint exercise of powers agency organized and existing under Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Act") and Joint Exercise of Powers Agreement, dated December 17, 1996 (the "JPA Agreement") by and between the County of Stanislaus (the "County") and the City of Modesto (the "City") with the power to lease and/or purchase real property; and

WHEREAS, the City, the County and the Redevelopment Agency of the City of Modesto (the "Redevelopment Agency"), in conjunction with the Agency, have determined to undertake a mixed-use project, including, among other uses, retail and office uses, a public parking garage, a City-County administration building, more commonly know as the 10th Street Place Project, together with other public capital improvements, including the acquisition and construction of a Police Headquarters Building and the rehabilitation and equipping of the Communication Dispatch Center (collectively, the "Project"); and

WHEREAS, in order to implement the 10th Street Place Project, the City, the County, the Redevelopment Agency and the Agency have entered into, among other documents, a Master Agreement, dated July 22, 1997, which agreement sets forth the responsibilities of the parties with respect to the development of the 10th Street Place Project; and

WHEREAS, the Agency has determined it is in the public interest that the Agency direct the execution of a Facilities Lease (City-County Building) (the "Facilities Lease"), dated as of March 1, 1998, by and between the Agency and Modesto Public Financing Authority (the "Authority"), pursuant to which the Agency will lease the City's interests in and to the City-County Administration Building, together with the City's interest in common areas therein (the

"City Facilities"), to the Authority, and the Authority will in turn lease the City's interest in the City Facilities, to the City pursuant to the terms of a Lease/Purchase Agreement, dated as of March 1, 1998, by and between the City and the Authority; and

WHEREAS, in consideration of the delivery of the Facilities Lease (City-County Building), the Authority has determined to provide for the financing of the Project, together with the refunding of certain obligations of the City, through the issuance of its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project); and

WHEREAS, all acts, conditions and things required by the Law, and by all other laws of the State of California, to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of said documents exist, have happened, and have been performed in regular and due time, form and manner as required by law, and the Agency is now duly authorized and empowered, pursuant to each and every requirement of law, in the manner and upon the terms herein provided;

NOW, THEREFORE, BE IT RESOLVED BY THE MEMBERS OF THE COMMISSION OF THE CITY-COUNTY CAPITAL IMPROVEMENTS AND FINANCING AGENCY AS FOLLOWS:

SECTION 1. Declaration of Commission. This Commission hereby specifically finds and declares that the actions authorized hereby constitute and are public affairs of the Agency and that the statements, findings and determinations of the Commission set forth in the preambles above and in the documents approved herein are true and correct.

SECTION 2. Approval of Facilities Lease (City-County Building). The Facilities Lease (City-County Building), substantially in the form submitted to this meeting, is hereby approved, and the President, Vice President or the Secretary of the Agency (collectively, the "Authorized Officers"), are hereby authorized and directed to execute and deliver, for and in the name of and on behalf of the Agency, the Facilities Lease (City-County Building) with such additions, changes and corrections as said Authorized Officers may approve upon consultation with Agency Counsel and Bond Counsel, such approval to be conclusively evidenced by the execution and delivery of the Facilities Lease (City-County Building).


SECTION 3. Other Actions. The President, Vice President, Secretary and other officers of the Agency are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate the execution and delivery of the Facilities Lease (City-County Building). Such actions previously taken by such officers are hereby ratified, confirmed and approved.

SECTION 4. Effect. This Resolution shall take effect immediately upon its passage.

ADOPTED AND APPROVED THIS 10th day of February 1998 by the following vote:

AYES:	Board Members:	Blom, Friedman, Simon, Tewes, Wilson and President Lang
NOES:	Board Members:	None
ABSENT:	Board Members:	None

CITY-COUNTY CAPITAL
IMPROVEMENTS AND FINANCING
AGENCY



RICHARD LANG, President

ATTEST:



CHRISTINE FERRARO TALLMAN, Clerk

APPROVED AS TO FORM:



MICHAEL D. MILICH, General Counsel

**THE GOVERNING COMMISSION
OF THE CITY/COUNTY JOINT POWERS AGENCY**

Regular Session

Tuesday

February 10, 1998

Board Members Present

Richard Lang

Kenni Friedman

J. Edward Tewes

Nick Blom

Reagan Wilson

Ray Simon

F/B unan. Acknowledged receipt of a letter of 1/26/98 from the Public Art Committee regarding recommendations for art in the 10th Street Place (1-40)

S/F unan. Approved the minutes of 12/9/97 (1-156)

F/S unan. Approved the modification to the 10th Street Place Staging Plan and authorized the Project Manager to execute an amendment to the staging plan (1-168)

S/F unan. Approved the Facilities/Lease Purchase Agreement and the Agency Agreement by and between the City-County Capital Improvements and Financing Agency and the Stanislaus County Capital Improvements Financing Authority and authorized the Project Manager to execute the agreements (1-265)

B/F unan. Approved the Facilities/Lease Purchase Agreement by and between the city-County Capital Improvements and Financing Agency and the Modesto Public Financing Authority and authorized the Project Manager to execute the agreement (1-620)

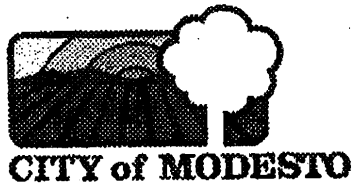
S/B unan. Approved an amendment to the Master Agreement between the City-County Capital Improvements and Financing Agency, the City of Modesto, the Modesto Redevelopment Agency and the County of Stanislaus to eliminate the service parcel and adjust the lot line between the JPA parcel and the RDA parcel and authorized the Project Manager to execute the amendment to the Master Agreement (1-911)

B/W unan. Confirmed the bid opening date of 2/18/98, not later than 2:05 p.m. (1-1032)

Adjourned at 2:08 p.m.

ATTESTED: Christine Ferraro Tallman, Clerk
of the Governing Board of the
Joint Powers Agreement of the
City of Modesto and the County of Stanislaus
State of California

(The above is a summary of the minutes of the Governing Board of the Joint Powers Commission. Complete minutes are available from the Clerk of the Board's office.)



MAR 1 9 1998

**CITY-COUNTY JOINT POWERS AGENCY
1100 H STREET
MODESTO, CA 95354**

I hereby certify that the foregoing is a full,
true and correct copy of the Original entered
in the Minutes of the Joint Powers Agency.

CHRISTINE FERRARO

Clerk of the City of Modesto, County of Stanislaus,
Joint Powers Agency

By Christine Ferraro

MAR 1 9 1998

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CERTIFICATE OF THE TRUSTEE AND 1998 ESCROW AGENT

The undersigned, The Bank of New York Trust Company, N.A., as trustee (the "Trustee") in its capacity as trustee under the Indenture (as hereinafter defined) and in its capacity as escrow agent under the 1998 Escrow Agreement (as hereinafter defined), does hereby certify as follows:

1. This Certificate is being provided in connection with the issuance of the Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds (the "Series 2007 Bonds") by the Modesto Public Financing Authority (the "Authority") pursuant to that certain Indenture, dated as of April 1, 2007 (the "Indenture"), by and between the Authority and the Trustee.

2. The Trustee is a national banking association duly organized and validly existing under the laws of the United States of America.

3. The Trustee has full corporate trust powers and authority to serve as Trustee under the Indenture and to perform its obligations and duties under the Indenture, the Continuing Disclosure Agreement, dated April 18, 2007 (the "Continuing Disclosure Agreement"), by and between the City of Modesto (the "City") and The Bank of New York Trust Company, N.A., as dissemination agent, the Auction Agreement, dated as of April 1, 2007 (the "Auction Agreement"), by and between the Trustee and Deutsche Bank Trust Company Americas, as Auction Agent, and agreed to by the Authority and the Escrow Agreement, dated as of April 1, 2007 (the "1998 Escrow Agreement") by and between the Authority and the Trustee, as escrow agent thereunder

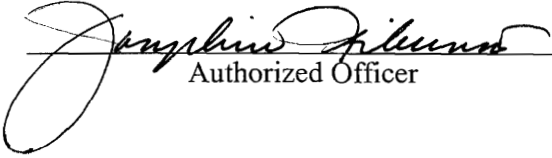
4. The Indenture, the Continuing Disclosure Agreement, 1998 Escrow Agreement and the Auction Agreement have been executed by a duly authorized officer of the Trustee.

5. The Series 2007 Bonds have been duly authenticated by the Trustee.

6. The Trustee's action in serving as trustee under the Indenture and as escrow agent under the 1998 Escrow Agreement are in full compliance with, and do not conflict with, any applicable law or governmental regulation currently in effect, and do not conflict with or violate any contract to which the Trustee is a party or any administrative or judicial decision by which the Trustee is bound.

Dated: April 18, 2007

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

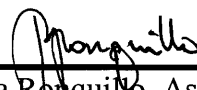
By:  Authorized Officer

THE BANK OF NEW YORK TRUST COMPANY, N. A.
SECRETARY'S CERTIFICATE

I do hereby certify that:

- (i) I am the duly elected Assistant Secretary of The Bank of New York Trust Company, N. A., a national banking association (the "N.A.");
- (ii) Attached hereto as Exhibit "A" is a true, correct copy of Signing Authorities extracts from by-laws of the N.A. adopted by action of the Board of Directors of the N.A. and presently in effect;
- (iii) Attached hereto as Exhibit "B" is a list of the persons who, as of the date hereof, are certain duly elected officers of the N.A., which lists sets forth the title of each such officer next to his or her typed name, with which officers I am personally familiar; and

IN WITNESS WHEREOF, I have hereunto executed this Certificate as Assistant Secretary of the N.A. and affixed the seal of the N.A, this **18th day of April, 2007.**

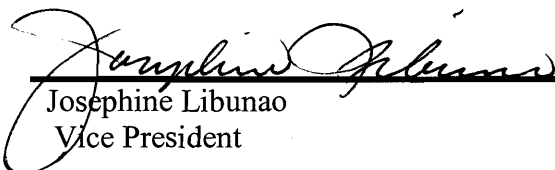


Rosalinda Ronquillo, Assistant Secretary
The Bank of New York Trust Company, N.A.

(Corporate Seal)

I hereby certify that as of the date hereof that Rosalinda Ronquillo is the duly elected Assistant Secretary of The Bank of New York Trust Company, N.A. and that the signature which appears on the foregoing pages is the signature of Rosalinda Ronquillo and that it is a signature with which I am personally familiar and do certify as to its authenticity.

Dated: April 18, 2007



By: Josephine Libunao
Title: Vice President

Extracts from By-Laws
Of
The Bank of New York Trust Company, N.A.
As Amended Through January 20, 2005

ARTICLE V
SIGNING AUTHORITIES

Section 5.1 Real Property. Real property owned by the Association in its own right shall not be deeded, conveyed, mortgaged, assigned or transferred except when duly authorized by a resolution of the Board. The Board may from time-to-time authorize officers to deed, convey, mortgage, assign or transfer real property owned by the Association in its own right with such maximum values as the Board may fix in its authorizing resolution.

Section 5.2. Senior Signing Powers. Subject to the exception provided in Section 5.1, the President and any Executive Vice President is authorized to accept, endorse, execute or sign any document, instrument or paper in the name of, or on behalf of, the Association in all transactions arising out of, or in connection with, the normal course of the Association's business or in any fiduciary, representative or agency capacity and, when required, to affix the seal of the Association thereto. In such instances as in the judgment of the President, or any Executive Vice President may be proper and desirable, any one of said officers may authorize in writing from time-to-time any other officer to have the powers set forth in this section applicable only to the performance or discharge of the duties of such officer within his or her particular division or function. Any officer of the Association authorized in or pursuant to Section 5.3 to have any of the powers set forth therein, other than the officer signing pursuant to this Section 5.2, is authorized to attest to the seal of the Association on any documents requiring such seal.

Section 5.3. Limited Signing Powers. Subject to the exception provided in Section 5.1, in such instances as in the judgment of the President or any Executive Vice President, may be proper and desirable, any one of said officers may authorize in writing from time-to-time any other officer, employee or individual to have the limited signing powers or limited power to affix the seal of the Association to specified classes of documents set forth in a resolution of the Board applicable only to the performance or discharge of the duties of such officer, employee or individual within his or her division or function.

Section 5.4. Powers of Attorney. All powers of attorney on behalf of the Association shall be executed by any officer of the Association jointly with the President, any Executive Vice President, or any Managing Director, provided that the execution by such Managing Director of said Power of Attorney shall be applicable only to the performance or discharge of the duties of said officer within his or her particular division or function. Any such power of attorney may, however, be executed by any officer or officers or person or persons who may be specifically authorized to execute the same by the Board of Directors.

Section 5.5. Auditor. The Auditor or any officer designated by the Auditor is authorized to certify in the name of, or on behalf of the Association, in its own right or in a fiduciary or representative capacity, as to the accuracy and completeness of any account, schedule of assets, or other document, instrument or paper requiring such certification.

SIGNING AUTHORITY RESOLUTION

Pursuant to Article V, Section 5.3 of the By-Laws

RESOLVED that, pursuant to Section 5.3 of the By-Laws of the Association, authority be, and hereby is, granted to the President or any Executive Vice President, in such instances as in the judgment of any one of said officers may be proper and desirable, to authorize in writing from time-to-time any other officer, employee or individual to have the limited signing authority set forth in any one or more of the following paragraphs applicable only to the performance or discharge of the duties of such officer, employee or individual within his or her division or function:

(A) All signing authority set forth in paragraphs (B) through (I) below except Level C which must be specifically designated.

(B1) Individuals authorized to accept, endorse, execute or sign any bill receivable; certification; contract, document or other instrument evidencing, embodying a commitment with respect to, or reflecting the terms or conditions of, a loan or an extension of credit by the Association; note; and document, instrument or paper of any type, including stock and bond powers, required for purchasing, selling, transferring, exchanging or otherwise disposing of or dealing in foreign currency, derivatives or any form of securities, including options and futures thereon; in each case in transactions arising out of, or in connection with, the normal course of the Association's business.

(B2) Individuals authorized to endorse, execute or sign any certification; disclosure notice required by law; document, instrument or paper of any type required for judicial, regulatory or administrative proceedings or filings; and legal opinions.

(C1) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in excess of \$100,000,000 with single authorization for all transactions.

(C2) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in excess of \$100,000,000*.

(C3) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to \$100,000,000.

(C4) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check

certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to \$10,000,000.

(C5) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to \$5,000,000.

(C6) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to \$1,000,000.

(C7) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to \$250,000.

(C8) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to \$50,000.

(C9) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to \$5,000.

*Dual authorization is required by any combination of senior officer and/or Sector Head approved designee for non-exempt transactions.
Single authorization required for exempt transactions.

(D1) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to \$1,000,000.

(D2) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to \$250,000.

(D3) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to \$50,000.

(D4) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to \$5,000.

(E) Authority to accept, endorse, execute or sign any guarantee of signature to assignments of stocks, bonds or other instruments; certification required for transfers and deliveries of stocks, bonds or other instruments; and document,

instrument or paper of any type required in connection with any Individual Retirement Account or Keogh Plan or similar plan.

(F) Authority to accept, endorse, execute or sign any certificate of authentication as bond, unit investment trust or debenture trustee and on behalf of the Association as registrar and transfer agent.

(G) Authority to accept, endorse, execute or sign any bankers acceptance; letter of credit; and bill of lading.

(H) Authority to accept, endorse, execute or sign any document, instrument or paper of any type required in connection with the ownership, management or transfer of real or personal property held by the Association in trust or in connection with any transaction with respect to which the Association is acting in any fiduciary, representative or agency capacity, including the acceptance of such fiduciary, representative or agency account.

(I1) Authority to effect the external movement of free delivery of securities and internal transfers resulting in changes of beneficial ownership.

(I2) Authority to effect the movement of securities versus payment at market or contract value.

(J) Authority to either sign on behalf of the Association or to affix the seal of the Association to any of the following classes of documents: Trust Indentures, Escrow Agreements, Pooling and Servicing Agreements, Collateral Agency Agreements, Custody Agreements, Trustee's Deeds, Executor's Deeds, Personal Representative's Deeds, Other Real Estate Deeds for property not owned by the Association in its own right, Corporate Resolutions, Mortgage Satisfactions, Mortgage Assignments, Trust Agreements, Loan Agreements, Trust and Estate Accountings, Probate Petitions, responsive pleadings in litigated matters and Petitions in Probate Court with respect to Accountings, Contracts for providing customers with Association products or services.

(N) Individuals authorized to accept, endorse, execute or sign internal transactions only, (i.e., general ledger tickets); does not include the authority to authorize external money movements, internal money movements or internal free deliveries that result in changes of beneficial ownership.

RESOLVED, that any signing authority granted pursuant to this resolution may be rescinded by the President or any Executive Vice President and such signing authority shall terminate without the necessity of any further action when the person having such authority leaves the employ of the Association.

THE BANK OF NEW YORK TRUST COMPANY, N.A.

I, the undersigned, Heather A. Sisler, Assistant Secretary of The Bank of New York Trust Company, N.A., a national banking association organized under the laws of the United States (the "Association") and located in the State of California, DO HEREBY CERTIFY that the following individuals are duly appointed and qualified Officers of the Association:

<u>Officer</u>	<u>Title</u>	<u>Signing Authority</u>
Michael K. Klugman	President	X (Senior)
Frank P. Sulzberger	Managing Director	X (Senior)
Maria E. Allison	Vice President	A, C1, J
Eladia Burgos	Vice President	A, C2, J
M. Rose Bystrom	Vice President & Assistant Secretary	A, C1, J
Milly P. Canessa	Vice President	A, C4, J
Teresa R. Fructuoso	Vice President	A, C2, J
Evelyn T. Furukawa	Vice President & Assistant Secretary	A, C1, J
Mark A. Golder	Vice President	A, C2, J
Vicki Herrick	Vice President	A, C4, J
Inga Keldsen	Vice President & Assistant Secretary	A, C1, J
Josephine Libunao	Vice President	A, C2, J
Carol J. Nelson	Vice President & Assistant Secretary	A, C1, J
Jacqueline M. Nowak	Vice President	A, C4, J
Linda G. Ojeda	Vice President & Assistant Secretary	A, C1, J
Sandee' Parks	Vice President	A, C1, J
Teresa Petta	Vice President	A, C2, J
Lisa Stroud	Vice President	A, C2, J
Deborah Young	Vice President	A, C3, J
Melonee Young	Vice President	A, C2, J
Gregory B. Chenail	Assistant Vice President	A, C4, J
Patricia Cronin	Assistant Vice President	A, C4, J
Priscilla R. Dedoro	Assistant Vice President	A, C4, J
Kathleen Gylland	Assistant Vice President	A, C4, J
Mary D. Lee	Assistant Vice President	A, C4, J
Alan Maravilla	Assistant Vice President	A, C4, J
Patrick Matanane	Assistant Vice President	A, C4, J
Marina Meza	Assistant Vice President	A, C4, J
Melinda Murrell	Assistant Vice President	A, C4, J
Agnes Obando	Assistant Vice President	A, C4, J
Aurora Y. Quiazon	Assistant Vice President	A, C4, J
Gloria Ramirez	Assistant Vice President	A, C4, J
Rosalinda Ronquillo	Assistant Vice President & Assistant Secretary	A, C4, J
Perry Tobe	Assistant Vice President	A, C4, J
Johanna K. Tokunaga	Assistant Vice President	A, C4, J
Gonzalo Urey	Assistant Vice President	A, C4, J
Christopher Davy	Assistant Treasurer	A, C4, J
Elizabeth Doomey	Assistant Treasurer	A, C4, J
Christina Garchitorena	Assistant Treasurer	A, C4, J
Rena Kajita	Assistant Treasurer	A, C4, J
Helen B. McNulty	Assistant Treasurer	A, C4, J
Teresa Perea Moreno	Assistant Treasurer	A, C4, J

Gene Romaine
Zenaida Rodriguez
Fe R. Tuzon

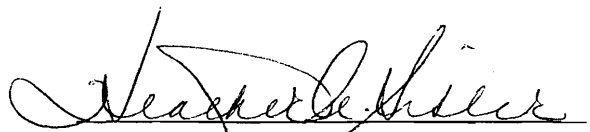
Assistant Treasurer
Assistant Treasurer
Assistant Treasurer

A, C4, J
A, C4, J
A, C4, J

I further certify that as of this date they have been authorized to sign on behalf of the Association in discharging or performing their duties in accordance with the senior and limited signing powers provided under Article V, Sections 5.2 and 5.3 of the By-Laws of the Association and the paragraphs indicated above of the signing authority resolution of the Board of Directors of the Association.

Attached hereto are true and correct copies of excerpts of the By-Laws of the Association and the signing authority resolution, which have not been amended or revised since January 20, 2005 and are in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of The Bank of New York Trust Company, N.A. this 9th day of February, 2007.


Heather A. Sisler, Assistant Secretary

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CERTIFICATE OF THE 1997 ESCROW AGENT

The undersigned, U.S. Bank National Association, as escrow agent (the “1997 Escrow Agent”) under the Escrow Agreement, dated as of April 1, 2007 (the “1997 Escrow Agreement”) by and between the 1997 Escrow Agent and the Modesto Public Financing Authority (the “Authority”), does hereby certify as follows:

1. The 1997 Escrow Agent is a national banking association duly organized and validly existing under the laws of the United States of America.

2. The 1997 Escrow Agent has full corporate trust powers and authority to perform its obligations and duties under the 1997 Escrow Agreement and the 1997 Escrow Agreement has been executed by a duly authorized officer of the 1997 Escrow Agent.

3. To the best knowledge of the 1997 Escrow Agent, the 1997 Escrow Agent’s action in serving as the escrow agent under the 1997 Escrow Agreement is in full compliance with, and does not conflict with, any applicable law or governmental regulation currently in effect, and does not conflict with or violate any contract to which the respective Escrow Agent is a party or any administrative or judicial decision by which the 1997 Escrow Agent is bound.

4. The 1997 Escrow Agent acknowledges receipt from The Bank of New York Trust Company, N.A., as trustee under the Indenture, dated as of April 1, 2007, relating to the Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007, the amount of \$2,291,176.18, which the 1997 Escrow Agent will deposit in the escrow fund created pursuant to the 1997 Escrow Agreement.

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Dated: April 18, 2007

U.S. BANK NATIONAL ASSOCIATION, as 1997
Escrow Agent

By: *Margaret P. Chavira.*
Authorized Officer

AUTHORIZED SIGNER(S)

I hereby certify that the following is a true and exact extract of Article VI of the Bylaws presently in effect for U.S. Bank National Association, an association organized and existing under the laws of the United States:

**ARTICLE VI.
CONVEYANCES, CONTRACTS, ETC.**

All transfers and conveyances of real estate, mortgages, and transfers, endorsements or assignments of stock, bonds, notes, debentures or other negotiable instruments, securities or personal property shall be signed by any elected or appointed officer.

All checks, drafts, certificates of deposit and all funds of the Association held in its own or in a fiduciary capacity may be paid out by an order, draft or check bearing the manual or facsimile signature of any elected or appointed officer of the Association.

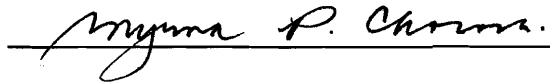
All mortgage satisfactions, releases, all types of loan agreements, all routine transactional documents of the Association, and all other instruments not specifically provided for, whether to be executed in a fiduciary capacity or otherwise, may be signed on behalf of the Association by any elected or appointed officer thereof.

The Secretary or any Assistant Secretary of the Association or other proper officer may execute and certify that required action or authority has been given or has taken place by resolution of the Board under this Bylaw without the necessity of further action by the Board.

I further certify that Myrna P. Choroski of U.S. Bank National Association, has been duly elected and qualified and now holds the office listed herein, and that the signature of such officer is authentic:

Myrna P. Choroski
Assistant Vice
President

WILL SIGN:



IN WITNESS WHEREOF, I have hereunto set my hand to be affixed hereto this 18th day of April 2007.

U.S. Bank National Association

By: Andrew Fung


Vice President

\$62,275,000
MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT BONDS
SERIES 2007

CERTIFICATE OF THE AUCTION AGENT

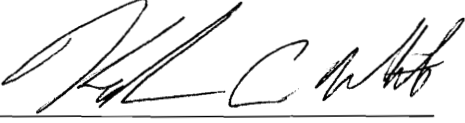
The undersigned, Deutsche Bank Trust Company Americas, as auction agent (the "Auction Agent") under the Auction Agreement, dated as of April 1, 2007 (the "Auction Agreement") by and between the Auction Agent and The Bank of New York Trust Company, N.A. (the "Trustee"), does hereby certify as follows:

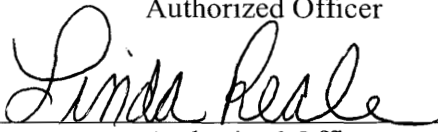
1. the Auction Agreement and the Broker Dealer Agreement, dated as of April 1, 2007 (the "Broker-Dealer Agreement") by and between the Auction Agent, Banc of America Securities LLC and the Modesto Public Financing Authority have been duly authorized, executed and delivered by the Auction Agent;
2. the Auction Agent has full power and authority to carry out its obligations under the Auction Agreement and the Broker-Dealer Agreement; and
3. there is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, public board or body pending or known to be threatened against or affecting the Auction Agent where an unfavorable decision, ruling or finding would adversely affect the transactions contemplated by the Auction Agreement and Broker-Dealer Agreement.

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Dated: April 18, 2007

DEUTSCHE BANK TRUST COMPANY
AMERICAS, as Auction Agent

By: 
Authorized Officer

By: 
Authorized Officer

15c2-12 CERTIFICATE OF BOND INSURER

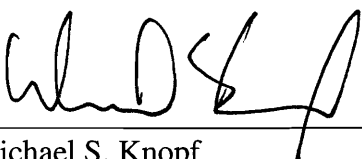
CIFG Assurance North America, Inc. ("CIFG"), by its undersigned authorized officer, hereby certifies as follows in connection with the bond insurance policy (the "Policy") to be issued by CIFG with respect to the \$62,275,000 Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the "Bonds"):

1. This Certificate is delivered solely to enable the underwriters of the Bonds to comply with Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") in connection with the offering and sale of the Bonds.
2. CIFG has agreed to issue the Policy provided that all conditions set out in its Bond Insurance Commitment with respect to the Policy have been satisfied.
3. The information with respect to CIFG included on the cover of and under the headings "THE BOND INSURER" and "APPENDIX G – SPECIMEN MUNICIPAL BOND INSURANCE POLICY" in the Official Statement dated April 11, 2007 with respect to the Bonds (the "Official Statement") was final as of the date thereof within the meaning of the Rule.
4. In delivering this Certificate, CIFG does not admit that it is an Issuer of Municipal Securities within the meaning of the Rule and does not make any representations whatsoever as to any information in the Official Statement except as expressly set forth in Paragraph (3) above.

Date: April 18, 2007

CIFG ASSURANCE NORTH AMERICA, INC.

By:



Michael S. Knopf
Managing Director and Vice President

CERTIFICATE OF BOND INSURER AS TO OFFICIAL STATEMENT

CIFG Assurance North America, Inc. ("CIFG"), by its undersigned duly authorized officer, hereby certifies as follows in connection with the Official Statement dated April 11, 2007 (the "Official Statement") relating to the \$62,275,000 Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 with respect to which CIFG is issuing its bond insurance policy and endorsements thereto (the "Policy") effective as of the date hereof:

1. The statements contained in the Official Statement under the heading "THE BOND INSURER" insofar as such statements constitute summaries of the matters referred to therein, accurately reflect and fairly present the information purported to be shown and, insofar as such statements describe CIFG, fairly and accurately describe CIFG.
2. The form of Policy contained in the Official Statement under the heading "APPENDIX G – SPECIMEN MUNICIPAL BOND INSURANCE POLICY" is a true and complete copy of the form of Policy.

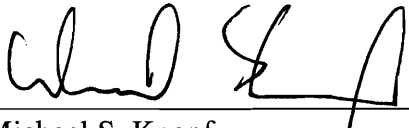
CIFG makes no certifications or representations whatsoever as to any statements or information in the Official Statement other than the specific statements and information expressly referred to in paragraphs 1 and 2 above.

IN WITNESS WHEREOF, CIFG has caused this Certificate to be executed as of the date set forth below by the duly authorized officer of CIFG whose name and title appear below.

Date: April 18, 2007

CIFG ASSURANCE NORTH AMERICA, INC.

By:



Michael S. Knopf
Managing Director and Vice President



CIFG Assurance North America, Inc.
825 Third Avenue, Sixth Floor
New York, NY 10022
For information, contact (212) 909-3939
Toll-free (866) 243-4212

FINANCIAL GUARANTY INSURANCE POLICY

ISSUER: Modesto Public Financing Authority Policy No.: CIFG NA-1568

CUSIP: 607796AX7 Effective Date: April 18, 2007

OBLIGATIONS: \$62,275,000 Lease Revenue Refunding and Capital Improvement Bonds, Series 2007

CIFG ASSURANCE NORTH AMERICA, INC. ("CIFG NA"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to each Policyholder, subject only to the terms and conditions of this Policy (which includes each endorsement hereto), the full and complete payment by or on behalf of the Issuer of Regular Payments of principal of and interest on the Obligations.

For the further protection of each Policyholder, CIFG NA irrevocably and unconditionally guarantees:

(1) payment of any amount required to be paid under this Policy by CIFG NA following CIFG NA's receipt of notice and instruments of assignment as described in Endorsement No. 1 hereto and

(2) payment of the amount of any distribution of principal of and interest on the Obligations made during the Term of this Policy to such Policyholder that is subsequently avoided in whole or in part as a preference payment under applicable law, all as described in Endorsement No. 1 hereto.

CIFG NA shall be subrogated to the rights of each Policyholder to receive payments under the Obligations to the extent of any payment by CIFG NA hereunder. Upon disbursement in respect of an Obligation, CIFG NA shall become the owner of the Obligation, appurtenant coupon, if any, and all rights to payment of principal thereof or interest thereon.

The following terms shall have the meanings specified below, subject to and including any modifications set forth in any endorsement hereto, for all purposes of this Policy. "Effective Date," "Issuer" and "Obligations" mean, respectively, the Effective Date, Issuer and Obligations referenced above. "Policyholder" means, if the Obligations are in book-entry form, the registered owner of any Obligation as indicated on the registration books maintained by or on behalf of the Issuer for such purpose or, if the Obligations are in bearer form, the holder of any Obligation; *provided, however, that* any trustee acting on behalf of and for the benefit of such registered owner or holder shall be deemed to be the Policyholder to the extent of such trustee's authority. "Regular Payments" means payments of interest and principal which are agreed to be made during the Term of this Policy in accordance with the original terms of the Obligations when issued and without regard to any amendment or modification of such Obligations thereafter; payments which become due on an accelerated basis as a result of (a) a default by the Issuer or any other person, (b) an election by the Issuer to pay principal or other amounts on an accelerated basis or (c) any other cause, shall not constitute "Regular Payments" unless CIFG NA shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. "Term of this Policy" has the meaning set forth in Endorsement No. 1 hereto.

This Policy sets forth in full the undertaking of CIFG NA, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto or to the Obligations (except a contemporaneous or subsequent agreement or instrument given by CIFG NA or to which CIFG NA has given its written consent) or by the merger, consolidation or dissolution of the Issuer. The premiums paid in respect of this Policy are nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity. This Policy may not be cancelled or revoked during the Term of this Policy, including for nonpayment of premium due to CIFG NA. Payments under this Policy may not be accelerated except at the sole option of CIFG NA.

In witness whereof, CIFG ASSURANCE NORTH AMERICA, INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

CIFG ASSURANCE NORTH AMERICA, INC.

By

Authorized Officer


Michael S. Knopf
Managing Director and Vice President



TRIPLE-A FINANCIAL GUARANTY

ENDORSEMENT NO. 1
TO FINANCIAL GUARANTY INSURANCE POLICY NO. CIFG NA-1568

CIFG ASSURANCE NORTH AMERICA, INC.

1. Definitions. For all purposes of this Policy, the terms specified below shall have the meanings or constructions provided below. Capitalized terms used without definition herein shall have the meanings provided in the documents governing the Obligations unless the context shall otherwise require.

"Business Day" means any day (other than a Saturday or Sunday) that in the City of New York is neither a legal holiday nor a day on which banking institutions are authorized or obligated by law or executive order to be closed.

"CIFG NA" means CIFG Assurance North America, Inc. and its successors and permitted assigns.

"Policy" means this Financial Guaranty Insurance Policy and includes each endorsement thereto.

"Receipt" and "Received" mean actual delivery to each of CIFG NA and the Fiscal Agent (as defined below), if any, prior to 12:00 noon, New York City time, on a Business Day; delivery either on a day that is not a Business Day, or after 12:00 noon, New York City time, shall be deemed to be Receipt on the next succeeding Business Day. If any notice or certificate given hereunder by the Policyholder is not in proper form or is not properly completed, executed or delivered in all material respects, it shall be deemed not to have been Received, and CIFG NA or its Fiscal Agent shall promptly so advise the Policyholder and the Policyholder may submit an amended notice.

"Regular Payment Date" means (i), when referring to interest on an Obligation, the stated date for payment of interest and (ii), when referring to the principal of an Obligation, the stated final maturity date thereof or the date on which the same shall have been duly called for mandatory redemption (by sinking fund or otherwise) and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by such mandatory redemption), acceleration or other advancement of maturity unless CIFG NA shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration.

"Regular Payments" means any and all regularly scheduled payments of principal of and interest on the Obligations required to be made in accordance with their original terms and without regard to any subsequent amendment or modification thereof except amendments or modifications to which CIFG NA has given its prior written consent. Regular Payments shall not include, nor shall coverage be provided under this Policy in respect of: (1) payments which become due on an accelerated basis as a result of (a) a default by the Issuer or any other person, (b) an election by the Issuer to make payment on an accelerated basis, or (c) any other cause,



TRIPLE-A FINANCIAL GUARANTY

Policy Number CIFG NA-1568
Effective Date: April 18, 2007

unless CIFG NA shall elect, in its sole discretion, to pay any amount due upon such acceleration together with any accrued interest to the date of acceleration; (2) any amounts due in respect of the Obligations attributable to any increase in interest rate, penalty or other sum payable by the Issuer by reason of any default or event of default in respect of the Obligations, whether by the Issuer or any other person, or by reason of any deterioration of the creditworthiness of the Issuer or any other person, or (3) any taxes, withholding or other charge imposed by any governmental authority due in connection with the payment of any Regular Payment to the Policyholder.

“Term of this Policy” means the period from and including the Effective Date to and including the date on which (i) all Regular Payments have been paid and the Obligations have been terminated in accordance with their terms; (ii) any period during which any Regular Payment could have been avoided in whole or in part as a preference payment under applicable bankruptcy, insolvency, receivership or similar law shall have expired; and (iii) if any proceedings requisite to avoidance as a preference payment have been commenced prior to the occurrence of (i) and (ii), a final and nonappealable order in resolution of each such proceeding has been entered.

2. Notices and Conditions to Payment in Respect of Regular Payments. Following Receipt by CIFG NA of a notice of claim and certificate from the Policyholder in the form attached as Exhibit A to this Endorsement (a “Notice of Claim and Certificate”), CIFG NA will pay any amount payable hereunder in respect of Regular Payments on the Obligations on (i) in respect of the first Regular Payment Date after Receipt by CIFG NA of such Notice of Claim and Certificate, the later to occur of (a) 10:00 a.m., New York City time, on the Business Day following such Receipt and (b) 10:00 a.m., New York City time, on the Regular Payment Date on which such payment is due on the Obligations and (ii) in respect of each subsequent Regular Payment Date after Receipt by CIFG NA of such Notice of Claim and Certificate, 10:00 a.m., New York City time, on the Regular Payment Date on which such payment is due on the Obligations. Payments due hereunder in respect of Regular Payments will be disbursed to the Policyholder by wire transfer of immediately available funds to such account as the Policyholder shall specify in writing at the time of or prior to the delivery of the Notice of Claim and Certificate in respect of such Regular Payment.

CIFG NA shall be entitled to pay any amount hereunder in respect of Regular Payments on the Obligations, including any amount payable upon its election on the Obligations on an accelerated basis, whether or not any notice and certificate shall have been Received by CIFG NA as provided above; provided, however, that by acceptance of this Policy the Policyholder agrees to provide upon request to CIFG NA a Notice of Claim and Certificate in respect of any such payments or deliveries made by CIFG NA. CIFG NA’s obligation hereunder in respect of Regular Payments shall be discharged to the extent funds are disbursed by CIFG NA as provided herein whether or not such funds are properly applied by any custodian or agent appointed by the Policyholder.

3. Notices and Conditions to Payment in Respect of Regular Payments Avoided as Preference Payments. If any Regular Payment paid in respect of the Obligations during the Term of this Policy is avoided as a preferential transfer or similar payment (a “Preference Payment”)



TRIPLE-A FINANCIAL GUARANTY

Policy Number CIFG NA-1568
Effective Date: April 18, 2007

under applicable bankruptcy, insolvency, receivership or similar law (“Insolvency Law”), CIFG NA will pay such amount out of the funds of CIFG NA on the later of (a) the date when due to be paid pursuant to the Order referred to below or (b) the first to occur of (i) the fourth Business Day following Receipt by CIFG NA from the Policyholder of (A) a certified copy of the order (the “Order”) of the court or other governmental body of competent jurisdiction to the effect that the Policyholder is required to return all or part of such Regular Payment because such payment was avoidable as a Preference Payment under applicable Insolvency Law, (B) a certificate of the Policyholder that the Order has been entered and is not subject to any stay and (C) an assignment duly executed and delivered by the Policyholder in such form as is reasonably required by CIFG NA, and provided to the Policyholder by CIFG NA, irrevocably assigning to CIFG NA all rights and claims of the Policyholder relating to or arising under the Obligations against the Issuer or its estate or otherwise with respect to such Preference Payment or (ii) the date of Receipt by CIFG NA from the Policyholder of the items referred to in clauses (A), (B) and (C) above if, at least four Business Days prior to such date of Receipt, CIFG NA shall have Received written notice from the Policyholder that such items were to be delivered on such date and such date was specified in such notice. Such payment shall be disbursed to the receiver, conservator, debtor-in-possession or trustee in bankruptcy named in the Order, and not the Policyholder directly (unless the Policyholder has previously paid such amount to the receiver, conservator, debtor-in-possession or trustee in bankruptcy named in the Order, in which case such payment shall be disbursed to the Policyholder upon proof of such payment reasonably satisfactory to CIFG NA).

4. Fiscal Agent. At any time during the Term of this Policy, CIFG NA may appoint a fiscal agent (the “Fiscal Agent”) for purposes of this Policy by written notice to the Policyholder at the notice address specified in the documents governing the Obligations specifying the name and notice address of the Fiscal Agent. From and after the date of receipt of such notice by the Policyholder, (i) copies of all notices and documents required to be delivered to CIFG NA pursuant to this Policy shall be simultaneously delivered to the Fiscal Agent and CIFG NA and shall not be deemed Received until Received by each, and (ii) all payments required to be made by CIFG NA under this Policy may be made directly by CIFG NA or by the Fiscal Agent on behalf of CIFG NA. The Fiscal Agent is the agent of CIFG NA only and the Fiscal Agent shall in no event be liable to any Policyholder for any acts of the Fiscal Agent or any failure of CIFG NA to deposit, or cause to be deposited, sufficient funds to make payments due under the Policy.

5. Notices. All notices to be given hereunder shall be in writing (except as otherwise specifically provided herein) and shall be mailed by registered mail or personally delivered or telecopied to CIFG NA as follows:

CIFG Assurance North America, Inc.
825 Third Avenue, Sixth Floor
New York, New York 10022
Attention: General Counsel
Telecopy No.: (212) 909-3959



TRIPLE-A FINANCIAL GUARANTY

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CIFG NA may specify a different address or addresses by writing mailed or delivered to the Policyholder.

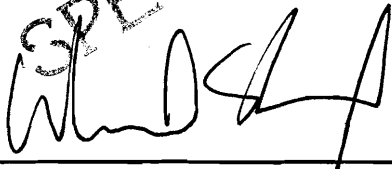
6. Priorities. In the event that any term or provision of the face of this Policy is inconsistent with the provisions of this Endorsement, the provisions of this Endorsement shall take precedence and shall be binding.

7. Assignment of CIFG NA Obligations. The obligations of CIFG NA hereunder may be assigned to any affiliate of CIFG NA that is licensed as a financial guaranty insurance corporation, provided that at the time of such assignment the insurance strength or insurance financial strength of such affiliate is rated at least equal to the insurance strength or insurance financial strength of CIFG NA, and that the rating of the Obligations shall not have been reduced as a result of such assignment, by Moody's Investors Service and Standard & Poor's Ratings Group or their respective successors as nationally recognized statistical rating organizations.

8. Surrender of Policy. The Policyholder shall surrender this Policy to CIFG NA for cancellation upon expiration of the Term of this Policy.

IN WITNESS WHEREOF, CIFG ASSURANCE NORTH AMERICA, INC. has caused this Endorsement No. 1 to be executed by its Authorized Officer.

CIFG ASSURANCE NORTH AMERICA, INC.

By 

Authorized Officer

Michael S. Knopf
Managing Director and Vice President

NOTICE OF CLAIM AND CERTIFICATE

CIFG Assurance North America, Inc.
825 Third Avenue, Sixth Floor
New York, NY 10022

The undersigned, a duly authorized officer of [Policyholder] (or any permitted successor or assignee of its rights under the Obligations defined below) (the "Policyholder"), hereby certifies to CIFG Assurance North America, Inc. ("CIFG NA"), with reference to Financial Guaranty Insurance Policy No. CIFG NA-1568 having an Effective Date of April 18, 2007 (the "Policy") issued by CIFG NA in respect of the Obligations (capitalized terms used without definition herein having the meanings provided in the Policy unless the context shall otherwise require), that:

- (i) The Policyholder is the Policyholder under the Policy.
- (ii) [The Policyholder has not been timely advised in writing by the Issuer as to a source of funds reasonably satisfactory to the Policyholder sufficient to make payment in full of a Regular Payment required to be made on the immediately following Regular Payment Date] [The Regular Payment required to be made on the Regular Payment Date falling on [date] has not been paid in full]. The Regular Payment has been calculated as follows: [show calculation].
- (iii) Accordingly, the Policyholder is hereby making a claim under the Policy for the amount of the foregoing Regular Payment and, when due, any subsequent Regular Payments. The Policyholder will withdraw this Notice of Claim and Certificate, or submit a restated Notice of Claim and Certificate reducing the amount of the claim hereunder, if the required amount of any Regular Payment has been reduced (including reduction to zero) on or prior to any date on which CIFG NA is required to make payment or delivery under the Policy.
- (iv) If the Policyholder receives from the Issuer and CIFG NA an amount in excess of a Regular Payment, the Policyholder shall immediately return the excess amount to CIFG NA.
- (v) In consideration of the payments made and to be made to the Policyholder by CIFG NA under the Policy, the Policyholder hereby assigns to CIFG NA all of its interest in and rights with respect to the Obligations (including the documents governing the Obligations). The foregoing assignment is in addition to, and not in limitation of, rights of subrogation otherwise available to CIFG NA in respect of such payments. Payments to CIFG NA in respect of the foregoing assignment

shall in all cases be subject to and subordinate to the rights of the Policyholder to receive all Regular Payments in respect of the aforementioned Obligations. The Policyholder shall take such action and deliver such instruments as may be reasonably requested or required by CIFG NA to effectuate the purpose or provisions of this clause (v).

(vi) The Policyholder hereby agrees that, so long as no CIFG NA Termination Event (as defined below) shall have occurred and be continuing, CIFG NA may at any time during the continuation of any proceeding by or against the Issuer under any applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to such Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment made with respect to the Obligations (a "Preference Claim"), (B) the direction of any appeal of any order relating to any Preference Claim at the expense of CIFG NA and (C) the posting of any surety, supersedeas or performance bond pending any such appeal. In addition, so long as no CIFG Termination Event shall have occurred and be continuing, the Policyholder hereby agrees that CIFG NA shall be subrogated to, and the Policyholder hereby assigns, to the fullest extent permitted by law, the rights of the Policyholder in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding. A "CIFG NA Termination Event" shall be any event of default specified in the documents governing the Obligations with respect to CIFG NA as insurer of the Obligations or, if none is so specified, either: (i) CIFG NA's failure to make a payment required under the Policy in accordance with its terms or (ii) its institution of a proceeding seeking a judgment of insolvency or bankruptcy; the institution against it of such a proceeding or petition that is not dismissed, discharged or stayed within 180 days of the institution of such a proceeding or petition; or the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all of its assets.

(vii) Payment should be made by wire transfer directed to the following account in [city]:

[Policyholder's wire transfer information]

IN WITNESS WHEREOF, the Policyholder has executed and delivered this Notice of Claim and Certificate as of the _____ day of _____, _____.

[POLICYHOLDER]

By _____

Title _____

For CIFG NA or
Fiscal Agent Use Only

Wire transfer sent on _____ by _____

Confirmation Number _____

SPECIMEN




ENDORSEMENT NO. 2
TO FINANCIAL GUARANTY INSURANCE POLICY NO. CIFG NA-1568
CIFG ASSURANCE NORTH AMERICA, INC.

Notwithstanding the terms and provisions contained in this Policy, it is further understood that any person who, with intent to defraud or knowing that he is facilitating a fraud against an insurer, submits an application or files a claim containing a false or deceptive statement is guilty of insurance fraud.

IN WITNESS WHEREOF, CIFG ASSURANCE NORTH AMERICA, INC. has caused this Endorsement No. 2 to be executed by its Authorized Officer.

CIFG ASSURANCE NORTH AMERICA, INC.

By  _____
Authorized Officer

Michael S. Knopf
Managing Director and Vice President



ENDORSEMENT NO. 3
TO FINANCIAL GUARANTY INSURANCE POLICY NO. CIFG NA-1568

CIFG ASSURANCE NORTH AMERICA, INC.

THIS POLICY IS NOT COVERED BY THE CALIFORNIA INSURANCE
GUARANTY ASSOCIATION SPECIFIED IN CAL. INS. CODE §1063 ET SEQ.

IN WITNESS WHEREOF, CIFG ASSURANCE NORTH AMERICA, INC. has caused
this Endorsement No. 3 to be executed by its Authorized Officer.

CIFG ASSURANCE NORTH AMERICA, INC.

By  _____
Authorized Officer

Michael S. Knopf
Managing Director and Vice President



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April 18, 2007

Modesto Public Financing Authority
Modesto, California

City of Modesto
Modesto, California

\$62,275,000
Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007

Ladies and Gentlemen:

We have acted as bond counsel to the Modesto Public Financing Authority (the "Authority") in connection with the issuance of its Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the "Bonds") in the aggregate principal amount of \$62,275,000. The Bonds are issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and an Indenture, dated as of April 1, 2007 (the "Indenture") between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

In connection with the issuance of the Bonds, the City of Modesto (the "City") has leased certain properties to the Authority pursuant to a sublease, dated as of April 1, 2007 (the "Sublease") between the Authority and the City. The Authority has in turn leased such properties to the City pursuant to the terms of a facility lease, dated as of April 1, 2007 (the "Facility Lease") between the City and the Authority. The Bonds are secured as to payment from the Base Rental Payments to be made by the City to the Authority under the Facility Lease and certain other revenues and moneys pledged under the Indenture.

We have examined a certified copy of the record of proceedings relating to the execution and delivery of the Bond and such other documents and records of the Authority and the City as we have deemed necessary for the purpose of this opinion. We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Facility Lease and the Sublease, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

Certain requirements and procedures contained or referred to in the Indenture, the Facility Lease and the Sublease, or other documents pertaining to the Bonds, may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents,

April 18, 2007
Page 2

upon the advice or with the approving opinion of counsel nationally recognized in the area of tax exempt obligations. We express no opinion as to the exclusion from gross income for federal income tax purposes of interest on the Bonds on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than ourselves.

Based on the foregoing and our examination of existing constitutional, statutory and decisional law, such legal proceedings and such other documents as we deem necessary to render this opinion, we are of the opinion that:

1. The Bonds have been duly authorized, executed and delivered by the Authority and are legal, valid and special limited obligations of the Authority, payable from Revenues pledged therefore under the Indenture.

2. The Indenture has been duly authorized, executed and delivered by the Authority and constitutes a legal, valid and binding obligation of the Authority.

3. The Facility Lease has been duly authorized, executed and delivered by the City and the Authority and constitutes the legal, valid and binding obligation of the parties thereto.

4. The Sublease has been duly authorized, executed and delivered by the City and the Authority and constitutes the legal, valid and binding obligation of the parties thereto.

5. Based on existing statutes, regulations, rulings and judicial decisions and assuming compliance by the Authority and the City with certain covenants in the Indenture, the Facility Lease and Sublease and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Bond and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds.

6. Interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

7. Interest on the Bonds is exempt from personal income taxes imposed by the State of California.

We express no opinion with respect to any collateral tax consequences resulting from the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

With respect to the opinions expressed herein, the rights and obligations under the Bonds, the Indenture, the Facility Lease and the Sublease are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting the enforcement of creditors' rights generally, to the application of equitable principles (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases

April 18, 2007

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and to the limitations on legal remedies against joint exercise of powers authorities or cities in the State of California. In addition, we express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, consent to non jury trial or waiver provisions contained in the foregoing documents.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

Respectfully submitted,

A handwritten signature in black ink that reads "Sidley Austin LLP". The signature is written in a cursive, flowing style.



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April 18, 2007

Banc of America Securities LLC,
as Underwriter

Re: \$62,275,000
Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007

Ladies and Gentlemen:

This opinion is rendered pursuant to Sections 9(f)(6) of the Bond Purchase Contract, dated April 11, 2007 (the "Purchase Contract"), by Banc of America Securities LLC (the "Underwriter") and the Modesto Public Financing Authority (the "Authority"), providing for the purchase by the Underwriter of the Authority's \$62,275,000 aggregate principal amount of Lease Revenue Refunding and Capital Improvement Bonds Series 2007 (the "Series 2007 Bonds"). The Series 2007 Bonds are being issued pursuant to an Indenture, dated as of April 1, 2007 (the "Indenture") by and between the Authority and The Bank of New York Trust Company, N.A., as Trustee. All capitalized terms used herein and not otherwise defined shall have the meaning ascribed to such terms in the Purchase Contract.

We have served as bond counsel to the Authority in connection with the sale and delivery of the Bonds. In that capacity we have reviewed such documents, certificates, opinions and other matters to the extent we deemed necessary to render the opinion set forth herein. In rendering this opinion, we are not expressing any opinion or view on the validity, accuracy or sufficiency of documents, certificates or opinions that we examined, and we assumed, but did not independently verify, that the signatures on all documents, certificates and opinions that we reviewed are genuine. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of the Authority and the City of Modesto (the "City") and various public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that:

- (i) The Series 2007 Bonds are not subject to registration pursuant to the registration requirements of the Securities Act of 1933, are municipal securities within the meaning of the Securities Exchange Act of 1934, as amended, and the Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939;

April 18, 2007

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(ii) The Purchase Contract has been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery by the other parties thereto, constitutes the legal, valid and binding agreement of the Authority enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought and to the limitations on legal remedies against public agencies in the State of California; and

(iii) The statements in the Official Statement under the captions "THE BONDS," "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and "TAX MATTERS" and in APPENDIX A – "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS," APPENDIX B – "ARS PROVISIONS" and APPENDIX E – "PROPOSED FORM OF OPINION OF BOND COUNSEL" to the extent they purport to summarize certain provisions of the Indenture, the Facility Lease, the Bonds and the opinion of such counsel, present a fair and accurate summary of such provisions and opinion for purposes of use in the Official Statement.

Except as provided in subsection (iii) above, we are not passing upon and are not assuming any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Official Statement, and express no opinion with respect thereto.

We have this day released to the Authority and the City our final approving legal opinion with respect to the Bonds. The Underwriter is authorized to rely on such opinion as if the same were addressed to the Underwriter.

This letter is furnished by us as bond counsel to the Authority. No attorney-client relationship has existed or exists between our firm and the Underwriter in connection with the Bonds or by virtue of this letter. Our engagement with respect to the Bonds has terminated as of the date hereof, and we disclaim any obligation to update this letter. This letter is delivered to the Underwriter solely for its benefit as Underwriter, and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not, be relied upon by owners of the Bonds.

Very truly yours,





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April 18, 2007

The Bank of New York Trust Company, N.A.
San Francisco, California

CIFG Assurance North America, Inc.
New York, New York

\$62,275,000
Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007

Ladies and Gentlemen:

We have delivered our final opinion, dated the date hereof, relating to the above-referenced transaction. You are entitled to rely on such final opinion as though the same were addressed to you.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Sidley Austin" followed by a stylized flourish.



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April 18, 2007

The Bank of New York Trust Company, N.A., as trustee
San Francisco, California

CIFG Assurance North America, Inc.
New York, New York

Re: \$3,600,000
Modesto Public Financing Authority
Lease Revenue Bonds
Series 1997
(John Thurman Field Renovation Project)
(Defeasance Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Modesto Public Financing Authority (the "Authority") in connection with the issuance of its Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the "Refunding Bonds") in the aggregate principal amount of \$62,275,000. A portion of the proceeds of the Refunding Bonds will be applied to refund all of the Authority's outstanding Lease Revenue Bonds, Series 1997 (John Thurman Field Renovation Project) (the "Bonds"). The Bonds were issued pursuant to a Trust Indenture, dated as of January 1, 1997 (the "Trust Indenture"), by and between the Authority and U.S. Bank National Association (successor to First Trust of California, National Association), as indenture trustee. This opinion is being provided in connection with defeasance of the Bonds pursuant to Section 12.01 of the Trust Indenture. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Indenture.

In such connection, we have reviewed the Trust Indenture, an Escrow Agreement, dated as of April 1, 2007 (the "Escrow Agreement"), between the Authority and U.S. Bank National Association, as escrow agent (the "Escrow Agent"), a report by The Arbitrage Group, verifying the accuracy of certain computations relating to the escrow and the Bonds (the "Verification Report"), and such other documents and matters to the extent we deemed necessary to render the opinion set forth herein.

The opinion expressed herein is based on an analysis of existing laws, regulations, rulings and court decisions and covers certain matters not directly addressed by such authorities. Such

April 18, 2007

Page 2

opinion may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We express no opinion as to the effect of any bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting the enforcement of creditors' rights generally, to the application of equitable principles (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint exercise of powers authorities or cities in the State of California. In addition, we express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, consent to non jury trial or waiver provisions contained in the foregoing documents. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. We have further assumed compliance by all parties with all covenants and agreements contained in such documents.

In rendering the following opinion, we have made no independent calculations or verifications concerning the actual deposit of the amounts and obligations specified in the Escrow Agreement, the outstanding principal amount of the Bonds, the principal or redemption price and interest requirements with respect to the Bonds, the adequacy of the amounts deposited pursuant to the Escrow Agreement and the investment income thereon to pay such principal or redemption price and interest requirements when due, or the accuracy of any of the numbers, computations, assumptions or conclusions contained in the Verification Report, but with respect to all such matters have relied solely upon, and assumed, the accuracy of the Verification Report, the representations in the Escrow Agreement and related certificates. We have also assumed that the deposit required to be made to the Escrow Fund established pursuant to the Escrow Agreement has been made, that all other instructions set forth in the Trust Indenture and the Escrow Agreement have been complied with, and that provision satisfactory to the Trustee has been irrevocably made with respect to the giving of notice of redemption of the Bonds in accordance with the Trust Indenture.

Certain actions (including, without limitation, investment or reinvestment of any cash in the Escrow Fund now or hereafter arising or substitution of any investments in the Escrow Fund) may be taken under the circumstances and subject to the terms and conditions set forth in the Escrow Agreement. No opinion is expressed herein if any such change occurs or action is taken or omitted other than with our advice and approval.

April 18, 2007

Page 3

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that upon the refunding of the Bonds the right, title and interest of the Trustee to the Trust Indenture and the Bonds shall cease.

This letter is furnished by us as bond counsel. No attorney-client relationship has existed or exists between our firm and the addressee of this letter by virtue of this letter, and we disclaim any obligation to update this letter. This letter is delivered to the addressee hereof solely for purposes of Section 12.01 of the Trust Indenture and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not be relied upon by owners of Bonds or by owners of Refunding Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

A handwritten signature in black ink, appearing to read "Sidley Austin LLP", is written below the typed text.



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April 18, 2007

The Bank of New York Trust Company, N.A., as trustee
San Francisco, California

CIFG Assurance North America, Inc.
New York, New York

Re: \$61,430,000
Modesto Public Financing Authority
Lease Revenue Bonds
Series 1998
(Capital Improvements and Refinancing Project)
(Defeasance Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Modesto Public Financing Authority (the "Authority") in connection with the issuance of its Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the "Refunding Bonds") in the aggregate principal amount of \$62,275,000. The Authority previously issued its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) in the aggregate principal amount of \$61,430,000 (the "1998 Bonds"). The 1998 Bonds were issued pursuant to a Trust Indenture, dated as of March 1, 1998 (the "Trust Indenture"), between the Authority and The Bank of New York Trust Company, N.A., as successor trustee to Harris Trust Company of California (the "Trustee"). A portion of the proceeds of the Refunding Bonds will be applied to refund a portion of the 1998 Bonds in the aggregate principal amount of \$57,282,753.15 (the "Defeased Bonds"). This opinion is being provided in connection with defeasance of the Defeased Bonds pursuant to Section 12.01 of the Trust Indenture. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Indenture.

In such connection, we have reviewed the Trust Indenture, an Escrow Agreement, dated as of April 1, 2007 (the "Escrow Agreement"), between the Authority and The Bank of New York Trust Company, N.A., as escrow agent (the "Escrow Agent"), a report by The Arbitrage Group verifying the accuracy of certain computations relating to the escrow and the Defeased Bonds (the "Verification Report"), and such other documents and matters to the extent we deemed necessary to render the opinion set forth herein.

April 18, 2007

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The opinion expressed herein is based on an analysis of existing laws, regulations, rulings and court decisions and covers certain matters not directly addressed by such authorities. Such opinion may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We express no opinion as to the effect of any bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting the enforcement of creditors' rights generally, to the application of equitable principles (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint exercise of powers authorities or cities in the State of California. In addition, we express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, consent to non jury trial or waiver provisions contained in the foregoing documents. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. We have further assumed compliance by all parties with all covenants and agreements contained in such documents.

In rendering the following opinion, we have made no independent calculations or verifications concerning the actual deposit of the amounts and obligations specified in the Escrow Agreement, the outstanding principal amount of the Defeased Bonds, the principal or redemption price and interest requirements with respect to the Defeased Bonds, the adequacy of the amounts deposited pursuant to the Escrow Agreement and the investment income thereon to pay such principal or redemption price and interest requirements when due, or the accuracy of any of the numbers, computations, assumptions or conclusions contained in the Verification Report, but with respect to all such matters have relied solely upon, and assumed, the accuracy of the Verification Report, the representations in the Escrow Agreement and related certificates. We have also assumed that the deposit required to be made to the Escrow Fund established pursuant to the Escrow Agreement has been made, that all other instructions set forth in the Trust Indenture and the Escrow Agreement have been complied with, and that provision satisfactory to the Trustee has been irrevocably made with respect to the giving of notice of redemption of the Defeased Bonds in accordance with the Trust Indenture.

Certain actions (including, without limitation, investment or reinvestment of any cash in the Escrow Fund now or hereafter arising or substitution of any investments in the Escrow Fund) may be taken under the circumstances and subject to the terms and conditions set forth in the Escrow Agreement. No opinion is expressed herein if any such change occurs or action is taken or omitted other than with our advice and approval.

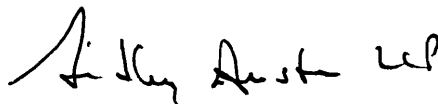
April 18, 2007

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Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that upon the refunding of the Defeased Bonds the right, title and interest of the Trustee to the Defeased Bonds shall cease.

This letter is furnished by us as bond counsel. No attorney-client relationship has existed or exists between our firm and the addressee of this letter by virtue of this letter, and we disclaim any obligation to update this letter. This letter is delivered to the addressee hereof solely for purposes of Section 12.01 of the Trust Indenture and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not be relied upon by owners of 1998 Bonds or by owners of Refunding Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

A handwritten signature in cursive script that reads "Sidley Austin LLP". The signature is written in dark ink and is positioned below the typed text "Very truly yours,".



CITY of MODESTO

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Hearing and Speech

Impaired Only

TDD 209/526-9211

April 18, 2007

City of Modesto
Modesto, California

Banc of America Securities LLC
San Francisco, California

CIFG Assurance North America, Inc.
New York, New York

\$62,275,000

MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT
BONDS
SERIES 2007

Ladies and Gentlemen:

As City Attorney of the City of Modesto (the "City"), I have reviewed the following documents in connection with the execution and delivery of the Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007, in the aggregate principal amount of \$62,275,000 (the "Series 2007 Bonds"): (i) the Facility Lease, dated as of April 1, 2007 (the "Facility Lease") by and between the City and the Authority; (ii) the Sublease, dated as of April 1, 2007 (the "Sublease") by and between the City and the Authority; (iii) the Continuing Disclosure Agreement, dated April 18, 2007 (the "Continuing Disclosure Agreement"), by and between the City and The Bank of New York Trust Company, N.A., as dissemination agent; (iv) the Bond Purchase Contract, dated April 11, 2007 (the "Purchase Contract," and together with the Facility Lease, the Sublease and the Continuing Disclosure Agreement, the "City Agreements"), by and among the City, the Authority and Banc of America Securities LLC, as Underwriter; (v) Resolution No. 2007-216 adopted by the City Council on April 3, 2007 (the "2007 City Resolution"); (vi) Resolution No. 98-81 adopted by the City Council on February 10, 1998 (the "1998 City Resolution" and together with the 2007 City Resolution, the "City

Resolutions”) and (vii) the Official Statement, dated April 11, 2007 (the “Official Statement”) relating to the Series 2007 Bonds.

All capitalized terms used herein and not otherwise defined shall have the meaning ascribed to such terms in the Purchase Contract.

Based upon the foregoing and upon such other information and documents as I consider necessary to render this opinion, I am of the opinion that:

(i) the City is a charter city and a municipal corporation duly organized and validly existing under and by virtue of the laws of the State of California;

(ii) the City Resolutions were duly adopted at a meeting of the City Council of the City which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the City Resolutions are in full force and effect and have not been modified, amended or rescinded as of the date hereof;

(iii) to the best of my knowledge after reasonable investigation, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened against or affecting the City, challenging the existence of the City or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, execution or delivery of the Series 2007 Bonds or the pledge of the Base Rental Payments (as defined in the Facility Lease) under the Facility Lease under the Contract or in any way contesting or affecting the validity or enforceability of the City Agreements or contesting the powers of the City or its authority to enter into, adopt or perform its obligations under any of the foregoing, or which would have a material adverse effect on the City’s ability to perform its obligations under the City Agreements or contesting in any way the completeness or accuracy of the Official Statement;

(iv) the adoption of the City Resolutions, the execution and delivery of City Agreements and the Official Statement and compliance by the City with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute, on the part of the City, a breach or default under any agreement or instrument to which the City is a party or by which it is bound or, to the best of my knowledge, any existing law, regulation, court order or consent decree to which the City is subject;

(v) the Official Statement has been duly authorized, executed and delivered, and the City Agreements have been duly authorized, executed and delivered by the City and, assuming due authorization, execution and delivery by the other parties thereto, the City Agreements constitute legal, valid and binding agreements of the City enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors’ rights generally and the application of equitable

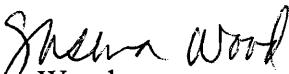
principles if equitable remedies are sought and to the limitations on legal remedies against cities in the State of California;

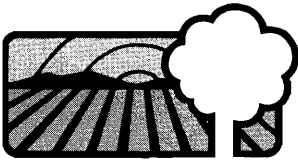
(vi) except as described in the Official Statement, no authorization, approval, consent, or other order of the State or any other governmental authority or agency within the State having jurisdiction over the City is required for the valid authorization, execution, delivery and performance by the City of the City Agreements or for the adoption of the City Resolutions which have not been obtained; and

(vii) to the best of my knowledge, the information contained in the Official Statement (except for any financial or statistical data or forecasts, estimates, projections, assumptions or expressions of opinion, and information relating to DTC, the book-entry system, the Insurer, the Insurance Policy as to which no opinion need be expressed), does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

This opinion is furnished to you solely for your benefit and I am not assuming any professional responsibility to any other person whomsoever. This opinion is not to be used, circulated, quoted or otherwise referred to for any other purpose.

Respectfully submitted,


Susana Wood
City Attorney



CITY of MODESTO

Finance

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April 18, 2007

Modesto Public Financing Authority
Modesto, California

Banc of America Securities LLC
San Francisco, California

CIFG Assurance North America, Inc.
New York, New York

\$62,275,000

MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT
BONDS
SERIES 2007

Ladies and Gentlemen:

I have acted as counsel to the Modesto Public Financing Authority (the "Authority"), a joint exercise of powers authority organized and existing pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California, as amended. This opinion is rendered in connection with the execution and delivery of the Modesto Public Financing Authority Lease Revenue Refunding and Capital Improvement Bonds, Series 2007, in the aggregate principal amount of \$62,275,000 (the "Series 2007 Bonds").

In rendering this opinion, I have examined: (i) the Joint Exercise of Powers Agreement, dated December 1, 1989 (the "Joint Exercise of Powers Agreement"), by and between the City of Modesto (the "City") and the Industrial Development Authority of the City of Modesto; (ii) Indenture, dated as of April 1, 2007 (the "Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"); (iii) the Facility Lease, dated as of April 1, 2007 (the "Facility Lease") by and between the City and the Authority; (iv) the Sublease, dated as of April 1, 2007 (the "Sublease") by and between the City and the Authority; (v) the Auction Agreement, dated as of April 1, 2007 (the "Auction Agreement"), by and between the Trustee and Deutsche Bank Trust Company Americas, as

Auction Agent, and agreed to by the Authority; (vi) the Broker-Dealer Agreement, dated as of April 1, 2007 (the "Broker-Dealer Agreement"), by and between the Auction Agent, Banc of America Securities LLC, as Broker-Dealer and the Authority; (vii) the Escrow Agreement relating to the 1997 Bonds, dated as of April 1, 2007 (the "1997 Escrow Agreement") by and between the Authority and U.S. Bank National Association, as escrow agent thereunder; (viii) the Escrow Agreement relating to the 1998 Bonds, dated as of April 1, 2007 (the "1998 Escrow Agreement") by and between the Authority and The Bank of New York Trust Company, N.A., as escrow agent thereunder; (ix) the Bond Purchase Contract, dated April 11, 2007 (the "Purchase Contract," and together with the Indenture, the Facility Lease, the Sublease, the Auction Agreement, the Broker-Dealer Agreement, the 1997 Escrow Agreement and the 1998 Escrow Agreement, the "Authority Agreements"), by and among the City, the Authority and Banc of America Securities LLC, as Underwriter; (x) Resolution No. 010-2007 adopted by the Commission of the Authority on April 3, 2007 (the "2007 Authority Resolution"); (xi) Resolution No. 1-98 adopted by the Commission of the Authority on February 10, 1998 (the "1998 Authority Resolution" and together with the 2007 Authority Resolution, the "Authority Resolutions") and (xii) the Official Statement, dated April 11, 2007 (the "Official Statement") relating to the Series 2007 Bonds.

Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Purchase Contract.

Based upon the foregoing and my review of such other information, documents and matters of law as I consider necessary, I am of the opinion that:

(i) the Authority is a joint powers authority under Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California duly organized and validly existing under and by virtue of the Joint Exercise of Powers Agreement and the laws of the State of California;

(ii) the Authority Resolutions were duly adopted at meetings of the Commission of the Authority which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the Authority Resolutions are in full force and effect and have not been modified, amended or rescinded as of the date hereof;

(iii) to the best of my knowledge after reasonable investigation, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened against or affecting the Authority, challenging the existence of the Authority or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, execution or delivery of the Series 2007 Bonds or the collection of the Base Rental Payments (as defined in the Facility Lease) under the Facility Lease or in any way contesting or affecting the validity or enforceability of the Authority Agreements or contesting the powers of the Authority or its authority to enter into, adopt or perform its obligations under any of the foregoing, or which would have a material adverse effect on the Authority's ability to perform its obligations under

the Authority Agreements or contesting in any way the completeness or accuracy of the Official Statement;

(iv) the adoption of the Authority Resolutions, the execution and delivery of the Authority Agreements and compliance by the Authority with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute, on the part of the Authority, a breach or default under the Joint Exercise of Powers Agreement or any other agreement or other instrument to which the Authority is a party or by which it is bound or, to the best of my knowledge, any existing law, regulation, court order or consent decree to which the Authority is subject;

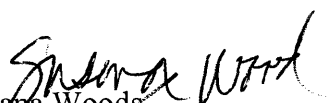
(v) the Authority Agreements have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding agreements of the Authority enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought and to the limitations on legal remedies against public agencies in the State of California;

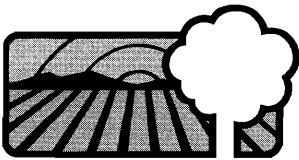
(vi) except as described in the Official Statement, no authorization, approval, consent, or other order of the State or any other governmental authority or agency within the State having jurisdiction over the Authority is required for the valid authorization, execution, delivery and performance by the Authority of the Authority Agreements or for the adoption of the Authority Resolutions which have not been obtained; and

(vii) to the best of my knowledge, the information regarding the Authority contained in the Official Statement (except for any financial or statistical data or forecasts, estimates, projections, assumptions or expressions of opinion, information relating to DTC, the book-entry system, the Insurer, the Insurance Policy as to which no opinion need be expressed) does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

This opinion is furnished to you solely for your benefit and I am not assuming any professional responsibility to any other person whatsoever. This opinion is not to be used, circulated, quoted or otherwise referred to for any other purpose.

Respectfully submitted,


Susana Woods
General Council



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April 18, 2007

Banc of America Securities LLC
San Francisco, California

CIFG Assurance North America, Inc.
New York, New York

\$62,275,000

MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT
BONDS
SERIES 2007

Ladies and Gentlemen:

I am General Counsel to the Redevelopment Agency of the City of Modesto (the "Redevelopment Agency") and in such capacity have represented the Redevelopment Agency in connection with the issuance by the Modesto Public Financing Authority (the "Authority") of its \$62,275,000 aggregate principal amount of Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the "Bonds"). In such connection, I have reviewed the Site Lease (Parking Garage), dated as of March 1, 1998 (the "Parking Garage Site Lease") by and between the Authority and the Redevelopment Agency.

Based upon the foregoing and upon such other information and documents as I consider necessary to render this opinion, I am of the opinion that:

(i) the Redevelopment Agency is a public body, corporate and politic, duly organized and existing under the laws of the State of California (the "State");

(ii) by all necessary official action of the Redevelopment Agency, the Redevelopment Agency duly authorized and approved the execution and delivery of the Parking Garage Site Lease and the performance by the Redevelopment Agency of the obligations on its parts contained therein; and as of the date hereof, such authorizations

(iii) and approvals are in full force and effect and have not been amended, modified or rescinded;

(iv) to the best of my knowledge after reasonable investigation, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened against or affecting the Redevelopment Agency, challenging the existence of the Redevelopment Agency or the titles of its officers to their respective offices or in any way contesting or affecting the validity or enforceability of the Parking Garage Site Lease or contesting the powers of the Redevelopment Agency or its authority to perform its obligations under the Parking Garage Site Lease, or which would have a material adverse effect on the Redevelopment Agency's ability to perform its obligations under the Parking Garage Site Lease;


(v) compliance by the Redevelopment Agency with the provisions of the Parking Garage Site Lease, under the circumstances contemplated thereby, does not in any material respect conflict with or constitute, on the part of the Redevelopment Agency, a breach or default under any agreement or instrument to which the Redevelopment Agency is a party or by which it is bound or, to the best knowledge of such counsel, any existing law, regulation, court order or consent decree to which the Redevelopment Agency is subject;

(vi) the Parking Garage Site Lease constitutes legal, valid and binding agreements of the Redevelopment Agency enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought and to the limitations on legal remedies against cities in the State; and

(vii) no authorization, approval, consent or other order of the State or any other governmental authority or agency within the State having jurisdiction over the Redevelopment Agency is required for the valid performance by the Redevelopment Agency of the Parking Garage Site Lease.

This opinion is furnished to you solely for your benefit and I am not assuming any professional responsibility to any other person whomsoever. This opinion is not to be used, circulated, quoted or otherwise referred to for any other purpose.

Respectfully submitted,


Susana Wood
General Counsel



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April 18, 2007

City of Modesto
Modesto, California

Banc of America Securities LLC
San Francisco, California

CIFG Assurance North America, Inc.
New York, New York

\$62,275,000

MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE REFUNDING AND CAPITAL IMPROVEMENT
BONDS
SERIES 2007

Ladies and Gentlemen:

I am General Counsel to the City-County Capital Improvements and Financing Agency (the "Financing Agency") and in such capacity have represented the Financing Agency in connection with the issuance by the Modesto Public Financing Authority (the "Authority") of its \$62,275,000 aggregate principal amount of Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 (the "Bonds"). In such connection, I have reviewed the Facilities Lease (City-County Administration Building), dated as of March 1, 1998 (the "Administration Building Lease") by and between the Authority and the Financing Agency.

Based upon the foregoing and upon such other information and documents as I consider necessary to render this opinion, I am of the opinion that:

- (i) the Financing Agency is a joint exercise of powers authority, duly organized and existing under laws of the State of California (the "State");

(ii) by all necessary official action of the Financing Agency, the Financing Agency duly authorized and approved the execution and delivery of the Administration Building Lease and the performance by the Financing Agency of the obligations on its parts contained therein; and as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded;

(iii) to the best of my knowledge after reasonable investigation, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened against or affecting the Financing Agency, challenging the existence of the Financing Agency or the titles of its officers to their respective offices or in any way contesting or affecting the validity or enforceability of the Administration Building Lease or contesting the powers of the Financing Agency or its authority to perform its obligations under any of the foregoing, or which would have a material adverse effect on the Financing Agency's ability to perform its obligations under the Administration Building Lease;

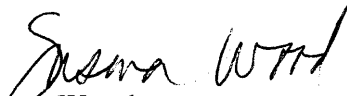
(iv) compliance by the Financing Agency with the provisions of the Administration Building Lease, under the circumstances contemplated thereby, does not in any material respect conflict with or constitute, on the part of the Financing Agency, a breach or default under any agreement or other instrument to which the Financing Agency is a party or by which it is bound or, to the best knowledge of such counsel, any existing law, regulation, court order or consent decree to which the Financing Agency is subject;

(v) the Administration Building Lease constitutes legal, valid and binding agreements of the Financing Agency enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought and to the limitations on legal remedies against authorities in the State; and

(vi) no authorization, approval, consent or other order of the State or any other governmental authority or agency within the State having jurisdiction over the Financing Agency is required for the valid performance by the Financing Agency of the Administration Building Lease.

This opinion is furnished to you solely for your benefit and I am not assuming any professional responsibility to any other person whomsoever. This opinion is not to be used, circulated, quoted or otherwise referred to for any other purpose.

Respectfully submitted,


Susana Wood
General Counsel

STRADLING YOCCA CARLSON & RAUTH

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April 18, 2007

Banc of America Securities LLC
San Francisco, California

Re: *\$62,275,000 Modesto Public Financing Authority Lease Revenue Refunding and
Capital Improvement Bonds Series 2007*

Ladies and Gentlemen:

We have acted as disclosure counsel in connection with the sale and issuance of the above referenced bonds (the "Bonds") pursuant to a Bond Purchase Contract, dated April 11, 2007 (the "Purchase Contract"), by and between Banc of America Securities LLC, as underwriter (the "Underwriter"), and the Modesto Public Financing Authority (the "Authority"), which was approved the City of Modesto (the "City"). This letter is being delivered in satisfaction of the requirements of Section 9(f)(17) of the Purchase Contract, but no attorney-client relationship has existed or exists between the Underwriter and our firm in connection with the issuance of the Bonds or by virtue of this letter.

In reaching the conclusions set forth herein, we have examined originals or copies certified or otherwise identified to our satisfaction of (i) the Purchase Contract, (ii) the Official Statement of the Authority relating to the Bonds, dated April 11, 2007 (the "Official Statement"), (iii) Resolution No. 010-2007 adopted by the Authority on April 3, 2007, (iv) Resolution No. 2007-216 adopted by the City Council of the City of Modesto (the "City") on April 3, 2007, (iv) the Indenture, dated as of April 1, 2007 (the "Indenture") by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), (v) the letters, certificates and opinions delivered to the Underwriter pursuant to the provisions of Section 9(f) of the Purchase Contract, and (vi) such other documents, certificates, instructions and records as we have considered necessary or appropriate as a basis for our conclusions. We have assumed, but not independently verified, that the signatures on all documents, letters, opinions and certificates which we have examined are genuine, that all documents submitted to us are authentic and were duly and properly executed by the parties thereto and that all representations made in the documents that we have reviewed are true and accurate.

We understand that you have received and are relying upon statements and certificates of officers and representatives of the Authority, the City and certain other public agencies and statements and certificates of representatives CIFG Assurance North America, Inc. (the "Bond Insurer") and the Trustee.

Based upon, and subject to the foregoing we are of the opinion that the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended. We express no opinion with respect to the municipal bond insurance policy relating to the Bonds that has been issued by the Bond Insurer (the "Bond Insurance Policy").

Although we have not undertaken to independently check, or to assume responsibility for, the accuracy, completeness or fairness of, the information contained in the Official Statement and are therefore unable to make any representation to you in that regard, we have participated in conferences prior to the date of the Official Statement with representatives of the Authority, the counsel to the Authority, the City, the City Attorney, Sidley Austin LLP, Public Financial Management, Inc., the Underwriter, Orrick, Herrington & Sutcliffe, LLP and others, during which conferences the contents of the Official Statement and related matters were discussed. In reliance thereon and on the records, documents, certificates and opinions described therein, we do not believe that the Official Statement (except for any financial or statistical data or forecasts, numbers, charts, estimates, projections, assumptions or expressions of opinion, Appendices A, B, D, E, G and H and any information about book-entry, The Depository Trust Company, the Bond Insurer, or the Bond Insurance Policy included therein, as to which no view or opinion is expressed), as of its date and as of the date hereof, contained or contains any untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. Finally, we advise you that, other than reviewing the various Bonds and opinions required by Section 8(f) of the Purchase Contract we have not taken any steps since the date of the Official Statement to verify the accuracy of the statements contained in the Official Statement as of the date hereof.

This letter is being delivered to the Underwriter solely for its benefit in connection with the Underwriter's purchase of the Bonds and is not to be used, circulated, quoted or otherwise referred to for any other purpose; nor may it be relied upon by any other person without our prior written consent. This letter is limited to matters governed by the laws of the State of California and federal securities laws, and we assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction. No opinion is expressed herein as to the validity of the Bonds, the exclusion from gross income for federal income tax purposes of the interest represented by the Bonds or the compliance with, or applicability of, any "blue sky" laws of any state as they relate to the offer or sale of the Bonds.

We have not undertaken any duty and expressly disclaim any responsibility to advise the Underwriter as to events occurring after the date hereof with respect to the Bonds or other matters discussed in the Official Statement. Our engagement with respect to the Bonds terminates upon their issuance.

Respectfully submitted,



Geraldine Zucca
Carlson & Rauh

STRADLING YOCCA CARLSON & RAUTH

A PROFESSIONAL CORPORATION
ATTORNEYS AT LAW
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SANTA BARBARA
(805) 564-0065
SANTA MONICA
(310) 434-2788

April 18, 2007

Modesto Public Financing Authority
Modesto, California

City of Modesto
Modesto, California

*Re: \$62,275,000 Modesto Public Financing Authority Lease Revenue Refunding and
Capital Improvement Bonds Series 2007*

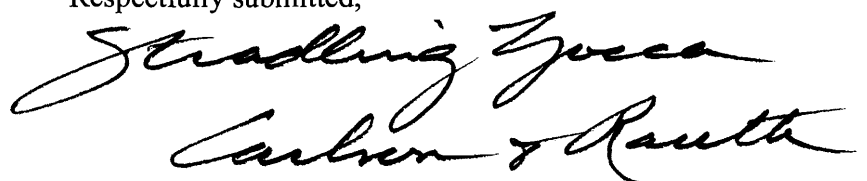
Ladies and Gentlemen:

We have acted as disclosure counsel in connection with the sale and issuance of the above referenced bonds (the "Bonds") pursuant to a Bond Purchase Contract, dated April 11, 2007 (the "Purchase Contract"), by and between Banc of America Securities LLC, as underwriter (the "Underwriter"), and the Modesto Public Financing Authority (the "Authority"), which was approved the City of Modesto (the "City").

In our capacity as disclosure counsel, we have delivered to the Underwriter a letter (the "Letter") in which, among other things, we express certain conclusions concerning the Official Statement relating to the Bonds. In reaching the conclusions set forth in the Letter we have participated in conferences prior to the date of the Official Statement with representatives of the City, the City Attorney, the Authority, counsel to the Authority, Sidley Austin LLP, Public Financial Management, Inc., the Underwriter, Orrick, Herrington & Sutcliffe, LLP and others; we have relied upon various documents, letters, certificates and opinions, including documents, letters, certificates and opinions provided by officers of and counsel to the Authority (the "Modesto Documents"); and we have assumed the accuracy of the representations contained in the Modesto Documents.

Pursuant to your request, you are authorized to rely on the conclusions set forth in the Letter to the extent and for the purposes for which the Letter was delivered to the Underwriter, as if the Letter were addressed to you, *provided* that neither you nor your representatives are authorized to rely on the Letter in connection with the delivery of the Modesto Documents or the making of the representations or conclusions set forth therein.

Respectfully submitted,

Handwritten signature in cursive script, reading "Stradling Yocca Carlson & Rauth".

JENSEN LAW OFFICE

121 LESLEE LANE
ORINDA, CA 94563-4217
925-284-7071
pkjensen@att.net

18 April 2007

City of Modesto
Modesto Public Financing Authority
Modesto, California

Banc of America Securities LLC
San Francisco, California

CIFG Assurance North America, Inc.
New York, New York

OPINION RE: Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007

Ladies and Gentlemen:

We have acted as special counsel to The Bank of New York Trust Company, N.A. (the "Trustee") in its capacity as Trustee under that certain Indenture, dated as of April 1, 2007 (the "Indenture"), by and between the Modesto Public Financing Authority (the "Authority") and the Trustee, relating to the referenced Lease Revenue Refunding and Capital Improvement Bonds.

In that connection we have examined the original or copies, identified to our satisfaction, of the Indenture, the Continuing Disclosure Agreement, dated April 18, 2007 (the "Continuing Disclosure Agreement"), by and between the City of Modesto and the Trustee in its capacity as Dissemination Agent thereunder, the Auction Agreement, dated as of April 1, 2007 (the "Auction Agreement"), by and between the Trustee and Deutsche Bank Trust Company Americas, as Auction Agent, the Escrow Agreement, dated as of April 1, 2007 (the "1998 Escrow Agreement"), by and between the Authority and the Trustee in its capacity as Escrow Agent thereunder, and such other documents that we deemed necessary for the purpose of rendering the opinions set forth below. In examining such documents, we have not undertaken to independently verify the accuracy of the factual matters represented, warranted or certified in such documents. In making our examination, we assumed that each party to the documents other than the Trustee has the power to enter into and perform its obligations thereunder, has duly authorized, executed and delivered such documents, and that such documents constitute the legal, valid and binding obligations of such party. We express no opinion as to matters governed by any laws other than the substantive laws of the State of California

TO City of Modesto
Modesto Public Financing Authority
Banc of America Securities LLC
CIFG Assurance North America, Inc.

DATE 18 April 2007

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(without reference to its conflicts of laws rules) and the federal laws of the United States of America which are in effect on the date hereof.

We call attention to the fact that the rights and obligations under the Indenture, the Continuing Disclosure Agreement, the Auction Agreement, the 1998 Escrow Agreement (herein collectively "the Trustee Documents") and related documents are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases.

Based on the foregoing, and subject to the following qualifications, we are of the opinion that:

[1] The Trustee is a duly organized and validly existing national banking association in good standing under the laws of the United States of America having full powers and authority and being qualified to enter into, accept and administer the trusts created under the Indenture and the 1998 Escrow Agreement and to enter into the Trustee Documents..

[2] The performance by the Trustee of the duties required under the Trustee Documents has been duly authorized by all necessary corporate action on the part of the Trustee, and under present law does not contravene any law or government regulation or order presently binding on the Trustee or contravene any law or governmental regulation or order presently binding on the Trustee or the Articles of Association or the bylaws of the Trustee or contravene any provision of or constitute a default under any indenture, contract or other instrument to which the Trustee is a party or by which the Trustee is bound.

[3] The performance by the Trustee of the duties required under the Trustee Documents does not require the consent or approval of, the giving of notice to, the registration with, or the taking of any other action in respect of, any federal, state or other governmental agency or authority.

[4] The Trustee Documents have been duly authorized, executed and delivered by the Trustee, and constitute the legal, valid and binding agreements of the Trustee enforceable in accordance with their terms.

[5] The Trustee has duly authorized the execution and delivery of the Trustee Documents.

TO City of Modesto
Modesto Public Financing Authority
Banc of America Securities LLC
CIFG Assurance North America, Inc.

DATE 18 April 2007

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[6] All approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the performance by the Trustee of its duties and obligations under the Trustee Documents have been obtained and are in full force and effect.

We express no opinion as to any matter other than as expressly set forth above. We specifically express no opinion as to the status of the Bonds, the distribution thereof, or the interest thereon under (i) any federal or state securities or "Blue Sky" laws or (ii) any federal, state or local tax law. No opinion is expressed as to the perfection, validity, priority or enforceability of any security interest or lien created to secure the Bonds.

This opinion is as of the date hereof, and we undertake no obligation to advise you of any change in any matter set forth herein. Further, this opinion does not imply an approval or recommendation of any investment in any Bond. Finally, this opinion is solely for the benefit of each addressee and its counsel, and may not be relied upon in any manner, or used, by any other person.

Very truly yours,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

April 18, 2007

Modesto Public Financing Authority
Modesto, California

Banc of America Securities LLC
San Francisco, California

Re: Modesto Public Financing Authority Lease Revenue Refunding
and Capital Improvement Bonds Series 2007

Ladies and Gentlemen:

We have acted counsel for U.S. Bank National Association, a national banking association (the "Escrow Agent") in connection with the execution by the Escrow Agent of the Escrow Agreement, dated as of April 1, 2007 (the "Escrow Agreement"), between the Escrow Agent, as escrow agent and as successor trustee and the Modesto Public Financing Authority, relating to the above-captioned Bonds. We are generally familiar with the Articles of Association and the Bylaws of the Escrow Agent and are also familiar with the corporate proceedings of the Escrow Agent with regard to its authorization, execution and delivery of the Escrow Agreement. Capitalized terms used herein shall have the respective meanings ascribed to them in the Escrow Agreement, except as otherwise defined herein.

We have examined such documents and have reviewed such questions of law as we have considered necessary and appropriate for purposes of this opinion. In such review, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, and the conformity with originals of all documents submitted to us as copies. Where questions of fact material to our opinions expressed below were not established independently, we have relied upon statements of officers of the Escrow Agent as contained in their certificates.

Based upon the foregoing, we are of the opinion that:

1. The Escrow Agent is a national banking association duly organized, validly existing and in good standing under the laws of the United States of America.
2. The Escrow Agent has all requisite power, authority and legal right to execute and deliver the Escrow Agreement and has taken all necessary corporate action to authorize the execution and delivery of the Escrow Agreement and the performance of its obligations thereunder.
3. The Escrow Agent has duly authorized, executed and delivered the Escrow Agreement. Assuming the due authorization, execution and delivery thereof by the other

party thereto, the Escrow Agreement is the legal, valid and binding agreement of the Escrow Agent, enforceable in accordance with its terms against the Escrow Agent.

4. To the best of our knowledge, no authorization, approval, consent, or order of any governmental agency or regulatory authority having jurisdiction over the Escrow Agent that has not been obtained by the Escrow Agent is required for the authorization, execution and delivery by the Escrow Agent of the Escrow Agreement and the performance of the duties of the Escrow Agent under the Escrow Agreement.

5. To the best of our knowledge, the execution and delivery by the Escrow Agent of the Escrow Agreement and compliance by the Escrow Agent with the provisions of the Escrow Agreement will not contravene the Articles of Association or Bylaws of the Escrow Agent or any law or regulation governing the banking and trust powers of the Escrow Agent.

The opinions set forth above are subject to the following qualifications and exceptions:

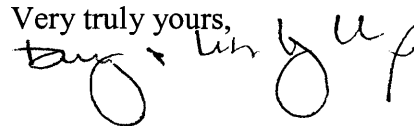
(a) the opinions are subject to the effect of any applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws of general application affecting creditors' rights;

(b) the opinions are subject to the effect of general principles of equity, including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing, and other similar doctrines affecting the enforceability of agreements generally (regardless of whether considered in a proceeding in equity or at law).

Our opinions expressed above are limited to the laws of the State of California and the federal laws of the United States of America.

The foregoing opinions are being furnished to you solely for your benefit and may not be relied upon by, nor may copies be delivered to, any other person without our prior written consent.

Very truly yours,



April 18, 2007

Modesto Public Financing Authority

Banc of America Securities LLC,
as underwriter
of the within-mentioned Bonds

Ladies and Gentlemen:

I am General Counsel, Global Structured Finance & Capital Markets of CIFG Assurance North America, Inc., a New York stock insurance company (“CIFG”), and have acted as such in connection with the issuance by CIFG of a certain Bond Insurance Policy, number CIFG NA-1568 and endorsements thereto, effective as of the date hereof (the “Policy”), insuring Lease Revenue Refunding and Capital Improvement Bonds, Series 2007 in aggregate principal amount of \$62,275,000 issued by the Modesto Public Financing Authority.

I or lawyers under my supervision have examined the Policy and such corporate records, certificates and other documents and such questions of law as I have considered necessary or appropriate in the circumstances for purposes of this opinion.

Based upon such examination and having regard to legal considerations I deem relevant, I am of the opinion that:

1. CIFG is a stock insurance company duly organized and validly existing in good standing under the laws of the State of New York with power and authority under applicable laws to conduct its insurance business in the manner in which it is being conducted.
2. The Policy has been duly authorized, executed and delivered by CIFG and constitutes a legal, valid and binding obligation of CIFG enforceable in accordance with its terms, subject as to enforcement to bankruptcy, insolvency, liquidation, reorganization, rehabilitation, moratorium and other state and federal laws affecting the enforcement of creditors' rights and to general principles of equity.
3. The execution, delivery and performance of the Policy and the consummation of the transactions contemplated thereby will not conflict with or result in a breach of any of the terms, conditions or provisions of the Charter or By-Laws of CIFG, or any restriction contained in any contract, agreement or instrument to which CIFG is a party or by which it is bound or constitute a default under any of the foregoing.

Modesto Public Financing Authority

Banc of America Securities LLC

April 18, 2007

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4. All proceedings legally required for the issuance of the Policy have been taken by CIFG and all licenses, orders, consents or other authorizations or approvals of any governmental boards or bodies legally required for the enforceability of the Policy in all material respects have been obtained.

I have, with your approval, relied as to certain matters on information obtained from public officials, officers of CIFG and other sources believed by me to be responsible. This opinion is furnished to you solely for your benefit and may not be relied upon or distributed to any other person.

Very truly yours,



Michael S. Knopf

(Local Currency—Single Jurisdiction)

ISDA[®]

International Swap Dealers Association, Inc.

MASTER AGREEMENT

dated as of April 11, 2007

Bank of America, N.A. and Modesto Public Financing Authority

have entered and/or anticipate entering into one or more transactions (each a "Transaction") that are or will be governed by this Master Agreement, which includes the schedule (the "Schedule"), and the documents and other confirming evidence (each a "Confirmation") exchanged between the parties confirming those Transactions.

Accordingly, the parties agree as follows:—

1. Interpretation

- (a) **Definitions.** The terms defined in Section 12 and in the Schedule will have the meanings therein specified for the purpose of this Master Agreement.
- (b) **Inconsistency.** In the event of any inconsistency between the provisions of the Schedule and the other provisions of this Master Agreement, the Schedule will prevail. In the event of any inconsistency between the provisions of any Confirmation and this Master Agreement (including the Schedule), such Confirmation will prevail for the purpose of the relevant Transaction.
- (c) **Single Agreement.** All Transactions are entered into in reliance on the fact that this Master Agreement and all Confirmations form a single agreement between the parties (collectively referred to as this "Agreement"), and the parties would not otherwise enter into any Transactions.

2. Obligations

- (a) **General Conditions.**
 - (i) Each party will make each payment or delivery specified in each Confirmation to be made by it, subject to the other provisions of this Agreement.
 - (ii) Payments under this Agreement will be made on the due date for value on that date in the place of the account specified in the relevant Confirmation or otherwise pursuant to this Agreement, in freely transferable funds and in the manner customary for payments in the required currency. Where settlement is by delivery (that is, other than by payment), such delivery will be made for receipt on the due date in the manner customary for the relevant obligation unless otherwise specified in the relevant Confirmation or elsewhere in this Agreement.
 - (iii) Each obligation of each party under Section 2(a)(i) is subject to (1) the condition precedent that no Event of Default or Potential Event of Default with respect to the other party has occurred and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement.

(b) **Change of Account.** Either party may change its account for receiving a payment or delivery by giving notice to the other party at least five Local Business Days prior to the scheduled date for the payment or delivery to which such change applies unless such other party gives timely notice of a reasonable objection to such change.

(c) **Netting.** If on any date amounts would otherwise be payable:—

- (i) in the same currency; and
- (ii) in respect of the same Transaction,

by each party to the other, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, replaced by an obligation upon the party by whom the larger aggregate amount would have been payable to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

The parties may elect in respect of two or more Transactions that a net amount will be determined in respect of all amounts payable on the same date in the same currency in respect of such Transactions, regardless of whether such amounts are payable in respect of the same Transaction. The election may be made in the Schedule or a Confirmation by specifying that subparagraph (ii) above will not apply to the Transactions identified as being subject to the election, together with the starting date (in which case subparagraph (ii) above will not, or will cease to, apply to such Transactions from such date). This election may be made separately for different groups of Transactions and will apply separately to each pairing of branches or offices through which the parties make and receive payments or deliveries.

(d) **Default Interest; Other Amounts.** Prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party that defaults in the performance of any payment obligation will, to the extent permitted by law and subject to Section 6(c), be required to pay interest (before as well as after judgment) on the overdue amount to the other party on demand in the same currency as such overdue amount, for the period from (and including) the original due date for payment to (but excluding) the date of actual payment, at the Default Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed. If, prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party defaults in the performance of any obligation required to be settled by delivery, it will compensate the other party on demand if and to the extent provided for in the relevant Confirmation or elsewhere in this Agreement.

3. Representations

Each party represents to the other party (which representations will be deemed to be repeated by each party on each date on which a Transaction is entered into) that:—

(a) **Basic Representations.**

- (i) **Status.** It is duly organised and validly existing under the laws of the jurisdiction of its organisation or incorporation and, if relevant under such laws, in good standing;
- (ii) **Powers.** It has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action to authorise such execution, delivery and performance;
- (iii) **No Violation or Conflict.** Such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;

(iv) **Consents.** All governmental and other consents that are required to have been obtained by it with respect to this Agreement or any Credit Support Document to which it is a party have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and

(v) **Obligations Binding.** Its obligations under this Agreement and any Credit Support Document to which it is a party constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganisation, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

(b) **Absence of Certain Events.** No Event of Default or Potential Event of Default or, to its knowledge, Termination Event with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party.

(c) **Absence of Litigation.** There is not pending or, to its knowledge, threatened against it or any of its Affiliates any action, suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against it of this Agreement or any Credit Support Document to which it is a party or its ability to perform its obligations under this Agreement or such Credit Support Document.

(d) **Accuracy of Specified Information.** All applicable information that is furnished in writing by or on behalf of it to the other party and is identified for the purpose of this Section 3(d) in the Schedule is, as of the date of the information, true, accurate and complete in every material respect.

4. Agreements

Each party agrees with the other that, so long as either party has or may have any obligation under this Agreement or under any Credit Support Document to which it is a party:—

(a) **Furnish Specified Information.** It will deliver to the other party any forms, documents or certificates specified in the Schedule or any Confirmation by the date specified in the Schedule or such Confirmation or, if none is specified, as soon as reasonably practicable.

(b) **Maintain Authorisations.** It will use all reasonable efforts to maintain in full force and effect all consents of any governmental or other authority that are required to be obtained by it with respect to this Agreement or any Credit Support Document to which it is a party and will use all reasonable efforts to obtain any that may become necessary in the future.

(c) **Comply with Laws.** It will comply in all material respects with all applicable laws and orders to which it may be subject if failure so to comply would materially impair its ability to perform its obligations under this Agreement or any Credit Support Document to which it is a party.

5. Events of Default and Termination Events

(a) **Events of Default.** The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any of the following events constitutes an event of default (an "Event of Default") with respect to such party:—

(i) **Failure to Pay or Deliver.** Failure by the party to make, when due, any payment under this Agreement or delivery under Section 2(a)(i) or 2(d) required to be made by it if such failure is not remedied on or before the third Local Business Day after notice of such failure is given to the party;

(ii) **Breach of Agreement.** Failure by the party to comply with or perform any agreement or obligation (other than an obligation to make any payment under this Agreement or delivery under Section 2(a)(i) or 2(d) or to give notice of a Termination Event) to be complied with or performed

by the party in accordance with this Agreement if such failure is not remedied on or before the thirtieth day after notice of such failure is given to the party;

(iii) ***Credit Support Default.***

(1) Failure by the party or any Credit Support Provider of such party to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with any Credit Support Document if such failure is continuing after any applicable grace period has elapsed;

(2) the expiration or termination of such Credit Support Document or the failing or ceasing of such Credit Support Document to be in full force and effect for the purpose of this Agreement (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of such party under each Transaction to which such Credit Support Document relates without the written consent of the other party; or

(3) the party or such Credit Support Provider disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, such Credit Support Document;

(iv) ***Misrepresentation.*** A representation made or repeated or deemed to have been made or repeated by the party or any Credit Support Provider of such party in this Agreement or any Credit Support Document proves to have been incorrect or misleading in any material respect when made or repeated or deemed to have been made or repeated;

(v) ***Default under Specified Transaction.*** The party, any Credit Support Provider of such party or any applicable Specified Entity of such party (1) defaults under a Specified Transaction and, after giving effect to any applicable notice requirement or grace period, there occurs a liquidation of, an acceleration of obligations under, or an early termination of, that Specified Transaction, (2) defaults, after giving effect to any applicable notice requirement or grace period, in making any payment or delivery due on the last payment, delivery or exchange date of, or any payment on early termination of, a Specified Transaction (or such default continues for at least three Local Business Days if there is no applicable notice requirement or grace period) or (3) disaffirms, disclaims, repudiates or rejects, in whole or in part, a Specified Transaction (or such action is taken by any person or entity appointed or empowered to operate it or act on its behalf);

(vi) ***Cross Default.*** If "Cross Default" is specified in the Schedule as applying to the party, the occurrence or existence of (1) a default, event of default or other similar condition or event (however described) in respect of such party, any Credit Support Provider of such party or any applicable Specified Entity of such party under one or more agreements or instruments relating to Specified Indebtedness of any of them (individually or collectively) in an aggregate amount of not less than the applicable Threshold Amount (as specified in the Schedule) which has resulted in such Specified Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments, before it would otherwise have been due and payable or (2) a default by such party, such Credit Support Provider or such Specified Entity (individually or collectively) in making one or more payments on the due date thereof in an aggregate amount of not less than the applicable Threshold Amount under such agreements or instruments (after giving effect to any applicable notice requirement or grace period);

(vii) ***Bankruptcy.*** The party, any Credit Support Provider of such party or any applicable Specified Entity of such party: —

(1) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its

winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (8) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts; or

(viii) **Merger Without Assumption.** The party or any Credit Support Provider of such party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer: —

(1) the resulting, surviving or transferee entity fails to assume all the obligations of such party or such Credit Support Provider under this Agreement or any Credit Support Document to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other party to this Agreement; or

(2) the benefits of any Credit Support Document fail to extend (without the consent of the other party) to the performance by such resulting, surviving or transferee entity of its obligations under this Agreement.

(b) **Termination Events.** The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any event specified below constitutes an Illegality if the event is specified in (i) below, and, if specified to be applicable, a Credit Event Upon Merger if the event is specified pursuant to (ii) below or an Additional Termination Event if the event is specified pursuant to (iii) below: —

(i) **Illegality.** Due to the adoption of, or any change in, any applicable law after the date on which a Transaction is entered into, or due to the promulgation of, or any change in, the interpretation by any court tribunal or regulatory authority with competent jurisdiction of any applicable law after such date, it becomes unlawful (other than as a result of a breach by the party of Section 4(b)) for such party (which will be the Affected Party):—

(1) to perform any absolute or contingent obligation to make a payment or delivery or to receive a payment or delivery in respect of such Transaction or to comply with any other material provision of this Agreement relating to such Transaction; or

(2) to perform, or for any Credit Support Provider of such party to perform, any contingent or other obligation which the party (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction;

(ii) **Credit Event Upon Merger.** If "Credit Event Upon Merger" is specified in the Schedule as applying to the party, such party ("X"), any Credit Support Provider of X or any applicable Specified Entity of X consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and such action does not constitute an event described in Section 5(a)(viii) but the creditworthiness of the resulting, surviving or transferee entity is materially weaker than that of X, such Credit Support Provider or such Specified Entity, as the case may be, immediately prior to such action (and, in such event, X or its successor or transferee, as appropriate, will be the Affected Party); or

(iii) **Additional Termination Event.** If any "Additional Termination Event" is specified in the Schedule or any Confirmation as applying, the occurrence of such event (and, in such event, the Affected Party or Affected Parties shall be as specified for such Additional Termination Event in the Schedule or such Confirmation).

(c) **Event of Default and Illegality.** If an event or circumstance which would otherwise constitute or give rise to an Event of Default also constitutes an Illegality, it will be treated as an Illegality and will not constitute an Event of Default.

6. Early Termination

(a) **Right to Terminate Following Event of Default.** If at any time an Event of Default with respect to a party (the "Defaulting Party") has occurred and is then continuing, the other party (the "Non-defaulting Party") may, by not more than 20 days notice to the Defaulting Party specifying the relevant Event of Default, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all outstanding Transactions. If, however, "Automatic Early Termination" is specified in the Schedule as applying to a party, then an Early Termination Date in respect of all outstanding Transactions will occur immediately upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(1), (3), (5), (6) or, to the extent analogous thereto, (8), and as of the time immediately preceding the institution of the relevant proceeding or the presentation of the relevant petition upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(4) or, to the extent analogous thereto, (8).

(b) **Right to Terminate Following Termination Event.**

(i) **Notice.** If a Termination Event occurs, an Affected Party will, promptly upon becoming aware of it, notify the other party, specifying the nature of that Termination Event and each Affected Transaction and will also give such other information about that Termination Event as the other party may reasonably require.

(ii) **Two Affected Parties.** If an Illegality under section 5(b)(i)(1) occurs and there are two Affected Parties, each party will use all reasonable efforts to reach agreement within 30 days after notice thereof is given under Section 6(b)(i) on action to avoid that Termination Event.

(iii) **Right to Terminate.** If:—

(1) an agreement under Section 6(b)(ii) has not been effected with respect to all Affected Transactions within 30 days after an Affected Party gives notice under Section 6(b)(i); or

(2) an Illegality other than that referred to in Section 6(b)(ii), a Credit Event Upon Merger or an Additional Termination Event occurs,

either party in the case of an Illegality, any Affected Party in the case of an Additional Termination Event if there is more than one Affected Party, or the party which is not the Affected Party in the case of a Credit Event Upon Merger or an Additional Termination Event if there is only one Affected Party may, by not more than 20 days notice to the other party and provided that the relevant Termination Event is then continuing, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all Affected Transactions.

(c) **Effect of Designation.**

(i) If notice designating an Early Termination Date is given under Section 6(a) or (b), the Early Termination Date will occur on the date so designated, whether or not the relevant Event of Default or Termination Event is then continuing.

(ii) Upon the occurrence or effective designation of an Early Termination Date, no further payments or deliveries under Section 2(a)(i) or 2(d) in respect of the Terminated Transactions will be required to be made, but without prejudice to the other provisions of this Agreement. The amount, if any, payable in respect of an Early Termination Date shall be determined pursuant to Section 6(e).

(d) **Calculations.**

(i) **Statement.** On or as soon as reasonably practicable following the occurrence of an Early Termination Date, each party will make the calculations on its part, if any, contemplated by Section 6(e) and will provide to the other party a statement (1) showing, in reasonable detail, such calculations (including all relevant quotations and specifying any amount payable under Section 6(e)) and (2) giving details of the relevant account to which any amount payable to it is to be paid. In the absence of written confirmation from the source of a quotation obtained in determining a Market Quotation, the records of the party obtaining such quotation will be conclusive evidence of the existence and accuracy of such quotation.

(ii) **Payment Date.** An amount calculated as being due in respect of any Early Termination Date under Section 6(e) will be payable on the day that notice of the amount payable is effective (in the case of an Early Termination Date which is designated or occurs as a result of an Event of Default) and on the day which is two Local Business Days after the day on which notice of the amount payable is effective (in the case of an Early Termination Date which is designated as a result of a Termination Event). Such amount will be paid together with (to the extent permitted under applicable law) interest thereon (before as well as after judgment), from (and including) the relevant Early Termination Date to (but excluding) the date such amount is paid, at the Applicable Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

(e) **Payments on Early Termination.** If an Early Termination Date occurs, the following provisions shall apply based on the parties' election in the Schedule of a payment measure, either "Market Quotation" or "Loss", and a payment method, either the "First Method" or the "Second Method". If the parties fail to designate a payment measure or payment method in the Schedule, it will be deemed that "Market Quotation" or the "Second Method", as the case may be, shall apply. The amount, if any, payable in respect of an Early Termination Date and determined pursuant to this Section will be subject to any Set-off.

(i) **Events of Default.** If the Early Termination Date results from an Event of Default:—

(1) **First Method and Market Quotation.** If the First Method and Market Quotation apply, the Defaulting Party will pay to the Non-defaulting Party the excess, if a positive number, of (A) the sum of the Settlement Amount (determined by the Non-defaulting Party) in respect of the Terminated Transactions and the Unpaid Amounts owing to the Non-defaulting Party over (B) the Unpaid Amounts owing to the Defaulting Party.

(2) **First Method and Loss.** If the First Method and Loss apply, the Defaulting Party will pay to the Non-defaulting Party, if a positive number, the Non-defaulting Party's Loss in respect of this Agreement.

(3) **Second Method and Market Quotation.** If the Second Method and Market Quotation apply, an amount will be payable equal to (A) the sum of the Settlement Amount (determined by the Non-defaulting Party) in respect of the Terminated Transactions and the Unpaid Amounts owing to the Non-defaulting Party less (B) the Unpaid Amounts owing to the Defaulting Party. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(4) **Second Method and Loss.** If the Second Method and Loss apply, an amount will be payable equal to the Non-defaulting Party's Loss in respect of this Agreement. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative

number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(ii) **Termination Events.** If the Early Termination Date results from a Termination Event:—

(1) *One Affected Party.* If there is one Affected Party, the amount payable will be determined in accordance with Section 6(e)(i)(3), if Market Quotation applies, or Section 6(e)(i)(4), if Loss applies, except that, in either case, references to the Defaulting Party and to the Non-defaulting Party will be deemed to be references to the Affected Party and the party which is not the Affected Party, respectively, and, if Loss applies and fewer than all the Transactions are being terminated, Loss shall be calculated in respect of all Terminated Transactions.

(2) *Two Affected Parties.* If there are two Affected Parties:—

(A) if Market Quotation applies, each party will determine a Settlement Amount in respect of the Terminated Transactions, and an amount will be payable equal to (I) the sum of (a) one-half of the difference between the Settlement Amount of the party with the higher Settlement Amount ("X") and the Settlement Amount of the party with the lower Settlement Amount ("Y") and (b) the Unpaid Amounts owing to X less (II) the Unpaid Amounts owing to Y; and

(B) if Loss applies, each party will determine its Loss in respect of this Agreement (or, if fewer than all the Transactions are being terminated, in respect of all Terminated Transactions) and an amount will be payable equal to one-half of the difference between the Loss of the party with the higher Loss ("X") and the Loss of the party with the lower Loss ("Y").

If the amount payable is a positive number, Y will pay it to X; if it is a negative number, X will pay the absolute value of that amount to Y.

(iii) **Adjustment for Bankruptcy.** In circumstances where an Early Termination Date occurs because "Automatic Early Termination" applies in respect of a party, the amount determined under this Section 6(e) will be subject to such adjustments as are appropriate and permitted by law to reflect any payments or deliveries made by one party to the other under this Agreement (and retained by such other party) during the period from the relevant Early Termination Date to the date for payment determined under Section 6(d)(ii).

(iv) **Pre-Estimate.** The parties agree that if Market Quotation applies an amount recoverable under this Section 6(e) is a reasonable pre-estimate of loss and not a penalty. Such amount is payable for the loss of bargain and the loss of protection against future risks and except as otherwise provided in this Agreement neither party will be entitled to recover any additional damages as a consequence of such losses.

7. Transfer

Neither this Agreement nor any interest or obligation in or under this Agreement may be transferred (whether by way of security or otherwise) by either party without the prior written consent of the other party, except that:—

(a) a party may make such a transfer of this Agreement pursuant to a consolidation or amalgamation with, or merger with or into, or transfer of all or substantially all its assets to, another entity (but without prejudice to any other right or remedy under this Agreement); and

(b) a party may make such a transfer of all or any part of its interest in any amount payable to it from a Defaulting Party under Section 6(e).

Any purported transfer that is not in compliance with this Section will be void.

8. Miscellaneous

- (a) **Entire Agreement.** This Agreement constitutes the entire agreement and understanding of the parties with respect to its subject matter and supersedes all oral communication and prior writings with respect thereto.
- (b) **Amendments.** No amendment, modification or waiver in respect of this Agreement will be effective unless in writing (including a writing evidenced by a facsimile transmission) and executed by each of the parties or confirmed by an exchange of telexes or electronic messages on an electronic messaging system.
- (c) **Survival of Obligations.** Without prejudice to Sections 2(a)(iii) and 6(c)(ii), the obligations of the parties under this Agreement will survive the termination of any Transaction.
- (d) **Remedies Cumulative.** Except as provided in this Agreement, the rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided by law.
- (e) **Counterparts and Confirmations.**
- (i) This Agreement (and each amendment, modification and waiver in respect of it) may be executed and delivered in counterparts (including by facsimile transmission), each of which will be deemed an original.
 - (ii) The parties intend that they are legally bound by the terms of each Transaction from the moment they agree to those terms (whether orally or otherwise). A Confirmation shall be entered into as soon as practicable and may be executed and delivered in counterparts (including by facsimile transmission) or be created by an exchange of telexes or by an exchange of electronic messages on an electronic messaging system, which in each case will be sufficient for all purposes to evidence a binding supplement to this Agreement. The parties will specify therein or through another effective means that any such counterpart, telex or electronic message constitutes a Confirmation.
- (f) **No Waiver of Rights.** A failure or delay in exercising any right, power or privilege in respect of this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise, of that right, power or privilege or the exercise of any other right, power or privilege.
- (g) **Headings.** The headings used in this Agreement are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Agreement.

9. Expenses

A Defaulting Party will, on demand, indemnify and hold harmless the other party for and against all reasonable out-of-pocket expenses, including legal fees, incurred by such other party by reason of the enforcement and protection of its rights under this Agreement or any Credit Support Document to which the Defaulting Party is a party or by reason of the early termination of any Transaction, including, but not limited to, costs of collection.

10. Notices

- (a) **Effectiveness.** Any notice or other communication in respect of this Agreement may be given in any manner set forth below (except that a notice or other communication under Section 5 or 6 may not be given by facsimile transmission or electronic messaging system) to the address or number or in accordance with the electronic messaging system details provided (see the Schedule) and will be deemed effective as indicated: —
- (i) if in writing and delivered in person or by courier, on the date it is delivered;
 - (ii) if sent by telex, on the date the recipient's answerback is received;

- (iii) if sent by facsimile transmission, on the date that transmission is received by a responsible employee of the recipient in legible form (it being agreed that the burden of proving receipt will be on the sender and will not be met by a transmission report generated by the sender's facsimile machine);
- (iv) if sent by certified or registered mail (airmail, if overseas) or the equivalent (return receipt requested), on the date that mail is delivered or its delivery is attempted; or
- (v) if sent by electronic messaging system, on the date that electronic message is received,

unless the date of that delivery (or attempted delivery) or that receipt, as applicable, is not a Local Business Day or that communication is delivered (or attempted) or received, as applicable, after the close of business on a Local Business Day, in which case that communication shall be deemed given and effective on the first following day that is a Local Business Day.

(b) **Change of Addresses.** Either party may by notice to the other change the address, telex or facsimile number or electronic messaging system details at which notices or other communications are to be given to it.

11. Governing Law and Jurisdiction

(a) **Governing Law.** This Agreement will be governed by and construed in accordance with the law specified in the Schedule.

(b) **Jurisdiction.** With respect to any suit, action or proceedings relating to this Agreement ("Proceedings"), each party irrevocably:—

- (i) submits to the jurisdiction of the English courts, if this Agreement is expressed to be governed by English law, or to the non-exclusive jurisdiction of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City, if this Agreement is expressed to be governed by the laws of the State of New York; and
- (ii) waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings, that such court does not have any jurisdiction over such party.

Nothing in this Agreement precludes either party from bringing Proceedings in any other jurisdiction (outside, if this Agreement is expressed to be governed by English law, the Contracting States, as defined in Section 1(3) of the Civil Jurisdiction and Judgments Act 1982 or any modification, extension or re-enactment thereof for the time being in force) nor will the bringing of Proceedings in any one or more jurisdictions preclude the bringing of Proceedings in any other jurisdiction.

(c) **Waiver of Immunities.** Each party irrevocably waives, to the fullest extent permitted by applicable law, with respect to itself and its revenues and assets (irrespective of their use or intended use), all immunity on the grounds of sovereignty or other similar grounds from (i) suit, (ii) jurisdiction of any court, (iii) relief by way of injunction, order for specific performance or for recovery of property, (iv) attachment of its assets (whether before or after judgment) and (v) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any Proceedings in the courts of any jurisdiction and irrevocably agrees, to the extent permitted by applicable law, that it will not claim any such immunity in any Proceedings.

12. Definitions

As used in this Agreement:—

"**Additional Termination Event**" has the meaning specified in Section 5(b).

"**Affected Party**" has the meaning specified in Section 5(b).

"Affected Transactions" means (a) with respect to any Termination Event consisting of an Illegality, all Transactions affected by the occurrence of such Termination Event and (b) with respect to any other Termination Event, all Transactions.

"Affiliate" means, subject to the Schedule, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose, "control" of any entity or person means ownership of a majority of the voting power of the entity or person.

"Applicable Rate" means: —

(a) in respect of obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Defaulting Party, the Default Rate;

(b) in respect of an obligation to pay an amount under Section 6(e) of either party from and after the date (determined in accordance with Section 6(d)(ii)) on which that amount is payable, the Default Rate;

(c) in respect of all other obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Non-defaulting Party, the Non-default Rate; and

(d) in all other cases, the Termination Rate.

"consent" includes a consent, approval, action, authorisation, exemption, notice, filing, registration or exchange control consent.

"Credit Event Upon Merger" has the meaning specified in Section 5(b).

"Credit Support Document" means any agreement or instrument that is specified as such in this Agreement.

"Credit Support Provider" has the meaning specified in the Schedule.

"Default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) if it were to fund or of funding the relevant amount plus 1% per annum.

"Defaulting Party" has the meaning specified in Section 6(a).

"Early Termination Date" means the date determined in accordance with Section 6(a) or 6(b)(iii).

"Event of Default" has the meaning specified in Section 5(a) and, if applicable, in the Schedule.

"Illegality" has the meaning specified in Section 5(b).

"law" includes any treaty, law, rule or regulation and **"lawful"** and **"unlawful"** will be construed accordingly.

"Local Business Day" means, subject to the Schedule, a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) (a) in relation to any obligation under Section 2(a)(i), in the place(s) specified in the relevant Confirmation or, if not so specified, as otherwise agreed by the parties in writing or determined pursuant to provisions contained, or incorporated by reference, in this Agreement, (b) in relation to any other payment, in the place where the relevant account is located (c) in relation to any notice or other communication, including notice contemplated under Section 5(a)(i), in the city specified in the address for notice provided by the recipient and, in the case of a notice contemplated by Section 2(b), in the place where the relevant new account is to be located and (d) in relation to Section 5(a)(v)(2), in the relevant locations for performance with respect to such Specified Transaction.

"Loss" means, with respect to this Agreement or one or more Terminated Transactions, as the case may be, and a party, an amount that party reasonably determines in good faith to be its total losses and costs (or gain, in which case expressed as a negative number) in connection with this Agreement or that Terminated Transaction or group of Terminated Transactions, as the case may be, including any loss of bargain, cost of funding or, at the election of such party but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position (or any gain

resulting from any of them). Loss includes losses and costs (or gains) in respect of any payment or delivery required to have been made (assuming satisfaction of each applicable condition precedent) on or before the relevant Early Termination Date and not made, except, so as to avoid duplication, if Section 6(e)(i)(1) or (3) or 6(e)(ii)(2)(A) applies. Loss does not include a party's legal fees and out-of-pocket expenses referred to under Section 9. A party will determine its Loss as of the relevant Early Termination Date, or, if that is not reasonably practicable, as of the earliest date thereafter as is reasonably practicable. A party may (but need not) determine its Loss by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant markets.

"Market Quotation" means, with respect to one or more Terminated Transactions and a party making the determination, an amount determined on the basis of quotations from Reference Market-makers. Each quotation will be for an amount, if any, that would be paid to such party (expressed as a negative number) or by such party (expressed as a positive number) in consideration of an agreement between such party (taking into account any existing Credit Support Document with respect to the obligations of such party) and the quoting Reference Market-maker to enter into a transaction (the "Replacement Transaction") that would have the effect of preserving for such party the economic equivalent of any payment or delivery (whether the underlying obligation was absolute or contingent and assuming the satisfaction of each applicable condition precedent) by the parties under Section 2(a)(i) in respect of such Terminated Transaction or group of Terminated Transactions that would, but for the occurrence of the relevant Early Termination Date, have been required after that date. For this purpose, Unpaid Amounts in respect of the Terminated Transaction or group of Terminated Transactions are to be excluded but, without limitation, any payment or delivery that would, but for the relevant Early Termination Date, have been required (assuming satisfaction of each applicable condition precedent) after that Early Termination Date is to be included. The Replacement Transaction would be subject to such documentation as such party and the Reference Market-maker may, in good faith, agree. The party making the determination (or its agent) will request each Reference Market-maker to provide its quotation to the extent reasonably practicable as of the same day and time (without regard to different time zones) on or as soon as reasonably practicable after the relevant Early Termination Date. The day and time as of which those quotations are to be obtained will be selected in good faith by the party obliged to make a determination under Section 6(e), and, if each party is so obliged, after consultation with the other. If more than three quotations are provided, the Market Quotation will be the arithmetic mean of the quotations, without regard to the quotations having the highest and lowest values. If exactly three such quotations are provided, the Market Quotation will be the quotation remaining after disregarding the highest and lowest quotations. For this purpose, if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded. If fewer than three quotations are provided, it will be deemed that the Market Quotation in respect of such Terminated Transaction or group of Terminated Transactions cannot be determined.

"Non-default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the Non-defaulting Party (as certified by it) if it were to fund the relevant amount.

"Non-defaulting Party" has the meaning specified in Section 6(a).

"Potential Event of Default" means any event which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

"Reference Market-makers" means four leading dealers in the relevant market selected by the party determining a Market Quotation in good faith (a) from among dealers of the highest credit standing which satisfy all the criteria that such party applies generally at the time in deciding whether to offer or to make an extension of credit and (b) to the extent practicable, from among such dealers having an office in the same city.

"Scheduled Payment Date" means a date on which a payment or delivery is to be made under Section 2(a)(i) with respect to a Transaction.

"Set-off" means set-off, offset, combination of accounts, right of retention or withholding or similar right or requirement to which the payer of an amount under Section 6 is entitled or subject (whether arising under

this Agreement, another contract, applicable law or otherwise) that is exercised by, or imposed on, such payer.

"Settlement Amount" means, with respect to a party and any Early Termination Date, the sum of:—

(a) the Market Quotations (whether positive or negative) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation is determined; and

(b) such party's Loss (whether positive or negative and without reference to any Unpaid Amounts) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation cannot be determined or would not (in the reasonable belief of the party making the determination) produce a commercially reasonable result.

"Specified Entity" has the meaning specified in the Schedule.

"Specified Indebtedness" means, subject to the Schedule, any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money.

"Specified Transaction" means, subject to the Schedule, (a) any transaction (including an agreement with respect thereto) now existing or hereafter entered into between one party to this Agreement (or any Credit Support Provider of such party or any applicable Specified Entity of such party) and the other party to this Agreement (or any Credit Support Provider of such other party or any applicable Specified Entity of such other party) which is a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions), (b) any combination of these transactions and (c) any other transaction identified as a Specified Transaction in this Agreement or the relevant confirmation.

"Terminated Transactions" means with respect to any Early Termination Date (a) if resulting from a Termination Event, all Affected Transactions and (b) if resulting from an Event of Default, all Transactions (in either case) in effect immediately before the effectiveness of the notice designating that Early Termination Date (or, if "Automatic Early Termination" applies, immediately before that Early Termination Date).

"Termination Event" means an Illegality or, if specified to be applicable, a Credit Event Upon Merger or an Additional Termination Event.

"Termination Rate" means a rate per annum equal to the arithmetic mean of the cost (without proof or evidence of any actual cost) to each party (as certified by such party) if it were to fund or of funding such amounts.

"Unpaid Amounts" owing to any party means, with respect to an Early Termination Date, the aggregate of (a) in respect of all Terminated Transactions, the amounts that became payable (or that would have become payable but for Section 2(a)(iii)) to such party under Section 2(a)(i) on or prior to such Early Termination Date and which remain unpaid as at such Early Termination Date and (b) in respect of each Terminated Transaction, for each obligation under Section 2(a)(i) which was (or would have been but for Section 2(a)(iii)) required to be settled by delivery to such party on or prior to such Early Termination Date and which has not been so settled as at such Early Termination Date, an amount equal to the fair market value of that which was (or would have been) required to be delivered as of the originally scheduled date for delivery, in each case together with (to the extent permitted under applicable law) interest, in the currency of such amounts, from (and including) the date such amounts or obligations were or would have been required to have been paid or performed to (but excluding) such Early Termination Date, at the Applicable Rate. Such amounts of interest will be calculated on the basis of daily compounding and the actual number of days elapsed. The fair market value of any obligation referred to in clause (b) above shall be reasonably determined

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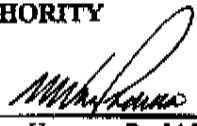
by the party obliged to make the determination under Section 6(e) or, if each party is so obliged, it shall be the average of the fair market values reasonably determined by both parties.

IN WITNESS WHEREOF the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

BANK OF AMERICA, N.A.

**MODESTO PUBLIC FINANCING
AUTHORITY**

By: 
Name: Roger Heintzelman
Title: Senior Vice President
Date: 4/17/07

By: 
Name: Wayne Padilla
Title: Authority Treasurer
Date: 04/17/07

(Local Currency—Single Jurisdiction)



International Swap Dealers Association, Inc.

**U.S. MUNICIPAL COUNTERPARTY SCHEDULE
to the
Master Agreement**

dated as of April 11, 2007

Between **BANK OF AMERICA, N.A.** and **MODESTO PUBLIC FINANCING
AUTHORITY**

("Party A")

("Party B")

PART 1: Termination Provisions

(a) **"Specified Entity"** means in relation to Party A for the purpose of:-

Section 5(a)(v) (Default under Specified Transaction), none;

Section 5(a)(vi) (Cross Default), none;

Section 5(a)(vii) (Bankruptcy), none; and

Section 5(b)(ii) (Credit Event Upon Merger), none;

in relation to Party B for the purpose of:-

Section 5(a)(v) (Default under Specified Transaction) none;

Section 5(a)(vi) (Cross Default), none;

Section 5(a)(vii) (Bankruptcy), none; and

Section 5(b)(ii) (Credit Event Upon Merger), none.

(b) **"Specified Transaction"** will have the meaning specified in Section 12.

(c) The **"Cross-Default"** provisions of Section 5(a)(vi) (as amended in Part 5(e))
will apply to Party A and
will apply to Party B.

In connection therewith:

"Specified Indebtedness" will not have the meaning specified in Section 12, and such definition shall be replaced by the following: With respect to Party A, any obligation in respect of the payment of moneys (whether present or future, contingent or otherwise, as principal or surety or otherwise), excluding obligations in respect of deposits received in the ordinary course of Party A's banking business; and with respect to Party B, any obligation under any lease or similar agreements to which Party B is a party."

"Threshold Amount" means, with respect to Party A, an amount equal to three percent (3%) of the Shareholders' Equity of Bank of America Corporation and, with respect to Party B, Five Million United States Dollars (\$5,000,000).

"Shareholders' Equity" means, with respect to Party A, at any time, the sum (as shown in its most recent annual audited financial statements) of (i) its capital stock (including preferred stock) outstanding, taken at par value, (ii) its capital surplus and (iii) its retained earnings, minus (iv) treasury stock, each to be determined in accordance with generally accepted accounting principles.

- (d) The **"Credit Event Upon Merger"** provisions of Section 5(b)(ii) will apply to Party A
will apply to Party B.
- (e) The **"Automatic Early Termination"** provision of Section 6(a) will not apply to Party A
will not apply to Party B;

provided, however, that with respect to a party, where the Event of Default specified in Section 5(a)(vii)(1), (3), (4), (5), (6) or to the extent analogous thereto, (8) is governed by a system of law which does not permit termination to take place after the occurrence of the relevant Event of Default, then the Automatic Early Termination provisions of Section 6(a) will apply to such party.

Section 6(e)(iii). Section 6(e)(iii) of this Agreement shall be amended to include the following sentences after the existing sentence:

"In addition to and notwithstanding anything to the contrary in the preceding sentence of this Section 6(e)(iii), if an Early Termination Date is deemed to have occurred under Section 6(a) as a result of Automatic Early Termination, the Defaulting Party hereby agrees to indemnify the Non-Defaulting Party on demand against all loss or damage that the Non-Defaulting Party may sustain or incur in respect of each Transaction as a result of movement in interest rates, currency exchange rates or market quotations between the Early Termination Date and the date (the 'Determination Date') upon which the Non-Defaulting Party obtains the information confirming the existence of the Event of Default leading to the deemed Early Termination Date under Section 6(a) that has been derived from reasonably reliable source of information, including publicly available information, such as Telerate, Reuters, Financial Times and The Wall Street Journal.

If the Non-Defaulting Party shall determine that it would gain or benefit from the movement in interest rates, currency exchange rates or market quotations between the Early Termination Date and the Determination Date, the amount of such gain or benefit shall be deducted from the amount payable by the Defaulting Party pursuant to Section 6(e)(i).

The Determination Date shall be a date not later than the date upon which creditors generally of the Defaulting Party are notified of the occurrence of the Event of Default leading to the deemed Early Termination Date.”

- (f) **Payments on Early Termination.** For the purpose of Section 6(e):
 - (i) Market Quotation will apply.
 - (ii) The Second Method will apply.
- (g) **Additional Termination Event** will apply. The following events shall constitute Additional Termination Events hereunder:
 - (i) With respect to any Transaction which is not an Insured Transaction, as defined herein, a Ratings Event occurs with respect to Party B and Party B fails, within thirty (30) General Business Days of such Ratings Event, to either (i) assign this Agreement and all Transactions hereunder to a third party reasonably satisfactory to Party A, (ii) provide, from time to time, a letter of credit, surety or other insurance policy in form and substance satisfactory to Party A, or (iii) deliver an executed ISDA Credit Support Annex in form and substance satisfactory to Party A. For purposes of this Termination Event, "Ratings Event" means that (i) the Appropriation Rating (without regard to any third party credit enhancement) of Party B is lower than "BBB" (SPUR) by Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. or any successor thereto ("S&P"), (ii) in the event Moody's issues an Appropriation or similar rating, such rating of Party B is lower than "Baa2" or (iii) either such rating is withdrawn or suspended. Party B shall be the sole Affected Party with respect to this Additional Termination Event.
 - (ii) A Ratings Event occurs with respect to Party A and Party A fails, within thirty (30) General Business Days of such Ratings Event, to either (i) assign this Agreement and all Transactions hereunder to a third party reasonably satisfactory to Party B, (ii) provide, from time to time, a letter of credit, surety or other insurance policy in form and substance satisfactory to Party B, or (iii) delivers additional collateral under the terms of the ISDA Credit Support Annex in an amount satisfactory to Party B. For purposes of this Termination Event, "Ratings Event" means that (i) the unenhanced ratings (without regard to any third party credit enhancement) of its long-term certificates of deposit are lower than "A3" by Moody's, and "A-" by S&P, or (ii) either such rating is withdrawn or suspended. Party A shall be the sole Affected Party with respect to this Additional Termination Event.
- (h) **Events of Default.**
 - (i) **Bankruptcy.** Clause (6) of Section 5(a)(vii) of this Agreement is hereby amended to read in its entirety as follows:

"(6)(A) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets or (B) in the case of a Government Entity, any Credit Support Provider of such Government Entity or any applicable Specified Entity of such Government Entity, (I) there shall be appointed or designated with respect to it, an entity such as an organization,

board, commission, authority, agency or body to declare a financial emergency or similar state of financial distress with respect to it or (II) there shall be declared by it or by any legislative or regulatory body with competent jurisdiction over it, the existence of a state of financial emergency or similar state of financial distress in respect of it;"

(ii) **Merger Without Assumption.** Section 5(a)(viii) of this Agreement is hereby amended to read in its entirety as follows:

"(viii) **Merger Without Assumption.** The party or any Credit Support Provider of such party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity (or, without limiting the foregoing, if such party is a Government Entity, an entity such as an organization, board, commission, authority, agency or body succeeds to the principal functions of, or powers and duties granted to, such party or any Credit Support Provider of such party) and, at the time of such consolidation, amalgamation, merger, transfer or succession:

(1) the resulting, surviving, transferee or successor entity fails to assume all the obligations of such party or such Credit Support Provider under this Agreement or any Credit Support Document to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other party to this Agreement; or

(2) the benefits of any Credit Support Document fail to extend (without the consent of the other party) to the performance by such resulting, surviving, transferee or successor entity of its obligations under this Agreement."

(iii) **Covered Indenture.** Section 5(a)(ix) of this Agreement is hereby added to read in its entirety as follows:

"(ix) **Covered Indenture.** With respect to the Government Entity, any Event of Default under the Covered Indenture (and as defined therein) shall be an Event of Default under this Agreement."

(i) **Termination Events.** Section 5(b)(ii) of this Agreement is hereby amended to read in its entirety as follows:

"(ii) **Credit Event Upon Merger.** If "Credit Event Upon Merger" is specified in the Schedule as applying to the party, such party ("X"), any Credit Support Provider of X or any applicable Specified Entity of X consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity (or, without limiting the foregoing, if X is a Government Entity, an entity such as an organization, board, commission, authority, agency or body succeeds to the principal functions of, or powers and duties granted to, X, any Credit Support Provider of X or any Specified Entity of X) and such action does not constitute an event described in Section 5(a)(viii) but the creditworthiness of the resulting, surviving, transferee or successor entity is materially weaker than that of X, such Credit Support Provider or such Specified Entity, as the case may be, immediately prior to such action (and, in such event, X or its successor or transferee, as appropriate, will be the sole Affected Party); or".

PART 2: Agreement to Deliver Documents

For the purpose of Section 4(a) of this Agreement, each party agrees to deliver the following documents:-

Party required to deliver document	Form/Document/Certificate	Date by which to be delivered	Covered by Section 3(d) Representation
Party B	Annual Report of Party B and of any Credit Support Provider thereof containing audited, consolidated financial statements certified by independent certified public accountants and prepared in accordance with generally accepted accounting principles in the country in which such party and such Credit Support Provider is organized	To be made available on www.ci.modesto.ca.us/ as soon as available and in any event within 270 days after the end of each fiscal year of Party B and of the Credit Support Provider	Yes
Party A	Annual Report of Bank of America Corporation containing audited, consolidated financial statements certified by independent certified public accountants and prepared in accordance with generally accepted accounting principles in the country in which such party is organized	To be made available on www.bankofamerica.com/investor/ as soon as available and in any event within 180 days after the end of each fiscal year of Party A	Yes
Party B	Credit Support Document(s)	Upon execution and delivery of this Agreement	No
Party B	Opinion of Counsel satisfactory to Party A substantially in the form of Exhibit I and Exhibit II hereto	Upon execution and delivery of this Agreement and each Transaction confirmed hereunder	No
Party A	Opinion of Counsel satisfactory to Party B substantially in the form of Exhibit III hereto	Upon execution and delivery of this Agreement	No

Party required to deliver document	Form/Document/Certificate	Date by which to be delivered	Covered by Section 3(d) Representation
Party A and Party B	Executed copies of all corporate authorizations and any other documents with respect to the execution, delivery and performance of this Agreement and any Credit Support Document, as applicable	Upon execution and delivery of this Agreement	Yes
Party A and Party B	Certificate of incumbency and/or specimen signatures of individuals executing this Agreement and any Credit Support Document	Upon execution and delivery of this Agreement and thereafter upon request of the other party	Yes
Party B	Executed copy of the Covered Indenture	Upon execution and delivery of this Agreement	No
Party B	Executed copy of any amendment, modification or supplement to the Covered Indenture	Upon execution and delivery of such amendment, modification or supplement	No
Party B	Continuing Disclosure Agreement	To be made available on www.ci.modesto.ca.us/ as soon as available and in any event within 270 days after the end of each fiscal year of Party B	
Party B	Swap Insurance Policy	On or before the closing date of the Bonds	No
Party B	Opinion of Legal Counsel to the Insurer regarding the Swap Insurance Policy in a form reasonably satisfactory to Party A	To be delivered in conjunction with the Swap Insurance Policy, on or before the closing date of the Bonds	No

PART 3: Miscellaneous

(a) ***Address for Notices.*** For the purpose of Section 10(a) of this Agreement:-

Address for notice or communications to Party A:

Bank of America, N.A.
Sears Tower
233 South Wacker Drive, Suite 2800
Chicago, IL 60606
Attention: Swap Operations
Telephone No.: 312-234-2732
Facsimile No.: 866-255-1444

with a copy to:

Bank of America, N.A.
100 N. Tryon St., NC1-007-13-01
Charlotte, North Carolina 28255
Attention: Global Markets Trading Agreements
Facsimile No.: 704-386-4113

And with a copy to Insurer, at the address hereinbelow.

Address for financial statements to Party A:

Bank of America, N.A.
Bank of America Plaza
333 South Hope St.
Los Angeles, California 90071-1406
Attention: Deborah L. Miller, Senior Vice President
Mail Code: [CA9-193-13-17](#)

Address for notice or communications to Party B:

Modesto Public Financing Authority
City of Modesto Finance Department
City Hall
1010 Tenth Street, Suite 5200
Modesto, California 95353
Attention: Director of Finance
Telephone No.: (209) 577-5371
Facsimile No.: (209) 571-5880

With a copy to:

City Attorney's Office
c/o City of Modesto
City Hall
1010 Tenth Street, Sixth Floor
Modesto, California 95354
Attention: City Attorney
Telephone No.: (209) 577-5284
Facsimile No.: (209) 544-8260

And with a copy to Insurer, at the address hereinbelow.

With respect to an Insured Transaction, address for notice or communication to Insurer:

CIFG Assurance North America, Inc.
825 Third Avenue, 6th Floor
New York, New York 10022
Attention: General Counsel
Telephone No.: (212) 909-3939
Facsimile No.: (212) 909-0402

(b) **Calculation Agent.** The Calculation Agent is Party A, unless an Event of Default with respect to Party A is continuing, in which case the Calculation Agent will be a financial institution that would qualify as a Reference Market Maker, which shall be reasonably acceptable to Party A, selected by Party B.

(c) **Credit Support Document.** Details of any Credit Support Document:
Each of the following, as amended, supplemented, modified, renewed, replaced, consolidated, substituted or extended from time to time, is a "Credit Support Document":

In relation to Party A, the Credit Support Annex.

(d) **Credit Support Provider.**

Credit Support Provider means in relation to Party A: Not applicable.

Credit Support Provider means in relation to Party B: Not applicable.

- (e) **Governing Law.** This Agreement and any and all controversies arising out of or in relation to this Agreement will be governed by and construed in accordance with the laws of the State of New York (without reference to its conflict of laws doctrine). Notwithstanding the foregoing, the parties agree that matters relating to the powers, authority and capacity of Party B to enter into the Agreement or any Transaction shall be governed by the laws of the State of California.
- (f) **Netting of Payments.** Subparagraph (ii) of Section 2(c) shall not apply to any Transactions; *provided, however*, if the parties otherwise so agree, then subparagraph (ii) of Section 2(c) shall apply.
- (g) **"Affiliate"** will have the meaning specified in Section 12 of this Agreement.
- (h) **"Covered Indenture"** means the Indenture.
- (i) **"Indenture"** means the Indenture, dated as of April 1, 2007, by and between the Modesto Public Financing Authority (the "Authority") and The Bank of New York Trust Company, N.A., as trustee, as amended and supplemented following the date hereof in accordance with the terms hereof and thereof.
- (j) **"Covered Indenture Incorporation Date"** means the date hereof.
- (k) **"Government Entity"** means Party B.

PART 4: Municipal Counterparty Provisions

- (a) **Obligations.** Section 2(a)(iii) of this Agreement is hereby amended to read in its entirety as follows:
 - "(iii) Each obligation of each party under Section 2(a)(i) is subject to (1) the condition precedent that no Event of Default, Potential Event of Default or Incipient Illegality with respect to the other party has occurred and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement."
- (b) **Representations.**
 - (i) The introductory clause of Section 3 of this Agreement is hereby amended to read in its entirety as follows:
 - "Each party represents to the other party (which representations will be deemed to be repeated by each party on each date on which a Transaction is entered into and, in the case of the representations in Section 3(a) and 3(e), at all times until the termination of this Agreement) that:"
 - (ii) Section 3(a)(ii) of this Agreement is hereby amended to read in its entirety as follows:
 - "(ii) **Powers.** It has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to

which it is a party and has taken all necessary action and made all necessary determinations and findings to authorize such execution, delivery and performance;"

(iii) Section 3(b) of this Agreement is hereby amended to read in its entirety as follows:

"(b) **Absence of Certain Events.** No Event of Default or Potential Event of Default or, to its knowledge, Incipient Illegality (in the case of a Government Entity) or Termination Event with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party."

(iv) Section 3 of this Agreement is hereby amended by adding the following subsection "(e)" thereto, which subsection shall only apply to the Government Entity:

"(e) **Non-Speculation.** This Agreement has been, and each Transaction hereunder will be (and, if applicable, has been), entered into for purposes of managing its borrowings or investments and not for purposes of speculation."

(v) Section 3 of this Agreement is hereby amended by adding the following subsection "(f)" thereto:

"(f) **No Immunity.** It is not entitled to claim immunity on the grounds of sovereignty or other similar grounds with respect to itself or its revenues or financial assets (irrespective of their use or intended use) from (i) suit, (ii) jurisdiction of any court, or, (iii) except to the extent provided in Part 5 of Division 3.6 of Title 1 of the Government Code of the State of California ("Part 5") (x) relief by way of injunction, order for specific performance or for recovery of property, (y) attachment of its financial assets (whether before or after judgment) or (z) execution or enforcement of any judgment to which it or its revenues or financial assets might otherwise be subject to in any Proceedings (as defined in Section 11(b)) in the courts of any jurisdiction and no such immunity (whether or not claimed) may be attributed to such party or its revenues or assets."

(c) **Agreements.**

(i) The introductory clause of Section 4 of this Agreement is hereby amended to read in its entirety as follows:

"Each party agrees with the other (or, in the case of Section 4(d), (e) and (f), the Government Entity agrees with the other party) that, so long as either party has or may have any obligation under this Agreement or under any Credit Support Document to which it is a party:"

(ii) Section 4 of this Agreement is hereby amended by adding the following subsections "(d)", "(e)", and "(f)" thereto:

"(d) **Compliance with Covered Indenture.** The Government Entity will observe, perform and fulfill each provision of the Covered Indenture in effect on the Covered Indenture Incorporation Date, as any of those provisions may be amended, supplemented or modified for purposes of this Agreement with the

prior written consent of the other party hereto (the "Incorporated Provisions"), with the effect that such other party hereto will have the benefit of each of the Incorporated Provisions (including without limitation, covenants, right to consent to certain actions subject to consent under the Covered Indenture and delivery of financial statements and other notices and information). These Incorporated Provisions are limited to those provisions, if failure to observe, perform and fulfill such provisions would have a material adverse effect on Party A. Other than for the purpose of issuing Additional Bonds permitted to be executed and entered into by Party B under Section 3 of the Covered Indenture, and any Supplemental Indenture provided thereunder, Party B will not hereafter amend the Covered Indenture in any manner which materially adversely affects the rights of Party A under this Agreement, without the prior written consent of Party A. Any other such amendment, supplement, modification or waiver of any of the Incorporated Provisions without the prior written consent of the other party hereto shall have no force and effect with respect to this Agreement. Notwithstanding the foregoing, Party B shall not be required to obtain the consent of Party A, in the event of release of property from the Facility Lease and the Site Lease; provided that such release is in accordance and pursuant to the terms of the Facility Lease.

(e) ***Notice of Incipient Illegality.*** If an Incipient Illegality occurs, the Government Entity will, promptly upon becoming aware of it, notify the other party, specifying the nature of that Incipient Illegality and will also give such other information about that Incipient Illegality as the other party may reasonably require.

(f) ***Security and Source of Payment of Party B's Obligations.*** Party B covenants to cause Party B's obligations under this Agreement to be, and each Transaction hereunder shall be secured by a pledge of, and lien and charge on, the Revenues, on a parity with the lien thereon in favor of the Bonds, and shall constitute "Regular Swap Payments", as set forth in the Indenture. All Regular Swap Payments shall be paid from the Interest Account with the same priority as interest on the Bonds. The obligations of Party B to make the payment of Termination Amounts shall be secured by a pledge of, and lien and charge on, the Revenues on a subordinate basis only to the lien thereon in favor of the Bonds and the Regular Swap Payments, and shall constitute "Extraordinary Swap Payments", as set forth in the Indenture. All Extraordinary Swap Payments and all amounts necessary to reimburse the Insurer in connection with the Swap Insurance Policy pursuant to Part 6(k) hereof shall be paid from the Provider Payment Account. Revenues shall be deposited in the Provider Payment Account directly after deposit of Revenues to the Interest Account and the Principal Account. Party A acknowledges that the City's obligation to make payments related to Regular Swap Payments and Extraordinary Swap Payments under the Facility Lease constitute Base Rental Payments under the Facility Lease and are subject to the limitations upon the maximum annual base rental payments thereunder.

For purposes of this Section 4(f), capitalized terms used but not defined in this Agreement shall have the meanings ascribed to them in the Covered Indenture.

Notwithstanding any provision to the contrary in this Agreement, Party B's obligations hereunder are limited obligations and payable solely from Revenues and other amounts available under the Resolution."

- (d) **Jurisdiction.** Section 11(b) of this Agreement is hereby amended to read in its entirety as follows:

"(b) **Jurisdiction.** With respect to any suit, action or proceedings relating to this Agreement ('Proceedings'), each party irrevocably:

(i) submits, to the fullest extent permitted by applicable law, to the non-exclusive jurisdiction of each of the courts of the State of New York, the United States District Court located in the Borough of Manhattan in New York City, the courts of the state in which the Government Entity or the other party's principal executive offices are located and the United States District Court with jurisdiction over the location of the Government Entity or the other party's principal executive offices; and

(ii) waives, to the fullest extent permitted by applicable law, (1) any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, (2) any claim that such Proceedings have been brought in an inconvenient forum and (3) the right to object, with respect to such Proceedings, that such court does not have any jurisdiction over such party.

Nothing in this Agreement precludes either party from bringing Proceedings in any other jurisdiction nor will the bringing of Proceedings in any one or more jurisdictions preclude the bringing of Proceedings in any other jurisdiction."

- (e) **Definitions.** Section 12 of this Agreement is hereby amended to add the following definitions in their appropriate alphabetical order:

" '**Covered Indenture**' has the meaning specified in the Schedule."

" '**Covered Indenture Incorporation Date**' has the meaning specified in the Schedule."

" '**Government Entity**' has the meaning specified in the Schedule."

" '**Incipient Illegality**' means (a) the enactment by any legislative body with competent jurisdiction over a government entity of legislation which, if adopted as law, would render unlawful (i) the performance by the Government Entity of any absolute or contingent obligation to make a payment or delivery or to receive a payment or delivery in respect of a Transaction or the compliance by the Government Entity with any other material provision of this Agreement relating to such Transaction or (ii) the performance by the Government Entity or a Credit Support Provider of such Government Entity of any contingent or other obligation which the Government Entity (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction, (b) any assertion in any proceeding, forum or action by the Government Entity, in respect of the Government Entity to the effect that performance under this Agreement or similar

agreements is unlawful or (c) the occurrence with respect to the Government Entity or any Credit Support Provider of such Government Entity of any event that constitutes an Illegality."

“**Insured Transaction**’ means any Transaction for which a Swap Insurance Policy has been issued by the Insurer.”

“**Insurer**’ means CIFG Assurance North America, Inc. and its successors and permitted assigns.”

“**Moody’s**’ means Moody’s Investors Service, Inc. and any successor thereto.”

“**S & P**’ means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and any successor thereto.”

“**Swap Insurance Policy**’ means each financial guaranty insurance policy relating to an Insured Transaction and issued by the Insurer for the account of Party B, as principal, and Party A, as beneficiary.”

PART 5: Other Provisions

- (a) **Set-off.** Any amount (the "Early Termination Amount") payable to one party (the Payee) by the other party (the Payer) under Section 6(e), in circumstances where there is a Defaulting Party or one Affected Party in the case where a Termination Event under Section 5(b)(ii) or (iii) has occurred, will, at the option of the party ("X") other than the Defaulting Party or the Affected Party (and without prior notice to the Defaulting Party or the Affected Party), be reduced by its set-off against any amount(s) (the "Other Agreement Amount") payable (whether at such time or in the future or upon the occurrence of a contingency) by the Payee to the Payer (irrespective of the currency, place of payment or booking office of the obligation) under any other agreement(s) between the Payee and the Payer or instrument(s) or undertaking(s) issued or executed by one party to, or in favor of, the other party (and the Other Agreement Amount will be discharged promptly and in all respects to the extent it is so set-off). X will give notice to the other party of any set-off effected under this Part 5(a).

For this purpose, either the Early Termination Amount or the Other Agreement Amount (or the relevant portion of such amounts) may be converted by X into the currency in which the other is denominated at the rate of exchange at which such party would be able, acting in a reasonable manner and in good faith, to purchase the relevant amount of such currency.

If an obligation is unascertained, X may in good faith estimate that obligation and set-off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained.

Nothing in this Part 5(a) shall be effective to create a charge or other security interest. This Part 5(a) shall be without prejudice and in addition to any right of set-off, combination of accounts, lien or other right to which any party is at any time otherwise entitled (whether by operation of law, contract or otherwise).

- (b) **Delivery of Confirmations.** For each Transaction entered into hereunder, Party A shall promptly send to Party B a Confirmation via facsimile transmission. Party B agrees to respond to such Confirmation within two (2) Local Business Days, either confirming agreement thereto or

requesting a correction of any error(s) contained therein. Failure by Party A to send a Confirmation or of Party B to respond within such period shall not affect the validity or enforceability of such Transaction. Absent manifest error, there shall be a presumption that the terms contained in such Confirmation are the terms of the Transaction.

- (c) **Notice by Facsimile Transmission.** Section 10(a) is hereby amended by deleting the parenthetical "(except that a notice or other communication under Section 5 or 6 may not be given by facsimile transmission or electronic messaging system)".
- (d) **Recording of Conversations.** Each party to this Agreement acknowledges and agrees to the tape recording of conversations between trading and marketing personnel of the parties to this Agreement whether by one or other or both of the parties or their agents, and that any such tape recordings may be submitted in evidence in any proceedings relating to the Agreement.
- (e) **Cross Default.** Section 5(a)(vi) of this Agreement is hereby amended by the following:
 - (i) with respect to any Specified Indebtedness that is not capable of being declared due and payable as a result of the occurrence or existence of a default, event of default or other similar condition or event (however described) under the agreement or instrument relating to such Specified Indebtedness, the words "which has resulted in such Specified Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments, before it would otherwise have been due and payable" shall be deleted from clause (1) of such Section 5(a)(vi) and the words "and the bondholders or trustee are permitted to exercise any remedies under the agreements and instruments" shall be added in its place.
 - (ii) adding the following after the semicolon at the end thereof: "provided, however, that notwithstanding the foregoing (but subject to any provision to the contrary contained in any such agreement or instrument), an Event of Default shall not occur under either (1) or (2) above if the default, event of default or other similar condition or event referred to in (1) or the failure to pay referred to in (2) is caused not (even in part) by the unavailability of funds but is caused solely due to a technical or administrative error which has been remedied within three Local Business Days after notice of such failure is given to the party."
- (f) Section 3(a) of this Agreement is amended by (i) deleting the word "and" at the end of clause (iv); (ii) deleting the period at the end of clause (v) and inserting therein "; and " ; and (iii) by inserting the following additional representation:

"(vi) **Eligible Contract Participant.** Each party represents to the other party (which representation will be deemed to be repeated by each party on each date on which a Transaction is entered into) that it is an "eligible contract participant" as defined in Section 1a(12) of the U.S. Commodity Exchange Act, 7 U.S.C. Section 1a(12)."
- (g) **Additional Representations.** Section 3 is revised so as to add the following subsection (g) at the end thereof:

"(g) **Relationship Between Parties.** Each party will be deemed to represent to the other party on the date on which it enters into a Transaction that (absent a written agreement between the parties that expressly imposes affirmative obligations to the contrary for that Transaction):

(i) *Non-Reliance.* It is acting for its own account, and it has made its own independent decisions to enter into that Transaction and as to whether that Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction; it being understood that information and explanations related to the terms and conditions of a Transaction shall not be considered investment advice or a recommendation to enter into that Transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of that Transaction.

(ii) *Assessment and Understanding.* It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of that Transaction. It is also capable of assuming, and assumes, the risks of that Transaction.

(iii) *Status of Parties.* The other party is not acting as a fiduciary for or an adviser to it in respect of that Transaction."

(h) ***Waiver of Jury Trial; General Reference; Arbitration.***

(i) To the fullest extent permitted by applicable law, each party hereto irrevocably waives any right it may have to trial by jury.

(ii) If, and only if, any court of competent jurisdiction determines that the jury trial waiver set forth in subparagraph (a) above is unlawful, impermissible or otherwise ineffective, then the parties hereto agree that any dispute, whether sounding in contract, tort or otherwise, arising out of, connected with, related to, or incidental to this Agreement (a "Dispute") shall be resolved by a general reference to a referee (or a panel of referees) as provided in California Code of Civil Procedure Section 638 or any statute containing reasonably similar provisions which replaces such sections, except as expressly modified by the provisions hereof. The referee (or presiding referee of the panel) shall be a retired judge or justice. The referee (or panel of referees) shall be selected by mutual written agreement of the parties. If the parties do not agree, the referee shall be selected by the Presiding Judge of the Court (or his or her representative) as provided in California Code of Civil Procedure Section 638 and the following related sections. The referee shall determine all issues in accordance with existing New York law and the New York rules of evidence and civil procedure. The referee shall be empowered to enter equitable as well as legal relief, provide all temporary or provisional remedies, enter equitable orders that will be binding on the parties and rule on any motion which would be authorized in a trial, including without limitation motions for summary judgment or summary adjudication. The award that results from the decision of the referee(s) will be entered as a judgment in the court that appointed the referee, in accordance with the provisions of California Code of Civil Procedure Sections 644(a) and 645. The parties reserve the right to seek appellate review of any judgment or order.

(iii) If, and only if, any court of competent jurisdiction determines that both the jury trial waiver and the appointment of a referee or selection or use of the dispute resolution mechanisms set forth in subparagraphs (a) and (b) above are unlawful, impermissible or otherwise ineffective, then the parties hereto agree that any Dispute shall be expeditiously resolved by arbitration in accordance with the Federal Arbitration Act (Title 9 U.S. Code) (the "Act"). The Act will apply even though this Agreement provides that it is governed by the law of a specified state. Arbitration proceedings will be determined in accordance with the Act, the then-current rules and procedures for the arbitration of financial services disputes of the American Arbitration

Association or any successor thereof (“AAA”), and the terms of this provision. In the event of any inconsistency, the terms of this provision shall control. If AAA is unwilling or unable to (i) serve as the provider of arbitration or (ii) enforce any provision of this arbitration clause, Party A may designate another arbitration organization with similar procedures to serve as the provider of arbitration. The arbitration shall be administered by AAA and conducted, unless otherwise required by law, in any U.S. state where real or tangible personal property collateral for Party B is located or if there is no such collateral, in the state specified in the governing law section of this Agreement. Any Dispute shall be determined by one arbitrator; however, if the claim exceeds five million dollars (\$5,000,000), upon the request of any party, the Dispute shall be decided by three arbitrators. All arbitration hearings shall commence within ninety (90) days of the demand for arbitration and close within ninety (90) days of commencement and the award of the arbitrator(s) shall be issued within thirty (30) days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional sixty (60) days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed and have judgment entered and enforced. The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this Agreement and each party shall bear such party's own costs arising from such arbitration and the fees of the arbitrators shall be borne equally by the parties.

- (iv) Nothing in this Part 5(h) shall prejudice the right of any party or limit the right of any party to: (i) obtain provisional relief or other equitable remedies as shall otherwise be available under the New York Code of Civil Procedure and/or applicable Court Rules; (ii) exercise self-help remedies, such as but not limited to, setoff; (iii) initiate judicial or non-judicial foreclosure against any real or personal property collateral; (iv) exercise any judicial or power of sale rights, or (v) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies. The filing of a court action is not intended to constitute a waiver of the right of any party, including the suing party, thereafter to require submittal of the Dispute to arbitration or general reference to a referee.
- (i) **USA PATRIOT Act Notice.** Party A hereby notifies Party B that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies Party B, which information includes the name and address of Party B and other information that will allow Party A to identify Party B in accordance with the Act.
- (j) **Additional Covenant of Party B.** Party B hereby covenants that it shall not terminate any Transaction hereunder unless it has funds immediately available to pay any and all termination payments owed by it upon such termination.
- (k) **Swap Agreement.** Party B acknowledges and agrees that, pursuant to the Covered Indenture, Party B's obligations to make regular payments hereunder constitute Regular Swap Payments as and to the extent provided in Section 4(f) of this Agreement.

PART 6: Insurer Provisions

The following provisions of this Part 6 shall only apply to Insured Transactions:

(a) **Designation of Early Termination Date.** Notwithstanding anything to the contrary in Section 6(a) or 6(b) of this Agreement, if any:

- (i) Event of Default in respect of any Insured Transaction under Section 5(a) of this Agreement occurs with respect to Party B as the Defaulting Party; or
- (ii) Termination Event in respect of any Insured Transaction under Section 5(b) of this Agreement occurs with respect to Party B as the Affected Party (other than any Additional Termination Event described in Part 6(c)(i), (ii) or (iii) below);

then, in either such case, Party A shall not designate an Early Termination Date in respect of any such Insured Transaction unless:

- (A) The Insurer has failed to make any payment when due to Party A under the terms and conditions of the Swap Insurance Policy and such failure is continuing; or
- (B) The Insurer has otherwise consented in writing to such designation.

(b) **Insurer-Directed Termination.** Notwithstanding anything in this Agreement, if any Event of Default under this Agreement occurs with respect to the Party B as the Defaulting Party or any Termination Event occurs with respect to Party B as the Affected Party, then the Insurer shall have the right (but not the obligation) upon notice to Party A and to Party B to designate an Early Termination Date with respect to Party B with the same effect as if such designation were made by Party A. For purposes of the foregoing sentence, an Event of Default with respect to Party B shall be considered to be continuing, notwithstanding any payment made by the Insurer under the Swap Insurance Policy. Party A and Party B acknowledge that, except as the Swap Insurance Policy may be otherwise endorsed, unless the Insurer designates an Early Termination Date (as opposed to merely consenting to such designation by one of the parties), payments due from Party B as a result of an Early Termination Date having been designated will not be insured under the Swap Insurance Policy.

(c) **Additional Termination Events.** Each of the following shall constitute an Additional Termination Event as provided in Section 5(b)(iii) of this Agreement:

- (i) The Insurer fails to meet its payment obligations under the Swap Insurance Policy and such failure is continuing with respect to the Insurer; or
- (ii) An Insurer Event (as defined below) has occurred and is continuing and an Event of Default or Termination Event has occurred or is continuing with respect to Party B as the Defaulting Party or sole Affected Party; or
- (iii) Party A has notified Party B that an Insurer Event has occurred and Party B has not, within 60 days of receiving such notice (a) provided a Credit Support Provider whose obligations pursuant to a Credit Support Document are reasonably acceptable to Party A, or additional credit support with terms comparable to the Swap Insurance Policy and from a replacement insurer rated not less than A- by S&P and A3 by Moody's and reasonably acceptable to Party A; or (b) delivered a copy of a letter from (X) S&P establishing a rating of "BBB-" or better for the Bonds (without giving effect to any credit

enhancement), or (Y) Moody's establishing a rating for Bonds (without giving effect to any credit enhancement) of "Baa3" or better; or (c) delivered Collateral pursuant to the Credit Support Annex attached hereto.

Any of the following shall be considered an "Insurer Event":

(A) The Insurer fails to have either (a) a claims-paying ability rating of at least A- or higher from S&P, or (b) a financial strength rating of at least A3 or higher from Moody's; or

(B) The Insurer's rating from either S&P or Moody's is withdrawn or suspended and such rating is not reinstated within thirty (30) days of such withdrawal or suspension.

For the purpose of any Additional Termination Event described under clause (i), (ii) or (iii) above, the "Affected Party" shall be Party B.

- (d) **No Suspension of Payments.** Notwithstanding Section 2(a)(iii) of this Agreement, Party A shall not suspend any payments due under an Insured Transaction pursuant to Section 2(a)(iii) unless the Insurer fails to meet its payment obligations under the Swap Insurance Policy and such failure is continuing with respect to the Insurer.
- (e) **Representations and Agreements.** Party A and Party B each agree that their respective representations and agreements in this Agreement are also expressly made to and for the benefit of the Insurer.
- (f) **Third-Party Beneficiary.** Party A and Party B hereby each acknowledge and agree that the Insurer shall be an express third-party beneficiary (and not merely an incidental third-party beneficiary) of this Agreement and of the obligations of each such party under any Insured Transaction, and, as such, shall be entitled to enforce the Agreement and the terms of any such Insured Transaction against such party on its own behalf and shall be afforded all remedies available hereunder or otherwise afforded by law against the parties hereto to redress any damage or loss incurred by the Insurer including, but not limited to, fees (including professional fees), costs and expenses incurred by the Insurer which are related to, or resulting from, any breach by such party of its obligations hereunder.
- (g) **Policy Coverage.** Party A and Party B hereby each acknowledge and agree that the Insurer's obligation with respect to Insured Transactions shall be limited to the terms of the Swap Insurance Policy. Notwithstanding Section 2(e) or any other provision of this Agreement, the Insurer shall not have any obligation to pay interest on any amount payable by Party B under this Agreement.
- (h) **Subrogation.** Party A and Party B hereby acknowledge that, to the extent of payments made by the Insurer to Party A under the Swap Insurance Policy, the Insurer shall be fully subrogated to the rights of Party A against Party B under the Insured Transaction to which such payments relate, including, but not limited to, the right to receive payment from Party B, the enforcement of any remedies, and the recovery of all reasonable out-of-pocket expenses, including, but not limited to, costs of collection. Party A hereby agrees to assign to the Insurer its right to receive payment from Party B under any Insured Transaction to the extent of any payment thereunder by

the Insurer to Party A and to execute all such instruments and agreements as the Insurer deems reasonably necessary to effect such assignment. Party B hereby acknowledges and consents to the assignment by Party A to the Insurer of any rights and remedies that Party A has under any Insured Transaction or any other document executed in connection herewith.

- (i) ***Isolation of Insured Transactions in Designating an Early Termination Date.*** Notwithstanding Section 6 of this Agreement, any designation of an Early Termination Date in respect of the Insured Transactions by the Insurer or by Party A with the consent of Insurer pursuant to paragraph (a) above shall apply only to the Insured Transactions and not to any other Transaction under this Agreement, unless Party A shall designate an Early Termination Date in respect of such other Transaction. Nothing contained in this paragraph (i) shall affect the rights of Party A under this Agreement to designate an Early Termination Date in respect of any Transaction other than the Insured Transactions, which designation shall not apply to the Insured Transactions unless expressly provided in such designation and unless the Insurer shall have designated, or consented to the designation by Party A of, an Early Termination Date in respect of the Insured Transactions in accordance with paragraph (a) above.
- (j) Notwithstanding anything to the contrary in Section 6(a) or Section 6(b), no such designation of an Early Termination Date by Party B pursuant to Section 6(a) or Section 6(b) shall be effective if a Settlement Amount would be payable by Party B to Party A pursuant to Section 6(e) unless Party B provides evidence satisfactory to Party A and Insurer that: (A) the payment is required to be made pursuant to Section 6(d)(ii), (B) such payment will not cause Party B to be in violation of, or in default under, any Covered Document or any other material agreement of Party B, and (C) Party B demonstrates to the Insurer's satisfaction that it has immediately available funds to pay such Settlement Amount.
- (k) ***No Netting or Set-off.*** Notwithstanding Section 2(c) of this Agreement, in no event shall either Party A or Party B be entitled to net or set-off its payment obligations in respect of the Insured Transactions against the payment obligations of the other party in respect of other Transactions under this Agreement if such Transactions are not Insured Transactions, nor may either Party A or Party B net or set-off the payment obligations of the other party under Transactions that are not Insured Transactions against the payment obligations of such party under Insured Transactions, it being the intention of the parties that their payment obligations under Insured Transactions be treated separate and apart from all other Transactions. Section 6(e) of this Agreement shall apply to all Insured Transactions with the same effect as if the Insured Transactions constituted a single Transaction. Notwithstanding Section 6(e) of this Agreement, the amount payable under Section 6(e) of this Agreement upon the termination of any Insured Transaction shall be determined without regard to any Transactions other than the Insured Transactions, it being the intention of the parties that their payment obligations under the Insured Transactions be treated separate and apart from all other Transactions unless otherwise specified in such other Transaction and agreed to in writing by the Insurer. With respect to any Insured Transaction, the provisions of Part 5(a) of this Schedule shall not apply.
- (l) Party B hereby covenants and agrees that it shall reimburse Insurer for any amounts paid by Insurer under the Swap Insurance Policy and all costs of collection thereof and enforcement of this Agreement at the Insurer Payment Rate (as hereinafter defined). For purposes of the foregoing, "Insurer Payment Rate" shall mean the lesser of (a) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank, N.A. ("Chase") at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by Chase) plus 3 percent

and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Insurer Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event that Chase ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as Insurer shall specify.

- (m) **Expenses.** Subject to Section 4(f) of the Agreement (by which such payments are made subordinate to the payment of principal on the Bonds), Party B agrees to reimburse the Insurer, solely from the sources described in Section 3(i) of this Agreement, immediately and unconditionally upon demand for all reasonable expenses incurred by the Insurer in connection with the issuance of the Swap Insurance Policy and the enforcement by the Insurer of Party B's obligations under this Agreement and any other documents executed in connection with the execution and delivery of this Agreement, including, but not limited to, fees (including professional fees), costs and expenses incurred by the Insurer which are related to, or resulting from, any breach by Party B of its obligations hereunder.
- (n) **Transfers/Assignments.** Except as otherwise provided in Section 7 of this Agreement and in the following sentence, and for so long as the Swap Insurance Policy is in effect, no Insured Transaction may be assigned or transferred by either Party A or Party B without the prior written consent of the Insurer; *provided, however*, that Party A may make such an assignment to an affiliate of Party A without the Insurer's prior written consent, if Party A provides a guaranty of the Insured Transaction, as assigned, and an opinion of counsel to Party A relating thereto, each acceptable to the Insurer.
- (o) **Reference Market Makers.** The definition of "Reference Market Makers" set forth in Section 12 of this Agreement shall be amended in its entirety to read as follows:

"Reference Market Makers" means four (4) leading dealers in the relevant swap market selected by the party determining a Market Quotation in good faith (a) from among dealers of the highest credit standing which satisfy all the criteria that such party applies generally at the time in deciding whether to offer or to make an extension of credit, and (b) to the extent practicable, from among dealers having an office in the same city. The rating classification assigned to any outstanding long-term senior debt securities issued by such dealers shall be at least (1) Aa2 or higher as determined by Moody's, (2) AA or higher as determined by S&P, or (3) an equivalent investment grade rating determined by a nationally-recognized rating service acceptable to both parties and Insurer, provided however, that, in any case, if Market Quotation cannot be determined by four (4) such dealers, the party making the determination of the Market Quotation may designate, with the consent of the other party and Insurer, one (1) or more leading dealers whose long-term senior debt bears a lower investment grade rating.
- (p) Pursuant to Section 8(c) of this Agreement, all obligations of the parties will survive the termination of any Transaction or the term of this Agreement so long as amounts owed under the Swap Insurance Policy remain outstanding.
- (q) No notice of an Event of Default or Termination Event shall be effective against Party B unless such notice is given to Insurer.

- (r) ***Amendments, Modifications and Waivers.*** No amendment, modification, supplement or waiver of this Agreement will be effective unless in writing and signed by each of the parties hereto and unless the parties hereto shall have obtained the prior written consent of the Insurer.
- (s) ***Notices.*** Each party agrees to send a copy of all notices or communications sent by such party to the other party to the Insurer at the address set forth in the applicable Confirmation.

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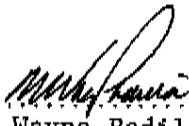
P.02/04

IN WITNESS WHEREOF, the parties have executed this Schedule by their duly authorized officers as of the date hereof.

BANK OF AMERICA, N.A.

**MODESTO PUBLIC FINANCING
AUTHORITY**

By: 
Name: Roger H. Heintzelman
Title: Senior Vice President

By: 
Name: Wayne Padilla
Title: Authority Treasurer

Acknowledged:

CIFG Assurance North America, Inc.

By _____
Authorized Officer

IN WITNESS WHEREOF, the parties have executed this Schedule by their duly authorized officers as of the date hereof.

BANK OF AMERICA, N.A.

**MODESTO PUBLIC FINANCING
AUTHORITY**

By:
Name: Roger H. Heintzelman
Title: Senior Vice President

By:
Name:
Title:

Acknowledged:

CIFG Assurance North America, Inc.

By _____
Authorized Officer

Robert M. Drillings
Managing Director and Vice President

[FORM OF OPINION OF ASSISTANT CITY ATTORNEY]

_____, 200_

Bank of America, N.A.
100 N. Tryon Street
NC1-007-13-01
Charlotte, NC 28255

CIFG Assurance North America, Inc.
825 Third Avenue, 6th Floor
New York, New York 10022

Ladies and Gentlemen:

This opinion is furnished to you in connection with the execution and delivery of the ISDA Master Agreement, the U.S. Municipal Counterparty Schedule and the Credit Support Annex, each dated as of February 26, 2007 (collectively, the “Master Agreement”), by and between Bank of America, N.A. (“Party A”) and the Modesto Public Financing Authority (the “City”), as supplemented by the confirmation of the transaction (the “Confirmation”) entered into on February 26, 2007, by and between Party A and the City. The Master Agreement together with the Confirmation shall constitute one agreement (the “Agreement”).

I am Assistant City Attorney for the City and in that capacity I have examined originals or copies, certified or otherwise identified to my satisfaction, of such documents, corporate records, certificates of public officials and other instruments and have conducted such investigations of fact and law as I have deemed necessary or advisable for the opinions expressed herein.

Upon the basis of the foregoing, I am of the opinion that:

1. The City is a municipal corporation of the State of California organized and validly existing under the Constitution, its Charter and laws of the State of California.
2. The execution, delivery and performance by Party B of the Agreement has been duly authorized by the City.
3. To the best of my knowledge without independent investigation, the execution, delivery and performance by the City of the Agreement do not violate, conflict with, or result in a breach of, any law, rule or regulation applicable to Party B, or any material contractual restriction, order or judgment binding on Party B or its assets which breach or default could have a material, adverse effect on the validity or enforceability of the Agreement or the City’s performance of its obligations under the Agreement or the financial position or revenues of the City.
4. No authorization, consent, approval, exemption or license from, or filing of any registration with, any federal or state governmental authority is required to be have been obtained or made by the City with respect to the authorization, execution, delivery and performance by the City of the Agreement which has not been obtained.

5. The City is not entitled to claim immunity on the grounds of sovereignty or other similar grounds with respect to itself or its revenues or financial assets (irrespective of their use or intended use) from (i) suit, (ii) jurisdiction of any court or, (iii) except to the extent provided in Part 5 of Division 3.6 of Title 1 of the Government Code of the State of California (“Part 5”) (x) relief by way of injunction, order for specific performance or for recovery of property, (y) attachment of its financial assets (whether before or after judgment) or (z) execution or enforcement of any judgment to which it or its revenues or financial assets might otherwise be subject.

I have relied as to certain matters on information obtained from public officials, officers of the City and other sources believed by me to be responsible and I have assumed that the signatures (other than those of the City) on all documents examined by me are genuine, assumptions which I have not independently verified..

This opinion is limited to the laws of the State of California and the federal laws of the United States. The opinions in this letter are expressed solely as of the date hereof for your benefit and for the benefit of your successors and permitted assigns under the Agreement and may not be relied upon in any manner or for any other purpose or by any other person.

Very truly yours,

Assistant City Attorney

[FORM OF OPINION OF SIDLEY AUSTIN]

Draft of 3/16/07, subject to review by opinion committee
of Sidley Austin and Bank of America Legal

Bank of America, N.A.
100 N. Tryon Street
NC1-007-13-01
Charlotte, NC 28255

CIFG Assurance North America, Inc.
825 Third Avenue, 6th Floor
New York, New York 10022

Re: Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007

Dear Ladies and Gentlemen:

We have acted as bond counsel to the Modesto Public Financing Authority (the “Authority”), in connection with the above-referenced bonds (the “Bonds”). In connection with the issuance of the Bonds, the Authority is executing the ISDA Master Agreement, dated as of _____, 2007 (the “Master Agreement”), the U.S. Municipal Counterparty Schedule dated as of _____, 2007, the Credit Support Annex, dated as of _____, 2007 (the “Annex”), and the Confirmation dated _____, 2007 (the “Confirmation”, and together with the Master Agreement, Schedule and Annex, collectively, the “Swap Agreement”). by and between the Authority and Bank of America, N.A. (“Party A”). You have asked us to advise you whether, under existing laws, regulations, rulings and court decisions, the Swap Agreement constitutes a valid and binding obligation of the Authority... Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Indenture, dated as of ____ , 2007 (the “Indenture”) by and between the Authority and The Bank of New York Trust Company, N.A..

Payments on the Bonds and the Swap Agreement are derived primarily from Base Rental Payments made by the City of Modesto (the “City”) pursuant to the Facility Lease, dated as of ____ 1, 2007 (the “Facility Lease”) by and between the Authority and the City.

In such connection, we have reviewed the Swap Agreement, the Confirmation, the Resolution adopted by the Authority on _____, 2007, approving the Swap Agreement (the “Authority Resolution”), the Resolution adopted by the City Council of the City on _____, 2007, approving the Swap Agreement (the “City Resolution” and together with the Authority Resolution, the “Resolutions”), opinions of the City Attorney of the City, as counsel to the City and the Authority, dated _____, 2007, and addressed to you, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. We have not undertaken to verify independently, and have assumed, (i) the genuineness of such documents, certificates and opinions presented to us (whether as originals or as copies) and of the signatures thereon, (ii) the accuracy of the factual matters represented, warranted or certified and of the legal conclusions contained in the

aforementioned opinions of the City Attorney of the City, (iii) the due and legal authorization, execution and delivery thereof by any parties other than the Authority and the City, and (iv) the validity and enforceability of the Swap Agreement against Party A.

The opinions expressed herein apply only to the interest rate swap transaction established by the Confirmation (the "Swap Transaction") and not to any other swap or other transaction whether entered into pursuant to the Master Agreement or otherwise. The opinions expressed herein are limited to those matters expressly set forth and are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. No opinion is to be inferred or implied beyond the matters expressly so stated. Such opinions are given as of the date hereof and may be affected by actions taken or omitted, events occurring or other facts of which we become aware, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling), after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or other matters coming to our attention after the date hereof, and we disclaim any obligation to update this letter in light of such actions, events or facts. Furthermore, except as noted below, we have assumed compliance by all parties with the covenants and agreements contained in the Swap Agreement.

The Authority is entering into the Swap Agreement in connection with the issuance of the Bonds and the Swap Agreement has a notional amount related to the principal amount of the Bonds, which Bonds bear interest at a variable interest rate. The Authority has entered into the Swap Agreement and has agreed to pay a fixed rate to Party A and Party A, in turn, has agreed to pay a variable rate to the Authority.

Section 5922 of the Government Code (the "Code") of the State of California provides as follows:

Notwithstanding any other provision of law, all of the following apply:

(a) In connection with, or incidental to, the issuance or carrying of bonds, or acquisition or carrying of any investment or program of investment, any state or local government may enter into any contracts which the state or local government determines to be necessary or appropriate to place the obligation or investment of the state or local government, as represented by the bonds, investment or program of investment and the contract or contracts, in whole or in part, on the interest rate, currency, cash-flow, or other basis desired by the state or local government, including, without limitation, contracts commonly known as interest rate swap agreements, currency swap agreements, forward payment conversion agreements, futures, or contracts providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, or contracts to exchange cash flows or a series of payments, or contracts, including, without limitation, interest rate floors or caps, options, puts or calls to hedge payment, currency, rate, spread, or similar exposure. These contracts or arrangements may also be entered into by state or local governments in connection with, or incidental to, entering into or maintaining any agreement which secures bonds, including bonds issued by private entities. These contracts and arrangements shall be entered into with the parties, selected by the means, and contain the payment, security, default, remedy, and other terms and conditions, determined by the state or local government, after giving due consideration for the creditworthiness of the counterparties, where applicable, including any rating by a nationally recognized rating agency or any other criteria as may be appropriate.

No local government shall enter into any of the contracts or arrangements pursuant to this subdivision, unless its governing body first determines that the contract or arrangement or program of contracts is designed to reduce the amount or duration of payment, currency, rate, spread, or similar risk or result in a lower cost of borrowing when used in combination with the issuance of bonds or enhance the relationship between risk and return with respect to the investment or program of investment in connection with, or incident to, the contract or arrangement which is to be entered into.

Pursuant to the City Resolution, the City Council of the City has made the determination that the Swap Agreement, entered into by the Authority, is designed to reduce the amount of interest rate risk, and reduce the cost of borrowing, with respect to the variable rate interest component of the Bonds with respect to which the Authority is entering into the Swap Agreement, as required by Section 5922(a) of the Code. Pursuant to the Authority Resolution, the Authority has made the determination that the Swap Agreement is designed to reduce the amount of interest rate risk, and reduce the cost of borrowing, with respect to the variable rate interest component of the Bonds with respect to which the Authority is entering into the Swap Agreement, as required by Section 5922(a) of the Code. The City has not sought the assent of the electors of the City to the execution and delivery of the Facility Lease by the City or the Swap Agreement by the Authority.

Under certain circumstances, and pursuant to the terms of the Swap Agreement, Party A may be entitled to payment from the Authority in connection with the designation of an Early Termination Date (the "Settlement Amount") which would reflect the market value of the Authority's obligation (net of Party A's obligation) under the Swap Agreement in future years.

The Swap Agreement therefore complies with the Code and is valid unless the Swap Agreement constitutes an "indebtedness" or "liability" of the City prohibited by Article XVI, Section 18 of the Constitution of the State of California.

Article XVI, Section 18 provides that "[n]o . . . county . . . shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year, without the assent of two-thirds of the qualified electors thereof, voting at an election to be held for that purpose" This constitutional provision was designed to prevent "municipal extravagance"; that is, borrowing funds for current use that would have to be repaid by future governing bodies or taxpayers or otherwise out of the income and revenues of future years. San Francisco Gas Company v. Brickwedel, 62 Cal. 641 (1882). The provision has been interpreted to mean that any indebtedness or liability incurred in any fiscal year that is not voter approved and that is not payable, and paid, from unencumbered funds available that year is unenforceable and cannot be required to be paid from funds attributable to a later year. McBean v. County of Fresno, 112 Cal. 159 (1896). The cases considering the provision do not distinguish "indebtedness" from "liability."

Under the terms of the Swap Agreement, the Authority and, through the Facility Lease, the City may be obligated to make net payments to Party A out of the income or revenues attributable to fiscal years following the fiscal year in which the Swap Agreement is executed. Because the Facility Lease has not been assented to by the qualified electors of the City, payments required of the City under the Facility Lease relating to the Swap Agreement would be prohibited by Article XVI, Section 18 if it constitutes an "indebtedness or liability" of the City within the meaning of Article XVI, Section 18. Interest rate swaps are a relatively new class of financial arrangement. There is no direct authority on whether an interest rate swap is an "indebtedness" or "liability" within the meaning of Article XVI, Section 18. Tax or accounting treatment is not dispositive, there being (for example) a number of instruments that are clearly debt for tax or accounting purposes but not debt for purposes of Article XVI, Section 18. Interest rate swaps are essentially sui generis (*i.e.*, unique and not like anything else), and as

a result there are also no clear analogous authorities upon which to reliably base characterization for purposes of Article XVI, Section 18. In fact, apart from the provisions of Section 5922(a) of the Code set forth above and similar provisions in Section 5903(c) of the Code, there is little direct authority in California addressing interest rate swaps for any purpose.

A court could conclude that the City's obligations under the Facility Lease affected by or relating to the Swap Agreement are not prohibited by Article XVI, Section 18 by determining that such obligations of the City fit within one of the articulated "exceptions" to the Constitutional prohibition. Because the obligations of the City under the Facility Lease may involve net payments by the City from the income and revenues of future fiscal years, the single year/annual appropriation exception to Article XVI, Section 18 is not applicable, and because the City, through the Facility Lease, is obligated to make any net payments required under the Swap Agreement from monies in its general fund, the "special fund" exception articulated in City of Oxnard v. Dale, 45 Cal. 2d 729 (1955), does not apply. The Article XVI, Section 18 "exception" arguably most applicable is the "contingent obligation" exception.

The contingent obligation exception to the prohibition of Article XVI, Section 18 is based upon the proposition that a contingency does not become a debt until the contingency happens. Doland v. Clark, 143 Cal. 176 (1904). Contingent obligation cases require, among other things, the provision of consideration by the non-city party in each year in which payments by the City are required. McBean v. City of Fresno, 112 Cal. 159 (1896); Starr v. City and County of San Francisco, 72 Cal. App. 3d 164 (1977). Under the Swap Agreement, no net payment obligation on the part of the Authority (and related obligation of the City under the Facility Lease) for any period is certain and any payment obligation in future fiscal years is "contingent" upon the fixed rate set forth in the Confirmation being greater than the floating rate set forth in the Confirmation and/or upon the Settlement Amount being a negative number. However, the potential overbreadth of the contingent obligation exception and its unclear basis in the Constitutional provision requires an examination of the particular circumstances under which it has been most often applied.

The subcategory of the contingent obligation exception most fully developed by California courts and for which the judicial authorities are the strongest is the lease exception articulated in City of Pasadena v. Offner, 19 Cal. 2d 483 (1942), Dean v. Kuchel, 35 Cal. 2d 444 (1950) and Rider v. City of San Diego, 18 Cal. 4th 1035 (1998). In Offner, the court stated the general rule as follows:

[I]f the lease or other agreement is entered into in good faith and creates no immediate indebtedness for the aggregate installments therein provided for but, on the contrary, confines liability to each installment as it falls due and each year's payment is for the consideration actually furnished that year, no violence is done to the constitutional provision. (citations omitted) If, however, the instrument creates a full and complete liability upon its execution, or if its designation as a "lease" is a subterfuge and it is actually a conditional sales contract in which the "rentals" are installment payments on the purchase price for the aggregate of which an immediate and present indebtedness or liability exceeding the constitutional limitation arises against the public entity, the contract is void. (citations omitted) 19 Cal. 2d at 486.

Leases are not treated by California courts as "indebtedness or liability" within the meaning of Article XVI, Section 18 if each rental payment is conditioned on use and occupancy of the premises during the period with respect to which such rental is payable. In a number of cases holding that a lease is not an "indebtedness or liability," California courts have cited the absence of an acceleration clause as a relevant factor in finding a lease to be in conformance with the lease exception. City of Desert Hot Springs v. County of Riverside, 91 Cal. App. 3d 441 (1979); Starr v. City and County of San Francisco, 72 Cal.

App. 3d 164 (1977); Ruane v. City of San Diego, 267 Cal. App. 2d 548 (1968); County of Los Angeles v. Nesvig, 231 Cal. App. 2d 603 (1965); Lagiss v. County of Contra Costa, 223 Cal. App. 2d 77 (1963).

Even though interest rate swaps are essentially sui generis, there is some useful analogy to the types of leases approved under the Offner-Dean-Rider line of cases. Like those leases, the Swap Agreement is executory, and each year's performance by the Authority (and through the Facility Lease, the City) is conditioned upon the readiness and ability of Party A to perform its obligations in such year and upon Party A's actual performance under the Swap Agreements both currently and over the prior term of the Swap Agreement. In addition, the Facility Lease expressly provides that the payments under the Swap Agreement constitute Base Rental Payments under the Facility Lease, such payments are conditioned upon the City's use and occupancy of the property leased under the Facility Lease, subject to abatement in the event damage or destruction or condemnation of the such property, and are limited in amount in the event they exceed the fair rental value of such property.

Finally it is instructive to note that the California courts have stated that the validity of a transaction, whether it creates indebtedness or liabilities, is measured at the time the transaction is entered into. See Arthur v. City of Petaluma, 175 Cal. 216, 223-24 (1917). Based in part upon such reasoning, one federal court, interpreting the scope of the contingent obligation exception to the prohibition of Article XVI, Section 18, determined that reverse repurchase agreements entered into by Orange County, California and which contributed significantly to the County's bankruptcy, did not violate the California Constitutional debt limit. In Re County of Orange, 31 F.Supp.2d 768 (C.D.Cal. 1998). Although not binding upon California courts, the federal district court's reasoning supports the conclusion that, as the Facility Lease, under which Base Rental Payments support the Authority's obligations under the Swap Agreement creates no immediate indebtedness or obligation of the City, but only a future payment obligation dependent upon future market conditions and conditioned upon the future performance of Party A and the use and occupancy of the leased property by the City, it does not constitute an indebtedness or liability under the California Constitution.

Based on and subject to the foregoing, and in reliance thereon, we are of the opinion that the Swap Agreement constitutes a valid and binding agreement of the Authority, payable only from Revenues and other amounts held under the Indenture. We are of the further opinion that the Facility Lease constitutes a valid and binding agreement of the City, payable from its general fund, unless the obligation of the City to pay Base Rental Payments to satisfy the obligation of the Authority under the Swap Agreement, including the payment of any Settlement Amount payable by the Authority, is determined to constitute an "indebtedness" or "liability" of the City prohibited by Article XVI, Section 18 of the Constitution of the State of California.

While there is no judicial authority directly on point and no assurance can be given that a court could not hold otherwise, based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that if the matter were properly briefed and presented to a court, the court would hold that the obligation of the City under the Swap Agreement taken as a whole (taking into account the provisions therein respecting the severability of invalid, illegal or unenforceable provisions) does not constitute an indebtedness or liability of the City prohibited by Article XVI, Section 18 of the Constitution of the State of California.

With respect to the opinions expressed herein, the rights and obligations under the Swap Agreement are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting the creditors' rights, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against cities in the State of California.

We express no opinion with respect to any indemnification, contribution, choice of forum or waiver provisions contained in the foregoing documents. In addition, we express no opinion as to any provision of the Swap Agreement (i) purporting to create any security interest, (ii) providing that every right and remedy shall be cumulative and in addition to every other right and remedy, or that any failure or delay in exercising any right, power or privilege shall not impair any right or remedy or constitute a waiver thereof, or (iii) regarding specific performance or the grant of any power of attorney.

Our opinion is subject, as to enforceability, to (i) general principles of equity, including concepts of reasonableness, materiality, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity); in particular, a court might decline to enforce the conditions set forth in Section 2(a)(iii) of the Swap Agreement and a non-defaulting party's right set forth in Section 6 of the Swap Agreement to designate an Early Termination Date, if the condition or right were invoked in connection with a default deemed immaterial, (ii) the effect of applicable laws, regulations and judicial or other decisions upon the availability and enforceability of particular covenants and remedies, including the remedies of specific performance and self-help, and provisions imposing penalties and forfeitures, and (iii) a court's power to limit the non-defaulting party's recovery to actual damages and impose its own settlement procedures in lieu of the provisions of Section 6(e) of the Swap Agreement. In addition, the enforcement of the Swap Agreement may be conditioned upon the party seeking enforcement having acted in a commercially reasonable manner and in good faith in performing its obligations and exercising its rights and remedies thereunder and is subject to the discretion of a court to invalidate or decline to enforce any right, remedy or provision of the Swap Agreement (including, without limitation, the termination payment provisions thereof) determined by it to be a penalty.

This opinion is limited to the laws of the States of California and New York and the Federal laws of the United States. The opinions in this letter are expressed solely as of the date hereof for your benefit and may not be relied upon in any manner or for any purposes by any other person.

Respectfully submitted,

SIDLEY AUSTIN

EXHIBIT III

[DATE]

Modesto Public Financing Authority
City of Modesto Finance Department
City Hall
1010 Tenth Street, Suite 5200
Modesto, California 95353

CIFG Assurance North America, Inc.
825 Third Avenue, 6th Floor
New York, New York 10022

Ladies and Gentlemen:

I have acted as counsel to Bank of America, N.A., a national banking association ("Party A") organized under the laws of the United States. This opinion letter is being delivered to you in connection with the execution and delivery by Party A of the ISDA Master Agreement (including the Schedule thereto and the related Credit Support Annex, the "Agreement"), dated as of April [11], 2007, between the Modesto Public Financing Authority ("Party B") and Party A. Any capitalized terms used but not defined herein shall have the respective meanings specified in the Agreement.

In connection with this opinion letter, I have examined or had examined on my behalf an executed copy of the Agreement and other documents as I have deemed necessary or appropriate for the purposes of this opinion letter. In such opinion, I have assumed, without independent verification, the genuineness of all signatures (except those of Party A), the authenticity of all documents submitted to me as originals and the conformity to authentic original documents of all documents submitted to me as certified, conformed or photostatic copies.

Based upon the foregoing, I am of the opinion that:

1. Party A is a national banking association duly organized, validly existing, and in good standing under the laws of the United States.
2. The execution, delivery, and performance of the Agreement are within Party A's corporate power, have been duly authorized by all necessary corporate action, and do not conflict with any provision of Party A's articles of association or bylaws or any law, regulation, or material agreement to which Party A is subject or by which Party A is bound.

3. No consent, authorization, license or approval of, or registration or declaration with, any United States governmental authority is required in connection with Party A's execution, delivery, and performance of the Agreement.

4. The Agreement has been duly executed and delivered by Party A and, assuming that Party B has validly executed and delivered the Agreement, constitutes the legally valid and binding obligation of Party A, enforceable against Party A in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, receivership, conservatorship, or other laws affecting the enforcement of creditors' rights generally or by general equity principles.

I am not expressing any opinion as to any matter relating to any jurisdiction other than the laws of the State of New York and the United States and I assume no responsibility as to the applicability of the laws of any other jurisdiction as to the subject transaction or the effect of such laws thereon.

This opinion letter is given as of the date hereof, and I expressly disclaim any obligation to update this opinion letter or to give notice to you of any future change in facts or law that might affect the opinions set forth herein. The opinions expressed herein are limited to those matters expressly set forth, and no opinion is to be inferred or implied beyond the matters expressly so stated.

The opinions expressed herein are for the exclusive benefit of Party B in connection with the execution and delivery by Party A of the Agreement. This opinion is not to be used, circulated, quoted or otherwise referred to for any other purpose. This opinion letter may not be relied upon in any manner by any other person, entity and/or agency.

Very truly yours,

(Bilateral Form)

(ISDA Agreements Subject to New York Law Only)

ISDA[®]

International Swaps and Derivatives Association, Inc.

CREDIT SUPPORT ANNEX

to the Schedule to the

MASTER AGREEMENT

dated as of April 11, 2007

between

BANK OF AMERICA, N.A.

and

**MODESTO PUBLIC FINANCING
AUTHORITY**

("Party A")

("Party B")

This Annex supplements, forms part of, and is subject to, the above-referenced Agreement, is part of its Schedule and is a Credit Support Document under this Agreement with respect to each party.

Accordingly, the parties agree as follows:

Paragraph 1. Interpretation

(a) **Definitions and Inconsistency.** Capitalized terms not otherwise defined herein or elsewhere in this Agreement have the meanings specified pursuant to Paragraph 12, and all references in this Annex to Paragraphs are to Paragraphs of this Annex. In the event of any inconsistency between this Annex and the other provisions of this Schedule, this Annex will prevail, and in the event of any inconsistency between Paragraph 13 and the other provisions of this Annex, Paragraph 13 will prevail.

(b) **Secured Party and Pledgor.** All references in this Annex to the "Secured Party" will be to either party when acting in that capacity and all corresponding references to the "Pledgor" will be to the other party when acting in that capacity; *provided, however*, that if Other Posted Support is held by a party to this Annex, all references herein to that party as the Secured Party with respect to that Other Posted Support will be to that party as the beneficiary thereof and will not subject that support or that party as the beneficiary thereof to provisions of law generally relating to security interests and secured parties.

Paragraph 2. Security Interest

Each party, as the Pledgor, hereby pledges to the other party, as the Secured Party, as security for its Obligations, and grants to the Secured Party a first priority continuing security interest in, lien on and right of Set-off against all Posted Collateral Transferred to or received by the Secured Party hereunder. Upon the Transfer by the Secured Party to the Pledgor of Posted Collateral, the security interest and lien granted hereunder on that Posted Collateral will be released immediately and, to the extent possible, without any further action by either party.

Paragraph 3. Credit Support Obligations

(a) **Delivery Amount.** Subject to Paragraphs 4 and 5, upon a demand made by the Secured Party on or promptly following a Valuation Date, if the Delivery Amount for that Valuation Date equals or exceeds the Pledgor's Minimum Transfer Amount, then the Pledgor will Transfer to the Secured Party Eligible Credit Support having a Value as of the date of Transfer at least equal to the applicable Delivery Amount (rounded pursuant to Paragraph 13). Unless otherwise specified in Paragraph 13, the "**Delivery Amount**" applicable to the Pledgor for any Valuation Date will equal the amount by which:

(i) the Credit Support Amount

exceeds

(ii) the Value as of that Valuation Date of all Posted Credit Support held by the Secured Party.

(b) **Return Amount.** Subject to Paragraphs 4 and 5, upon a demand made by the Pledgor on or promptly following a Valuation Date, if the Return Amount for that Valuation Date equals or exceeds the Secured Party's Minimum Transfer Amount, then the Secured Party will Transfer to the Pledgor Posted Credit Support specified by the Pledgor in that demand having a Value as of the date of Transfer as close as practicable to the applicable Return Amount (rounded pursuant to Paragraph 13). Unless otherwise specified in Paragraph 13, the "**Return Amount**" applicable to the Secured Party for any Valuation Date will equal the amount by which:

(i) the Value as of that Valuation Date of all Posted Credit Support held by the Secured Party

exceeds

(ii) the Credit Support Amount.

"Credit Support Amount" means, unless otherwise specified in Paragraph 13, for any Valuation Date (i) the Secured Party's Exposure for that Valuation Date plus (ii) the aggregate of all Independent Amounts applicable to the Pledgor, if any, minus (iii) all Independent Amounts applicable to the Secured Party, if any, minus (iv) the Pledgor's Threshold; *provided, however*, that the Credit Support Amount will be deemed to be zero whenever the calculation of Credit Support Amount yields a number less than zero.

Paragraph 4. Conditions Precedent, Transfer Timing, Calculations and Substitutions

(a) **Conditions Precedent.** Each Transfer obligation of the Pledgor under Paragraphs 3(a) and 5 and of the Secured Party under Paragraphs 3(b), 4(d)(ii), 5 and 6(d) is subject to the conditions precedent that:

(i) no Event of Default, Potential Event of Default or Specified Condition has occurred and is continuing with respect to the other party; and

(ii) no Early Termination Date for which any unsatisfied payment obligations exist has occurred or been designated as the result of an Event of Default or Specified Condition with respect to the other party.

(b) **Transfer Timing.** Subject to Paragraphs 4(a) and 5 and unless otherwise specified, if a demand for the Transfer of Eligible Credit Support or Posted Credit Support is made by the Notification Time, then the relevant Transfer will be made not later than the close of business on the next Local Business Day; if a demand is made after the Notification Time, then the relevant Transfer will be made not later than the close of business on the second Local Business Day thereafter.

(c) **Calculations.** All calculations of Value and Exposure for purposes of Paragraphs 3 and 6(d) will be made by the Valuation Agent as of the Valuation Time. The Valuation Agent will notify each party (or the other party, if the Valuation Agent is a party) of its calculations not later than the Notification Time on the Local Business Day following the applicable Valuation Date (or in the case of Paragraph 6(d), following the date of calculation).

(d) ***Substitutions.***

(i) Unless otherwise specified in Paragraph 13, upon notice to the Secured Party specifying the items of Posted Credit Support to be exchanged, the Pledgor may, on any Local Business Day, Transfer to the Secured Party substitute Eligible Credit Support (the "Substitute Credit Support"); and

(ii) subject to Paragraph 4(a), the Secured Party will Transfer to the Pledgor the items of Posted Credit Support specified by the Pledgor in its notice not later than the Local Business Day following the date on which the Secured Party receives the Substitute Credit Support, unless otherwise specified in Paragraph 13 (the "Substitution Date"); *provided* that the Secured Party only will be obligated to Transfer Posted Credit Support with a Value as of the date of Transfer of that Posted Credit Support equal to the Value as of that date of the Substitute Credit Support.

Paragraph 5. Dispute Resolution

If a party (a "Disputing Party") disputes (I) the Valuation Agent's calculation of a Delivery Amount or a Return Amount or (II) the Value of any Transfer of Eligible Credit Support or Posted Credit Support, then (1) the Disputing Party will notify the Valuation Agent (if the Valuation Agent is not the Disputing Party) and the other party (if the Valuation Agent is not that other party) not later than the close of business on the Local Business Day following (X) the date that the demand is made under Paragraph 3 in the case of (I) above or (Y) the date of Transfer in the case of (II) above, (2) subject to Paragraph 4(a), the appropriate party will Transfer the undisputed amount to the other party not later than the close of business on the Local Business Day following (X) the date that the demand is made under Paragraph 3 in the case of (I) above or (Y) the date of Transfer in the case of (II) above, (3) the parties will consult with each other in an attempt to resolve the dispute and (4) if they fail to resolve the dispute by the Resolution Time, then:

(i) In the case of a dispute involving a Delivery Amount or Return Amount, unless otherwise specified in Paragraph 13, the Valuation Agent will recalculate the Exposure and the Value as of the Recalculation Date by:

(A) utilizing any calculations of Exposure for the Transactions (or Swap Transactions) that the parties have agreed are not in dispute;

(B) calculating the Exposure for the Transactions (or Swap Transactions) in dispute by seeking four actual quotations at mid-market from Reference Market-makers for purposes of calculating Market Quotation, and taking the arithmetic average of those obtained; *provided* that if four quotations are not available for a particular Transaction (or Swap Transaction), then fewer than four quotations may be used for that Transaction (or Swap Transaction); and if no quotations are available for a particular Transaction (or Swap Transaction), then the Valuation Agent's original calculations will be used for that Transaction (or Swap Transaction); and

(C) utilizing the procedures specified in Paragraph 13 for calculating the Value, if disputed, of Posted Credit Support.

(ii) In the case of a dispute involving the Value of any Transfer of Eligible Credit Support or Posted Credit Support, the Valuation Agent will recalculate the Value as of the date of Transfer pursuant to Paragraph 13.

Following a recalculation pursuant to this Paragraph, the Valuation Agent will notify each party (or the other party, if the Valuation Agent is a party) not later than the Notification Time on the Local Business Day following the Resolution Time. The appropriate party will, upon demand following that notice by the Valuation Agent or a resolution pursuant to (3) above and subject to Paragraphs 4(a) and 4(b), make the appropriate Transfer.

Paragraph 6. Holding and Using Posted Collateral

(a) ***Care of Posted Collateral.*** Without limiting the Secured Party's rights under Paragraph 6(c), the Secured Party will exercise reasonable care to assure the safe custody of all Posted Collateral to the extent required by

applicable law, and in any event the Secured Party will be deemed to have exercised reasonable care if it exercises at least the same degree of care as it would exercise with respect to its own property. Except as specified in the preceding sentence, the Secured Party will have no duty with respect to Posted Collateral, including, without limitation, any duty to collect any Distributions, or enforce or preserve any rights pertaining thereto.

(b) ***Eligibility to Hold Posted Collateral; Custodians.***

(i) ***General.*** Subject to the satisfaction of any conditions specified in Paragraph 13 for holding Posted Collateral, the Secured Party will be entitled to hold Posted Collateral or to appoint an agent (a "Custodian") to hold Posted Collateral for the Secured Party. Upon notice by the Secured Party to the Pledgor of the appointment of a Custodian, the Pledgor's obligations to make any Transfer will be discharged by making the Transfer to that Custodian. The holding of Posted Collateral by a Custodian will be deemed to be the holding of that Posted Collateral by the Secured Party for which the Custodian is acting.

(ii) ***Failure to Satisfy Conditions.*** If the Secured Party or its Custodian fails to satisfy any conditions for holding Posted Collateral, then upon a demand made by the Pledgor, the Secured Party will, not later than five Local Business Days after the demand, Transfer or cause its Custodian to Transfer all Posted Collateral held by it to a Custodian that satisfies those conditions or to the Secured Party if it satisfies those conditions.

(iii) ***Liability.*** The Secured Party will be liable for the acts or omissions of its Custodian to the same extent that the Secured Party would be liable hereunder for its own acts or omissions.

(c) ***Use of Posted Collateral.*** Unless otherwise specified in Paragraph 13 and without limiting the rights and obligations of the parties under Paragraphs 3, 4(d)(ii), 5, 6(d) and 8, if the Secured Party is not a Defaulting Party or an Affected Party with respect to a Specified Condition and no Early Termination Date has occurred or been designated as the result of an Event of Default or Specified Condition with respect to the Secured Party, then the Secured Party will, notwithstanding Section 9-207 of the New York Uniform Commercial Code, have the right to:

(i) sell, pledge, rehypothecate, assign, invest, use, commingle or otherwise dispose of, or otherwise use in its business any Posted Collateral it holds, free from any claim or right of any nature whatsoever of the Pledgor, including any equity or right of redemption by the Pledgor; and

(ii) register any Posted Collateral in the name of the Secured Party, its Custodian or a nominee for either.

For purposes of the obligation to Transfer Eligible Credit Support or Posted Credit Support pursuant to Paragraphs 3 and 5 and any rights or remedies authorized under this Agreement, the Secured Party will be deemed to continue to hold all Posted Collateral and to receive Distributions made thereon, regardless of whether the Secured Party has exercised any rights with respect to any Posted Collateral pursuant to (i) or (ii) above.

(d) ***Distributions and Interest Amount.***

(i) ***Distributions.*** Subject to Paragraph 4(a), if the Secured Party receives or is deemed to receive Distributions on a Local Business Day, it will Transfer to the Pledgor not later than the following Local Business Day any Distributions it receives or is deemed to receive to the extent that a Delivery Amount would not be created or increased by that Transfer, as calculated by the Valuation Agent (and the date of calculation will be deemed to be a Valuation Date for this purpose).

(ii) ***Interest Amount.*** Unless otherwise specified in Paragraph 13 and subject to Paragraph 4(a), in lieu of any interest, dividends or other amounts paid or deemed to have been paid with respect to Posted Collateral in the form of Cash (all of which may be retained by the Secured Party), the Secured Party will Transfer to the Pledgor at the times specified in Paragraph 13 the Interest Amount to the extent that a Delivery Amount would not be created or increased by that Transfer, as calculated by the Valuation Agent (and the date of calculation will be deemed to be a Valuation Date for this purpose). The Interest Amount or portion thereof not Transferred pursuant to this Paragraph will constitute Posted Collateral in the form of Cash and will be subject to the security interest granted under Paragraph 2.

Paragraph 7. Events of Default

For purposes of Section 5(a)(iii)(1) of this Agreement, an Event of Default will exist with respect to a party if:

- (i) that party fails (or fails to cause its Custodian) to make, when due, any Transfer of Eligible Collateral, Posted Collateral or the Interest Amount, as applicable, required to be made by it and that failure continues for two Local Business Days after notice of that failure is given to that party;
- (ii) that party fails to comply with any restriction or prohibition specified in this Annex with respect to any of the rights specified in Paragraph 6(c) and that failure continues for five Local Business Days after notice of that failure is given to that party; or
- (iii) that party fails to comply with or perform any agreement or obligation other than those specified in Paragraphs 7(i) and 7(ii) and that failure continues for 30 days after notice of that failure is given to that party.

Paragraph 8. Certain Rights and Remedies

(a) ***Secured Party's Rights and Remedies.*** If at any time (1) an Event of Default or Specified Condition with respect to the Pledgor has occurred and is continuing or (2) an Early Termination Date has occurred or been designated as the result of an Event of Default or Specified Condition with respect to the Pledgor, then, unless the Pledgor has paid in full all of its Obligations that are then due, the Secured Party may exercise one or more of the following rights and remedies:

- (i) all rights and remedies available to a secured party under applicable law with respect to Posted Collateral held by the Secured Party;
- (ii) any other rights and remedies available to the Secured Party under the terms of Other Posted Support, if any;
- (iii) the right to Set-off any amounts payable by the Pledgor with respect to any Obligations against any Posted Collateral or the Cash equivalent of any Posted Collateral held by the Secured Party (or any obligation of the Secured Party to Transfer that Posted Collateral); and
- (iv) the right to liquidate any Posted Collateral held by the Secured Party through one or more public or private sales or other dispositions with such notice, if any, as may be required by applicable law, free from any claim or right of any nature whatsoever of the Pledgor, including any equity or right of redemption by the Pledgor (with the Secured Party having the right to purchase any or all of the Posted Collateral to be sold) and to apply the proceeds (or the Cash equivalent thereof) from the liquidation of the Posted Collateral to any amounts payable by the Pledgor with respect to any Obligations in that order as the Secured Party may elect.

Each party acknowledges and agrees that Posted Collateral in the form of securities may decline speedily in value and is of a type customarily sold on a recognized market, and, accordingly, the Pledgor is not entitled to prior notice of any sale of that Posted Collateral by the Secured Party, except any notice that is required by law and cannot be waived.

(b) ***Pledgor's Rights and Remedies.*** If at any time an Early Termination Date has occurred or been designated as the result of an Event of Default or Specified Condition with respect to the Secured Party, then (except in the case of an Early Termination Date relating to less than all Transactions (or Swap Transactions) where the Secured Party has paid in full all of its obligations that are then due under Section 6(e) of this Agreement):

- (i) the Pledgor may exercise all rights and remedies available to a pledgor under applicable law with respect to Posted Collateral held by the Secured Party;
- (ii) the Pledgor may exercise any other rights and remedies available to the Pledgor under the terms of Other Posted Support, if any;

(iii) the Secured Party will be obligated immediately to Transfer all Posted Collateral and the Interest Amount to the Pledgor; and

(iv) to the extent that Posted Collateral or the Interest Amount is not so Transferred pursuant to (iii) above, the Pledgor may:

(A) Set-off any amounts payable by the Pledgor with respect to any Obligations against any Posted Collateral or the Cash equivalent of any Posted Collateral held by the Secured Party (or any obligation of the Secured Party to Transfer that Posted Collateral); and

(B) to the extent that the Pledgor does not Set-off under (iv)(A) above, withhold payment of any remaining amounts payable by the Pledgor with respect to any Obligations, up to the Value of any remaining Posted Collateral held by the Secured Party, until that Posted Collateral is Transferred to the Pledgor.

(c) **Deficiencies and Excess Proceeds.** The Secured Party will Transfer to the Pledgor any proceeds and Posted Credit Support remaining after liquidation, Set-off and/or application under Paragraphs 8(a) and 8(b) after satisfaction in full of all amounts payable by the Pledgor with respect to any Obligations; the Pledgor in all events will remain liable for any amounts remaining unpaid after any liquidation, Set-off and/or application under Paragraphs 8(a) and 8(b).

(d) **Final Returns.** When no amounts are or thereafter may become payable by the Pledgor with respect to any Obligations (except for any potential liability under Section 2(d) of this Agreement), the Secured Party will Transfer to the Pledgor all Posted Credit Support and the Interest Amount, if any.

Paragraph 9. Representations

Each party represents to the other party (which representations will be deemed to be repeated as of each date on which it, as the Pledgor, Transfers Eligible Collateral) that:

(i) it has the power to grant a security interest in and lien on any Eligible Collateral it Transfers as the Pledgor and has taken all necessary actions to authorize the granting of that security interest and lien;

(ii) it is the sole owner of or otherwise has the right to Transfer all Eligible Collateral Transferred to the Secured Party hereunder, free and clear of any security interest, lien, encumbrance or other restrictions other than the security interest and lien granted under Paragraph 2;

(iii) upon the Transfer of any Eligible Collateral to the Secured Party under the terms of this Annex, the Secured Party will have a valid and perfected first priority security interest therein (assuming that any central clearing corporation or any third-party financial intermediary or other entity not within the control of the Pledgor involved in the Transfer of that Eligible Collateral gives the notices and takes the action required of it under relevant law for perfection of that interest); and

(iv) the performance by it of its obligations under this Annex will not result in the creation of any security interest, lien or other encumbrance on any Posted Collateral other than the security interest and lien granted under Paragraph 2.

Paragraph 10. Expenses

(a) **General.** Except as otherwise provided in Paragraphs 10(b) and 10(c), each party will pay its own costs and expenses in connection with performing its obligations under this Annex and neither party will be liable for any costs and expenses incurred by the other party in connection herewith.

(b) **Posted Credit Support.** The Pledgor will promptly pay when due all taxes, assessments or charges of any nature that are imposed with respect to Posted Credit Support held by the Secured Party upon becoming aware of the same, regardless of whether any portion of that Posted Credit Support is subsequently disposed of under Paragraph

6(c), except for those taxes, assessments and charges that result from the exercise of the Secured Party's rights under Paragraph 6(c).

(c) **Liquidation/Application of Posted Credit Support.** All reasonable costs and expenses incurred by or on behalf of the Secured Party or the Pledgor in connection with the liquidation and/or application of any Posted Credit Support under Paragraph 8 will be payable, on demand and pursuant to the Expenses Section of this Agreement, by the Defaulting Party or, if there is no Defaulting Party, equally by the parties.

Paragraph 11. Miscellaneous

(a) **Default Interest.** A Secured Party that fails to make, when due, any Transfer of Posted Collateral or the Interest Amount will be obligated to pay the Pledgor (to the extent permitted under applicable law) an amount equal to interest at the Default Rate multiplied by the Value of the items of property that were required to be Transferred, from (and including) the date that Posted Collateral or Interest Amount was required to be Transferred to (but excluding) the date of Transfer of that Posted Collateral or Interest Amount. This interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

(b) **Further Assurances.** Promptly following a demand made by a party, the other party will execute, deliver, file and record any financing statement, specific assignment or other document and take any other action that may be necessary or desirable and reasonably requested by that party to create, preserve, perfect or validate any security interest or lien granted under Paragraph 2, to enable that party to exercise or enforce its rights under this Annex with respect to Posted Credit Support or an Interest Amount or to effect or document a release of a security interest on Posted Collateral or an Interest Amount.

(c) **Further Protection.** The Pledgor promptly will give notice to the Secured Party of, and defend against, any suit, action, proceeding or lien that involves Posted Credit Support Transferred by the Pledgor or that could adversely affect the security interest and lien granted by it under Paragraph 2, unless that suit, action, proceeding or lien results from the exercise of the Secured Party's rights under Paragraph 6(c).

(d) **Good Faith and Commercially Reasonable Manner.** Performance of all obligations under this Annex including, but not limited to, all calculations, valuations and determinations made by either party, will be made in good faith and in a commercially reasonable manner.

(e) **Demands and Notices.** All demands and notices made by a party under this Annex will be made as specified in the Notices Section of this Agreement, except as otherwise provided in Paragraph 13.

(f) **Specifications of Certain Matters.** Anything referred to in this Annex as being specified in Paragraph 13 also may be specified in one or more Confirmations or other documents and this Annex will be construed accordingly.

Paragraph 12. Definitions

As used in this Annex:--

"Cash" means the lawful currency of the United States of America.

"Credit Support Amount" has the meaning specified in Paragraph 3.

"Custodian" has the meaning specified in Paragraphs 6(b)(i) and 13.

"Delivery Amount" has the meaning specified in Paragraph 3(a).

"Disputing Party" has the meaning specified in Paragraph 5.

"Distributions" means with respect to Posted Collateral other than Cash, all principal, interest and other payments and distributions of cash or other property with respect thereto, regardless of whether the Secured Party has disposed of that Posted Collateral under Paragraph 6(c). Distributions will not include any item of property acquired by the Secured

Party upon any disposition or liquidation of Posted Collateral or, with respect to any Posted Collateral in the form of Cash, any distributions on that collateral, unless otherwise specified herein.

"Eligible Collateral" means, with respect to a party, the items, if any, specified as such for that party in Paragraph 13.

"Eligible Credit Support" means Eligible Collateral and Other Eligible Support.

"Exposure" means for any Valuation Date or other date for which Exposure is calculated and subject to Paragraph 5 in the case of a dispute, the amount, if any, that would be payable to a party that is the Secured Party by the other party (expressed as a positive number) or by a party that is the Secured Party to the other party (expressed as a negative number) pursuant to Section 6(e)(ii)(2)(A) of this Agreement as if all Transactions (or Swap Transactions) were being terminated as of the relevant Valuation Time; *provided* that Market Quotation will be determined by the Valuation Agent using its estimates at mid-market of the amounts that would be paid for Replacement Transactions (as that term is defined in the definition of "Market Quotation").

"Independent Amount" means, with respect to a party, the amount specified as such for that party in Paragraph 13; if no amount is specified, zero.

"Interest Amount" means, with respect to an Interest Period, the aggregate sum of the amounts of interest calculated for each day in that Interest Period on the principal amount of Posted Collateral in the form of Cash held by the Secured Party on that day, determined by the Secured Party for each such day as follows:

- (x) the amount of that Cash on that day; multiplied by
- (y) the Interest Rate in effect for that day; divided by
- (z) 360.

"Interest Period" means the period from (and including) the last Local Business Day on which an Interest Amount was Transferred (or, if no Interest Amount has yet been Transferred, the Local Business Day on which Posted Collateral in the form of Cash was Transferred to or received by the Secured Party) to (but excluding) the Local Business Day on which the current Interest Amount is to be Transferred.

"Interest Rate" means the rate specified in Paragraph 13.

"Local Business Day", unless otherwise specified in Paragraph 13, has the meaning specified in the Definitions Section of this Agreement, except that references to a payment in clause (b) thereof will be deemed to include a Transfer under this Annex.

"Minimum Transfer Amount" means, with respect to a party, the amount specified as such for that party in Paragraph 13; if no amount is specified, zero.

"Notification Time" has the meaning specified in Paragraph 13.

"Obligations" means, with respect to a party, all present and future obligations of that party under this Agreement and any additional obligations specified for that party in Paragraph 13.

"Other Eligible Support" means, with respect to a party, the items, if any, specified as such for that party in Paragraph 13.

"Other Posted Support" means all Other Eligible Support Transferred to the Secured Party that remains in effect for the benefit of that Secured Party.

"Pledgor" means either party, when that party (i) receives a demand for or is required to Transfer Eligible Credit Support under Paragraph 3(a) or (ii) has Transferred Eligible Credit Support under Paragraph 3(a).

"Posted Collateral" means all Eligible Collateral, other property, Distributions, and all proceeds thereof that have been Transferred to or received by the Secured Party under this Annex and not Transferred to the Pledgor pursuant to Paragraph 3(b), 4(d)(ii) or 6(d)(i) or released by the Secured Party under Paragraph 8. Any Interest Amount or portion thereof not Transferred pursuant to Paragraph 6(d)(ii) will constitute Posted Collateral in the form of Cash.

"Posted Credit Support" means Posted Collateral and Other Posted Support.

"Recalculation Date" means the Valuation Date that gives rise to the dispute under Paragraph 5; *provided, however,* that if a subsequent Valuation Date occurs under Paragraph 3 prior to the resolution of the dispute, then the "Recalculation Date" means the most recent Valuation Date under Paragraph 3.

"Resolution Time" has the meaning specified in Paragraph 13.

"Return Amount" has the meaning specified in Paragraph 3(b).

"Secured Party" means either party, when that party (i) makes a demand for or is entitled to receive Eligible Credit Support under Paragraph 3(a) or (ii) holds or is deemed to hold Posted Credit Support.

"Specified Condition" means, with respect to a party, any event specified as such for that party in Paragraph 13.

"Substitute Credit Support" has the meaning specified in Paragraph 4(d)(i).

"Substitution Date" has the meaning specified in Paragraph 4(d)(ii).

"Threshold" means, with respect to a party, the amount specified as such for that party in Paragraph 13; if no amount is specified, zero.

"Transfer" means, with respect to any Eligible Credit Support, Posted Credit Support or Interest Amount, and in accordance with the instructions of the Secured Party, Pledgor or Custodian, as applicable:

(i) in the case of Cash, payment or delivery by wire transfer into one or more bank accounts specified by the recipient;

(ii) in the case of certificated securities that cannot be paid or delivered by book-entry, payment or delivery in appropriate physical form to the recipient or its account accompanied by any duly executed instruments of transfer, assignments in blank, transfer tax stamps and any other documents necessary to constitute a legally valid transfer to the recipient;

(iii) in the case of securities that can be paid or delivered by book-entry, the giving of written instructions to the relevant depository institution or other entity specified by the recipient, together with a written copy thereof to the recipient, sufficient if complied with to result in a legally effective transfer of the relevant interest to the recipient; and

(iv) in the case of Other Eligible Support or Other Posted Support, as specified in Paragraph 13.

"Valuation Agent" has the meaning specified in Paragraph 13.

"Valuation Date" means each date specified in or otherwise determined pursuant to Paragraph 13.

"Valuation Percentage" means, for any item of Eligible Collateral, the percentage specified in Paragraph 13.

"Valuation Time" has the meaning specified in Paragraph 13.

"Value" means for any Valuation Date or other date for which Value is calculated and subject to Paragraph 5 in the case of a dispute, with respect to:

- (i) Eligible Collateral or Posted Collateral that is:
 - (A) Cash, the amount thereof; and
 - (B) a security, the bid price obtained by the Valuation Agent multiplied by the applicable Valuation Percentage, if any;
- (ii) Posted Collateral that consists of items that are not specified as Eligible Collateral, zero; and
- (iii) Other Eligible Support and Other Posted Support, as specified in Paragraph 13.

Paragraph 13. Elections and Variables

(a) Security Interest for "Obligations". The term "Obligations" as used in this Annex includes no additional obligations with respect to Party A or Party B.

(b) Credit Support Obligations.

(i) "Delivery Amount", "Return Amount" and "Credit Support Amount" will have the meanings specified in Paragraphs 3(a), 3(b) and 3, respectively provided, however, that the Return Amount shall be adjusted, as necessary, so that immediately following any return of Collateral that the Value of Posted Credit Support held by the Secured Party shall always be at least equal to the Credit Support Amount.

(ii) Eligible Collateral shall consist of those assets identified by the ICAD codes listed below, as they are defined in the Collateral Asset Definitions. Percentage shown is the Valuation Percentage applicable to the indicated combination of ICAD and Remaining Maturity.

ICAD Code	Remaining Maturity			
	One (1) year or under	More than one (1) year up to and including five (5) years	More than five (5) years up to and including ten (10) years	More than ten (10) years
US-CASH	100%	N/A	N/A	N/A
US-TBILL	99.5%	N/A	N/A	N/A
US-TNOTE	99.5%	98%	95%	N/A
US-TBOND	99.5%	98%	95%	95%
US-STRIP	95%	95%	95%	95%
US-TIPS	95%	95%	95%	95%
US-GNMA	99.5%	98%	95%	95%
US-GNMAMBS	99.5%	98%	95%	95%

There shall be no "Other Eligible Support" for Party A or Party B for purposes of this Annex.

(iv) Thresholds.

(A) "Independent Amount" means with respect to Party A: Not Applicable.
"Independent Amount" means with respect to Party B: Not applicable.

(B) "Threshold" means, on any day, with respect to a party as Pledgor, the amount set forth under the caption "Threshold" below opposite the rating classification assigned to that party's long-term unsecured, unsubordinated indebtedness or long-term deposits (without regard to any third party credit enhancement), as applicable, by the Rating Agencies on that day, as determined pursuant to terms of this provision (such party's "Credit Rating"). Where more than one Rating Agency rates a party's long-term unsecured unsubordinated indebtedness or long-term deposits (without regard to any third party credit enhancement) and the

ratings are split (including due to a withdrawal or suspension of a rating), the Threshold will be based on the lower of the two ratings. Where only one Rating Agency rates a party's long-term unsecured unsubordinated indebtedness or long-term deposits (without regard to any third party credit enhancement), the Threshold will be based on the rating of that Rating Agency. If at any time (1) no Rating Agency rates a party's long-term unsecured unsubordinated indebtedness or long-term deposits, as applicable, or (2) an Event of Default has occurred and is continuing with respect to a party, the Threshold for that party shall be zero. "Rating Agencies" means Moody's and S&P.

Credit Rating of Party A

<u>Threshold</u>	<u>By S&P</u>	<u>by Moody's</u>
Infinite	A (and above)	A2 (and above)
\$ 0	A- (or below)	A3 (or below)

Credit Rating of Party B

<u>Threshold</u>	<u>By S&P</u>	<u>by Moody's</u>
Infinite	BBB (and above)	Baa2 (and above)
\$ 0	BBB- (or below)	Baa3 (or below)

- (B) "Minimum Transfer Amount" means with respect to Party A: \$100,000
"Minimum Transfer Amount" means with respect to Party B: \$100,000
- (D) Rounding. The Delivery Amount will be rounded up and the Return Amount will be rounded down to the nearest integral multiple of \$10,000.00, respectively.

(c) Valuation and Timing.

(i) "Valuation Agent" means, for the purposes of Paragraphs 3 and 5, the party making the demand under Paragraph 3, and, for the purposes of Paragraph 6(d), the Secured Party receiving or deemed to receive the Distributions or the Interest Amount, as applicable.

(ii) "Valuation Date" means: Each and every Local Business Day commencing on the first such date following the date hereof.

(iii) "Valuation Time" means:

[] the close of business in the city of the Valuation Agent on the Valuation Date or date of calculation, as applicable;

[X] the close of business on the Local Business Day before the Valuation Date or date of calculation, as applicable;

provided that the calculations of Value and Exposure will be made as of approximately the same time on the same date.

(iv) "Notification Time" means 1:00 p.m., New York time, on a Local Business Day.

- (d) Conditions Precedent and Secured Party's Rights and Remedies. The following Termination Event(s) will be a "Specified Condition" for each party (that party being the Affected Party if the Termination Event occurs with respect to that party) for purposes of Paragraphs 4(a), 6(c), 8(a) and 8(b): Illegality, Tax Event, Tax Event Upon Merger, Credit Event Upon Merger and Additional Termination Event.
- (e) Substitution.
- (i) "Substitution Date" means the Local Business Day in New York on which the Secured Party is able to confirm irrevocable receipt of the Substitute Credit Support, provided that (x) such receipt is confirmed before 3:00 p.m. (New York time) on such Local Business Day in New York and (y) the Secured Party has received, before 1:00 p.m. (New York time) on the immediately preceding Local Business Day in New York, the notice of substitution described in Paragraph 4(d)(i).
- (ii) Consent. The Pledgor is not required to obtain the Secured Party's consent for any substitution pursuant to Paragraph 4(d).
- (f) Dispute Resolution.
- (i) "Resolution Time" means 1:00 p.m., New York time, on the Local Business Day following the date on which a notice is given that gives rise to a dispute under Paragraph 5.
- (ii) Value. For the purpose of Paragraphs 5(i)(C) and 5(ii), the Value of Posted Credit Support will be calculated as follows: for Cash, the U.S. dollar value thereof, and for each item of Eligible Collateral (except for Cash), an amount in U.S. dollars equal to the product of (i) either (A) the bid price for such security quoted on such day by a principal market-maker for such security selected in good faith by the Secured Party or (B) the most recent publicly available bid price for such security as reported by a quotation service or in a medium selected in good faith and in a commercially reasonable manner by Secured Party, multiplied by (ii) the percentage figure listed in Paragraph 13(b)(ii) hereof with respect to such security.
- (iii) Alternative. The provisions of Paragraph 5 will apply.
- (g) Holding and Using Posted Collateral.
- (i) Eligibility to Hold Posted Collateral; Custodians. Party A and its Custodian, and Party B and its Custodian, will be entitled to hold Posted Collateral, as applicable, pursuant to Paragraph 6(b); provided that the following conditions applicable to each party are satisfied:
- (A) Party A, as the Secured Party, is not a Defaulting Party; provided however, if Party A is a Defaulting Party then Party A must appoint a Custodian to hold Posted Collateral.
- (B) Party B, as the Secured Party, is not a Defaulting Party; provided however, if Party B is a Defaulting Party then Party B must appoint a Custodian to hold Posted Collateral.
- (C) Each party hereby covenants and agrees that it will cause all Posted Collateral received from the other party to be entered in one or more accounts (each, a "Collateral

Account") with a domestic office of a commercial bank, trust company or financial institution organized under the laws of the United States (or any state or a political subdivision thereof) having assets of at least \$10 billion and a long term debt or deposit rating of at least (i) Baa2 from Moody's and (ii) BBB from S&P (a "Qualified Institution"), each of which accounts may include property of other parties but will bear a title indicating the Secured Party's interest in said account and the Posted Collateral in such account. In addition the Secured Party may direct the Pledgor to transfer or deliver Eligible Collateral directly into the Secured Party's Collateral Account(s). If otherwise qualified, the Secured Party may act as such Qualified Institution and the Secured Party may move the Collateral Accounts from one Qualified Institution to another upon reasonable notice to the Pledgor. The Secured Party shall cause statements concerning the Posted Collateral transferred or delivered by the Pledgor to be sent to the Pledgor on request, which may not be made more frequently than once in each calendar month.

Initially the Custodian, for Party A is:- Not applicable.

Initially the Custodian, for Party B is:- Not applicable.

(ii) Use of Posted Collateral. The provisions of Paragraph 6(c) will apply to Party A and will apply to Party B.

(h) Distributions and Interest Amount.

(i) The "Interest Rate", with respect to Eligible Collateral in the form of Cash, for any day, will be the rate opposite the caption "Federal funds (effective)" for such day as published by the Federal Reserve Publication H.15 (519) or any successor publication as published by the Board of Governors of the Federal Reserve System.

(ii) The "Transfer of Interest Amount" will be made within 3 Local Business Days after the last Local Business Day of each calendar month.

(iii) Alternative Interest Amount. The provisions of Paragraph 6(d)(ii) will apply.

(iii) Paragraph 12 is hereby amended by replacing the definition of "Interest Period" with the following:

"Interest Period" means the period from (and including) the first day of each calendar month to (and including) the last day of each calendar month."

(i) Additional Representations. None.

(j) Other Eligible Support and Other Posted Support. Not Applicable.

(k) Demands and Notices. All demands, specifications and notices made by a party to this Annex will be made to the following:

Party A: Bank of America, N.A.
Sears Tower
233 South Wacker Drive, Suite 2800

Chicago, Illinois 60606-6306

Telephone No.: (312) 234-3030
Facsimile: (312) 234-2731

Party B: Modesto Public Financing Authority
City of Modesto Finance Department
City Hall
1010 Tenth Street, Suite 5200
Modesto, California 95353
Attention: Director of Finance
Telephone No.: (209) 577-5371
Facsimile No.: (209) 571-5880

With a copy to:

City Attorney's Office
c/o City of Modesto
City Hall
1010 Tenth Street, Sixth Floor
Modesto, California 95354
Attention: City Attorney
Telephone No.: (209) 577-5284
Facsimile No.: (209) 544-8260

(l) Addresses for Transfers.

Party A: Cash/Interest Payments: (USD Only)
Bank of America, New York
ABA 026009593
Account # 6550-619389
F/O Bank of America, Charlotte-Collateral

Eligible Collateral (other than cash):
BK AMERICA NC/INV
ABA# 053 000 196

Party B: Cash:

Eligible Collateral (other than cash):

(m) Other Provisions.

(i) This Credit Support Annex is a Security Agreement under the New York UCC.

- (ii) The definitions and provisions contained in the Collateral Asset Definitions First Edition - 2003 (the "Collateral Asset Definitions"), as published by the International Swaps and Derivatives Association, Inc., ("ISDA") are incorporated into this Annex. In the event of any inconsistency between any of the following, the first listed shall prevail (i) this Annex, (ii) the Agreement and (iii) the Collateral Asset Definitions.
- (iii) Paragraph 12 is hereby amended by adding, in alphabetical order, the following:

"Moody's" means Moody's Investor Services, Inc., or any successor to the rating business of such entity."

"S&P" means Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., or any successor to the rating business of such entity."
- (iv) At any time when the Pledgor's Credit Rating is either "BBB-" or below by S&P or "Baa3" or below by Moody's, or no long-term unsecured unsubordinated indebtedness or long-term deposits, as applicable, of the Pledgor is rated by either Rating Agency, or an Event of Default has occurred and is continuing with respect to the Pledgor:
 - (A) With respect to any Transfer of Eligible Credit Support demanded under Paragraph 3(a), Paragraph 4(b) of this Annex shall be deemed to be amended as follows: (I) replace the word "next" in the third line thereof with the word "same" and (II) replace the word "second" in the last line thereof with the word "next."
 - (B) Paragraph 5 of this Annex shall be deemed to be amended by deleting clause (2) thereof in its entirety and inserting in lieu thereof the following:

"(2) subject to Paragraph 4(a), the appropriate party will Transfer the undisputed amount to the other party not later than (X) the date the Transfer otherwise would have been due if no dispute had existed in the case of (I) above, or (Y) the close of business on the Local Business Day following the date of Transfer in the case of (II) above,"
 - (C) Paragraph 7 of this Annex shall be deemed to be amended by deleting clause (i) thereof in its entirety and inserting in lieu thereof the following:

"(i) (x) the Pledgor fails (or fails to cause its Custodian) to make, when due, any Transfer of Eligible Credit Support required to be made by it, or (y) the Secured Party fails (or fails to cause its Custodian) to make, when due, any Transfer of Posted Credit Support or Interest Amount, as applicable, required to be made by it and, in the case of clause (y) above, that failure continues for two Local Business Days after notice of that failure is given to the Secured Party;"
 - (D) Notwithstanding Paragraph 13(c)(iv), "Notification Time" means 9:00 a.m., New York time, on a Local Business Day.

The deemed amendments to this Annex set forth above shall cease to be effective on the date that all the conditions set forth in the first sentence of this provision no longer exist, but shall be reinstated from time to time if any of those conditions exists at a later time.

APR 17 2007 12:00 FR

TO 99802337357

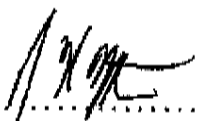
P.03/04

- (v) **Parties Not Obligated To Post Collateral.** Notwithstanding anything in the Credit Support Annex to the contrary, Party B shall not be obligated to post Collateral hereunder unless a Ratings Event has occurred as defined in Part 1(g)(ii) or an Insurer Event has occurred as defined in Part 6(c)(iii) of the Schedule and Party B elects to post Collateral to preclude the occurrence of an Additional Termination Event with respect to Party B thereunder; provided further that Party B may deliver collateral only if and to the extent that Related Obligations then due have been paid.

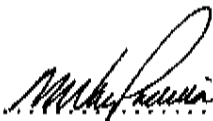
Accepted and agreed:

BANK OF AMERICA, N.A.

**MODESTO PUBLIC FINANCING
AUTHORITY**

By: 

Name: Roger Heintzelman
 Title: Senior Vice President
 Date: 4/17/07

By: 

Name: Wayne Padilla
 Title: Authority Treasurer
 Date: 04/17/07



To: Modesto Public Financing Authority
1010-10th Street
Modesto
CA 953530000
United States
Attn: Wayne Padilla
Telephone: 209 577 5371
Fax: 209 571 5880

From: Bank of America, N.A.
233 South Wacker Drive - Suite 2800
Chicago
Illinois 60606
U.S.A.
Department: Swaps Operations
Telephone: (+1) 312 234 2732
Fax: (+1) 866 255 1444

This Confirmation supercedes and replaces any and all Confirmations previously sent to you in respect of this Transaction.

Date: 12th April 2007 (Revised 17 April 2007)

Our Reference No: 5155191

Reference Name: Richard Petillo
Internal Tracking No: 2321053

Dear Sir/Madam,

The purpose of this letter agreement is to confirm the terms and conditions of the Transaction entered into between Modesto Public Financing Authority and Bank of America, N.A. (each a "party" and together "the parties") on the Trade Date specified below (the "Transaction"). This letter agreement constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below (the "Agreement").

The definitions and provisions contained in the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., (the "Definitions") are incorporated into this Confirmation. In the event of any inconsistency between the Definitions and this Confirmation, this Confirmation will govern.

This Confirmation supplements, forms part of, and is subject to, the ISDA Master Agreement dated as of 11th April 2007, as amended and supplemented from time to time, between the parties. All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

In this Confirmation "Party A" means Bank of America, N.A. and "Party B" means Modesto Public Financing Authority.

In this Confirmation "Party A" means Bank of America, N.A. and "Party B" means Modesto Public Financing Authority.

General Terms:

The terms of the particular Transaction to which this Confirmation relates are as follows:

Notional Amount: As per Schedule A below.

Trade Date: 11th April 2007

Effective Date: 3rd September 2008

Termination Date: 1st September 2033

Fixed Amounts:

Fixed Rate Payer: Party B

Fixed Rate Payer
Payment Dates: The 1st of each Month, commencing on 1st October 2008 and ending on the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention

Fixed Rate Payer
Period End Dates: The 1st of each Month, commencing on 1st October 2008 and ending on the Termination Date. No Adjustment.

Fixed Rate: 3.61500 per cent

Fixed Rate Day
Count Fraction: 30/360

Floating Amounts:

Floating Rate Payer: Party A

Floating Rate Payer
Payment Dates: The 1st of each Month, commencing on 1st October 2008
and ending on the Termination Date, subject to adjustment
in accordance with the Modified Following Business Day
Convention

Floating Rate Payer
Period End Dates: The 1st of each Month, commencing on 1st October 2008
and ending on the Termination Date. No Adjustment.

Floating Rate for initial
Calculation Period: to be determined

Floating Rate: A rate, expressed as a percentage, equal to 63.7 per cent of
the Relevant Rate for a Reset Date

Floating Rate Option: USD-LIBOR-BBA

Designated Maturity: 1 Month

Spread: plus 0.15400 per cent

Floating Rate Day
Count Fraction: Actual/Actual

Reset Dates: Thursday of each week

Method of
Averaging: Weekly Weighted

Business Days: New York

Calculation Agent: Party A

Other Provisions:

A brokerage fee in the amount of \$57,800.00 was paid to PFM by Bank of America, N.A. in connection with this transaction.

Recording of Conversations:

Each party to this Transaction acknowledges and agrees to the tape recording of conversations between the parties to this Transaction whether by one or other or both of the parties or their agents, and that any such tape recordings may be submitted in evidence in any Proceedings relating to the Agreement and/or this Transaction.

Account Details:

As advised under separate cover with reference to this Confirmation, each party shall provide appropriate payment instructions to the other party in writing and such instructions shall be deemed to be incorporated into this Confirmation.

Offices:

The Office of Party A for this
Transaction is:

Chicago, IL, United States
Please send reset notices to fax no. (+1) 866 218 8487

The Office of Party B for this
Transaction is:

Modesto - CA, United States

SCHEDULE A

Calculation Period scheduled to commence on:	Notional Amount:
3rd September 2008	USD 61,200,000.00
1st October 2008	USD 61,200,000.00
1st November 2008	USD 61,200,000.00
1st December 2008	USD 61,200,000.00
1st January 2009	USD 61,200,000.00
1st February 2009	USD 61,200,000.00
1st March 2009	USD 61,200,000.00
1st April 2009	USD 61,200,000.00
1st May 2009	USD 61,200,000.00
1st June 2009	USD 61,200,000.00
1st July 2009	USD 61,200,000.00
1st August 2009	USD 61,200,000.00
1st September 2009	USD 60,275,000.00
1st October 2009	USD 60,275,000.00
1st November 2009	USD 60,275,000.00
1st December 2009	USD 60,275,000.00
1st January 2010	USD 60,275,000.00
1st February 2010	USD 60,275,000.00
1st March 2010	USD 60,275,000.00
1st April 2010	USD 60,275,000.00
1st May 2010	USD 60,275,000.00

1st June 2010	USD 60,275,000.00
1st July 2010	USD 60,275,000.00
1st August 2010	USD 60,275,000.00
1st September 2010	USD 59,225,000.00
1st October 2010	USD 59,225,000.00
1st November 2010	USD 59,225,000.00
1st December 2010	USD 59,225,000.00
1st January 2011	USD 59,225,000.00
1st February 2011	USD 59,225,000.00
1st March 2011	USD 59,225,000.00
1st April 2011	USD 59,225,000.00
1st May 2011	USD 59,225,000.00
1st June 2011	USD 59,225,000.00
1st July 2011	USD 59,225,000.00
1st August 2011	USD 59,225,000.00
1st September 2011	USD 58,075,000.00
1st October 2011	USD 58,075,000.00
1st November 2011	USD 58,075,000.00
1st December 2011	USD 58,075,000.00
1st January 2012	USD 58,075,000.00
1st February 2012	USD 58,075,000.00
1st March 2012	USD 58,075,000.00
1st April 2012	USD 58,075,000.00
1st May 2012	USD 58,075,000.00
1st June 2012	USD 58,075,000.00

1st July 2012	USD 58,075,000.00
1st August 2012	USD 58,075,000.00
1st September 2012	USD 56,800,000.00
1st October 2012	USD 56,800,000.00
1st November 2012	USD 56,800,000.00
1st December 2012	USD 56,800,000.00
1st January 2013	USD 56,800,000.00
1st February 2013	USD 56,800,000.00
1st March 2013	USD 56,800,000.00
1st April 2013	USD 56,800,000.00
1st May 2013	USD 56,800,000.00
1st June 2013	USD 56,800,000.00
1st July 2013	USD 56,800,000.00
1st August 2013	USD 56,800,000.00
1st September 2013	USD 55,400,000.00
1st October 2013	USD 55,400,000.00
1st November 2013	USD 55,400,000.00
1st December 2013	USD 55,400,000.00
1st January 2014	USD 55,400,000.00
1st February 2014	USD 55,400,000.00
1st March 2014	USD 55,400,000.00
1st April 2014	USD 55,400,000.00
1st May 2014	USD 55,400,000.00
1st June 2014	USD 55,400,000.00

1st July 2014	USD 55,400,000.00
1st August 2014	USD 55,400,000.00
1st September 2014	USD 53,900,000.00
1st October 2014	USD 53,900,000.00
1st November 2014	USD 53,900,000.00
1st December 2014	USD 53,900,000.00
1st January 2015	USD 53,900,000.00
1st February 2015	USD 53,900,000.00
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1st June 2016	USD 52,250,000.00
1st July 2016	USD 52,250,000.00

1st August 2016	USD 52,250,000.00
1st September 2016	USD 50,450,000.00
1st October 2016	USD 50,450,000.00
1st November 2016	USD 50,450,000.00
1st December 2016	USD 50,450,000.00
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1st April 2018	USD 48,800,000.00
1st May 2018	USD 48,800,000.00
1st June 2018	USD 48,800,000.00
1st July 2018	USD 48,800,000.00

1st August 2018	USD 48,800,000.00
1st September 2018	USD 47,000,000.00
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1st November 2018	USD 47,000,000.00
1st December 2018	USD 47,000,000.00
1st January 2019	USD 47,000,000.00
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1st May 2019	USD 47,000,000.00
1st June 2019	USD 47,000,000.00
1st July 2019	USD 47,000,000.00
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1st September 2019	USD 45,075,000.00
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1st December 2019	USD 45,075,000.00
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1st February 2020	USD 45,075,000.00
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1st June 2020	USD 45,075,000.00
1st July 2020	USD 45,075,000.00
1st August 2020	USD 45,075,000.00

1st September 2020	USD 43,000,000.00
1st October 2020	USD 43,000,000.00
1st November 2020	USD 43,000,000.00
1st December 2020	USD 43,000,000.00
1st January 2021	USD 43,000,000.00
1st February 2021	USD 43,000,000.00
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1st April 2022	USD 40,725,000.00
1st May 2022	USD 40,725,000.00
1st June 2022	USD 40,725,000.00
1st July 2022	USD 40,725,000.00
1st August 2022	USD 40,725,000.00

1st September 2022	USD 38,275,000.00
1st October 2022	USD 38,275,000.00
1st November 2022	USD 38,275,000.00
1st December 2022	USD 38,275,000.00
1st January 2023	USD 38,275,000.00
1st February 2023	USD 38,275,000.00
1st March 2023	USD 38,275,000.00
1st April 2023	USD 38,275,000.00
1st May 2023	USD 38,275,000.00
1st June 2023	USD 38,275,000.00
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1st August 2023	USD 38,275,000.00
1st September 2023	USD 35,650,000.00
1st October 2023	USD 35,650,000.00
1st November 2023	USD 35,650,000.00
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1st February 2024	USD 35,650,000.00
1st March 2024	USD 35,650,000.00
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1st May 2024	USD 35,650,000.00
1st June 2024	USD 35,650,000.00
1st July 2024	USD 35,650,000.00
1st August 2024	USD 35,650,000.00
1st September 2024	USD 32,850,000.00

1st October 2024	USD 32,850,000.00
1st November 2024	USD 32,850,000.00
1st December 2024	USD 32,850,000.00
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1st February 2025	USD 32,850,000.00
1st March 2025	USD 32,850,000.00
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1st May 2025	USD 32,850,000.00
1st June 2025	USD 32,850,000.00
1st July 2025	USD 32,850,000.00
1st August 2025	USD 32,850,000.00
1st September 2025	USD 29,825,000.00
1st October 2025	USD 29,825,000.00
1st November 2025	USD 29,825,000.00
1st December 2025	USD 29,825,000.00
1st January 2026	USD 29,825,000.00
1st February 2026	USD 29,825,000.00
1st March 2026	USD 29,825,000.00
1st April 2026	USD 29,825,000.00
1st May 2026	USD 29,825,000.00
1st June 2026	USD 29,825,000.00
1st July 2026	USD 29,825,000.00
1st August 2026	USD 29,825,000.00
1st September 2026	USD 26,600,000.00

1st October 2026	USD 26,600,000.00
1st November 2026	USD 26,600,000.00
1st December 2026	USD 26,600,000.00
1st January 2027	USD 26,600,000.00
1st February 2027	USD 26,600,000.00
1st March 2027	USD 26,600,000.00
1st April 2027	USD 26,600,000.00
1st May 2027	USD 26,600,000.00
1st June 2027	USD 26,600,000.00
1st July 2027	USD 26,600,000.00
1st August 2027	USD 26,600,000.00
1st September 2027	USD 23,150,000.00
1st October 2027	USD 23,150,000.00
1st November 2027	USD 23,150,000.00
1st December 2027	USD 23,150,000.00
1st January 2028	USD 23,150,000.00
1st February 2028	USD 23,150,000.00
1st March 2028	USD 23,150,000.00
1st April 2028	USD 23,150,000.00
1st May 2028	USD 23,150,000.00
1st June 2028	USD 23,150,000.00
1st July 2028	USD 23,150,000.00
1st August 2028	USD 23,150,000.00
1st September 2028	USD 19,650,000.00
1st October 2028	USD 19,650,000.00

1st November 2028	USD 19,650,000.00
1st December 2028	USD 19,650,000.00
1st January 2029	USD 19,650,000.00
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1st March 2029	USD 19,650,000.00
1st April 2029	USD 19,650,000.00
1st May 2029	USD 19,650,000.00
1st June 2029	USD 19,650,000.00
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1st August 2029	USD 19,650,000.00
1st September 2029	USD 16,025,000.00
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1st January 2030	USD 16,025,000.00
1st February 2030	USD 16,025,000.00
1st March 2030	USD 16,025,000.00
1st April 2030	USD 16,025,000.00
1st May 2030	USD 16,025,000.00
1st June 2030	USD 16,025,000.00
1st July 2030	USD 16,025,000.00
1st August 2030	USD 16,025,000.00
1st September 2030	USD 12,250,000.00
1st October 2030	USD 12,250,000.00

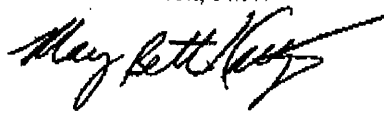
1st November 2030	USD 12,250,000.00
1st December 2030	USD 12,250,000.00
1st January 2031	USD 12,250,000.00
1st February 2031	USD 12,250,000.00
1st March 2031	USD 12,250,000.00
1st April 2031	USD 12,250,000.00
1st May 2031	USD 12,250,000.00
1st June 2031	USD 12,250,000.00
1st July 2031	USD 12,250,000.00
1st August 2031	USD 12,250,000.00
1st September 2031	USD 8,325,000.00
1st October 2031	USD 8,325,000.00
1st November 2031	USD 8,325,000.00
1st December 2031	USD 8,325,000.00
1st January 2032	USD 8,325,000.00
1st February 2032	USD 8,325,000.00
1st March 2032	USD 8,325,000.00
1st April 2032	USD 8,325,000.00
1st May 2032	USD 8,325,000.00
1st June 2032	USD 8,325,000.00
1st July 2032	USD 8,325,000.00
1st August 2032	USD 8,325,000.00
1st September 2032	USD 4,250,000.00
1st October 2032	USD 4,250,000.00
1st November 2032	USD 4,250,000.00

1st December 2032	USD 4,250,000.00
1st January 2033	USD 4,250,000.00
1st February 2033	USD 4,250,000.00
1st March 2033	USD 4,250,000.00
1st April 2033	USD 4,250,000.00
1st May 2033	USD 4,250,000.00
1st June 2033	USD 4,250,000.00
1st July 2033	USD 4,250,000.00
1st August 2033	USD 4,250,000.00

Please confirm that the foregoing correctly sets forth the terms and conditions of our agreement by returning via telecopier an executed copy of this Confirmation in its entirety to the attention of Global FX and Derivative Operations (fax no. (+1) 866 255 1444).

ok


Bank of America, N.A.



Authorized Signatory

MARY BETH KNIGHT
ASST. VICE PRESIDENT

Accepted and confirmed as of the date first written:
Modesto Public Financing Authority

By: 

Name: Wayne Padilla
Title: Authority Treasurer

Acknowledged:

CIFG Assurance North America, Inc.

By _____
Authorized Officer

Our Reference Number: 5155191
Internal Tracking No: 2321053
Amended

1st December 2032	USD 4,250,000.00
1st January 2033	USD 4,250,000.00
1st February 2033	USD 4,250,000.00
1st March 2033	USD 4,250,000.00
1st April 2033	USD 4,250,000.00
1st May 2033	USD 4,250,000.00
1st June 2033	USD 4,250,000.00
1st July 2033	USD 4,250,000.00
1st August 2033	USD 4,250,000.00

Please confirm that the foregoing correctly sets forth the terms and conditions of our agreement by returning via telecopier an executed copy of this Confirmation in its entirety to the attention of Global FX and Derivative Operations (fax no. (+1) 866 255 1444).

ob

Bank of America, N.A.



Authorised Signatory

MARY BETH KNIGHT
ASST. VICE PRESIDENT

Accepted and confirmed as of the date first written:
Modesto Public Financing Authority

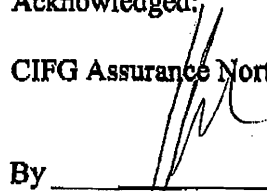
By: _____

Name:

Title:

Acknowledged:

CIFG Assurance North America, Inc.



By _____

Authorized Officer

Robert M. Drillings
Managing Director and Vice President

Our Reference Number:
Internal Tracking No:

5155191
2321053
Amended

AUTHORITY SIGNATURE AND INCUMBENCY CERTIFICATE

The undersigned hereby certifies that he is the duly appointed, qualified and acting Auditor and Treasurer of the Modesto Public Financing Authority (the "Authority"), joint exercise of power authority duly organized and validly existing under the laws of the State of California, and, as such, he is familiar with the facts herein certified and is authorized to certify the same:

(i) the Resolution attached as Exhibit A hereto was duly adopted by the Commission of the Authority at a meeting of the Authority which was called and held on April 3, 2007 (the "Resolution"), pursuant to law and with all public notice provided by law and at which a quorum was present and acting throughout, and the Resolution has not been modified, amended or supplemented and is in full force and effect in accordance with its terms on and as of the date hereof; and

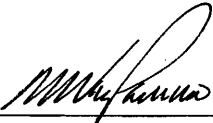
(ii) the International Swaps and Derivatives Association, Inc. Master Agreement dated as of April 11, 2007 (the "Master Agreement"), between the Authority and Bank of America, N.A. ("Party A"), as amended and supplemented by the Schedule to the Master Agreement, dated as of April 11, 2007, which includes the International Swaps and Derivatives Association, Inc. Credit Support Annex, dated as of April 11, 2007 (the "Credit Support Annex"), between the Authority and Party A (collectively, the "Schedule", and together with the Master Agreement, the "Agreement"), and the confirmation of the transaction entered into on April 12, 2007 (the "Confirmation"), between the Authority and Party A, all bear the manual or facsimile signatures of authorized officers of the Authority named therein.

(iii) the undersigned is, until replaced by other persons duly authorized by the Authority, authorized to sign confirmations on behalf of the Authority.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK.]

Dated: April 11, 2007

MODESTO PUBLIC FINANCING AUTHORITY

By: 
Wayne Padilla
Auditor and Treasurer

I HEREBY CERTIFY that the signature of the above-named officer is genuine.


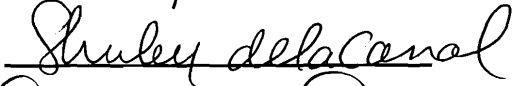

JEAN MORRIS, SECRETARY

By: 
Secretary

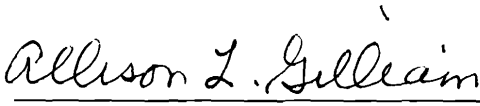
ASSISTANT SECRETARY'S CERTIFICATION
OF
AUTHORIZATION AND INCUMBENCY

I, Allison L. Gilliam, Assistant Secretary of Bank of America, National Association (the "Association"), do hereby certify:

1. That Exhibit A attached hereto is a true copy of resolutions adopted by the Board of Directors of the Association on January 24, 2006, which resolutions remain in full force and effect on this date.
2. That the following named persons have been properly elected and now hold the offices in the Association as indicated below, and said persons have been duly designated key officers with the authority and powers to engage in activities relating to derivative products as set out in sections "(A)", "(B)", and "(D)" on Exhibit A.

<u>Name</u>	<u>Title</u>	<u>Signature</u>
Roger H. Heintzelman	Senior Vice President	
Shirley de la Canal	Senior Vice President	
Ana Morales Gillard	Vice President	

IN WITNESS WHEREOF, I have hereupon set my hand and affixed the seal of said Association this 13th day of March, 2007.


Allison L. Gilliam

(SEAL)

**BANK OF AMERICA, NATIONAL ASSOCIATION
BOARD OF DIRECTORS
RESOLUTIONS**

JANUARY 24, 2006

RESOLVED, that within the scope of their respective authorities, any Authorized Officer of Bank of America, National Association (the "Association") is hereby empowered to be responsible and to designate key officers to be responsible for the overall supervision, coordination, execution and delivery, including the maintenance of appropriate books and records, of all transactions, contracts, agreements, arrangements and commitments by which the business and activities of the functional area, group, unit, department or division of the Association under the Authorized Officers control are conducted on behalf of the Association, including, to the extent permitted by federal law or regulation, purchasing, investing in, or otherwise acquiring (including purchasing on margin and borrowing funds through or from approved third parties and securing payment thereof with property of the Association to the extent permitted by law), possessing, selling (including short sales), placing as agent, effecting transactions pursuant to repurchase and reverse repurchase agreements, transferring, lending, borrowing, exchanging or otherwise disposing of, an generally underwriting, dealing and trading in (A) securities, mortgages and instruments, whether on a current, mandatory forward or optional commitment basis, including: (1) United States government securities and federal agency securities, on a when-issued or current settlement basis; (2) mortgage-backed pass-through securities, guaranteed as to payment of principal and interest by the Government National Mortgage Association, Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association; (3) asset-backed securities and mortgage related securities, including collateralized mortgage obligations, mortgage-backed debt securities and mortgage-backed pass-through securities not enumerated in clause A(2) above; (4) whole mortgage loans whether residential, commercial or project related, and instruments and participation certificates evidencing an interest in any such loans; (5) money market instruments, including federal funds, deposits, redeposits, bankers acceptances, certificates of deposit, deposit notes, bank notes and commercial paper (both foreign and domestic); (6) municipal securities, including general obligation and revenue bonds and variable rate demand notes; (7) equity securities and corporate debt obligations, whether secured, unsecured or convertible, including bonds, debentures and notes; (B) foreign currencies and foreign currency-denominated securities, deposits and money market instruments including currency swaps, cross-currency interest rate swaps, Eurocurrency deposits and redeposits, certificates of deposit, notes and floating rate notes (FRN's) and bonds; (C) foreign government and government agency securities; (D) derivative products, including interest rate swaps, caps, collars, floors, swap options, forward rate agreements, commodity derivatives, equity derivatives and the like and futures and options (exchange listed or over-the-counter) on securities, securities and other indices, financial instruments, commodities, foreign currencies and the like.

FURTHER RESOLVED, that such authority with respect to such transactions, contracts, agreements, arrangements or commitments or with respect to any transactions deemed by such key officers to be proper in connection therewith includes the authority to give written (including telecopied, telexed, telegraphic and electronic) or oral instructions, to pay in cash or by check and/or draft drawn upon the funds of the Association such sums as may be necessary, and to bind the obligate the Association to and for the carrying out of any such transaction, contract, agreement, arrangement or commitment which shall be entered into by any such officers for and on behalf of the Association; to deliver securities or other documents; to authorize or order the transfer or delivery of securities or other documents; to enter into and bind the Association to the terms of any and all agreements with appropriate clearing organizations; to affix the seal of the Association to any documents, instruments or agreements or otherwise; to endorse in the name of the Association or otherwise any securities in order to pass title thereto; to direct the sale or exercise all rights with respect to any securities; to sign for the Association all releases, powers of attorney and/or other documents in connection with any such transaction, contract, agreement, arrangement or commitment and to agree to any terms or conditions in connection therewith; to accept delivery of any securities, documents or other items; to appoint any other person or persons to do any and all things which any of such officers is empowered to do; and generally to do and take any and all action necessary or considered desirable in connection with any such transaction, contract, agreement, arrangement or commitment.

Authorized Officers

RESOLVED, that the Authorized Officers of the Association for the purpose of these resolutions shall be the Chief Executive Officer, any Vice Chairman of the Board, the President, any Division President, the Chief Financial Officer, the Principal Financial Executive, any Executive Vice President (or other officer of equivalent or higher rank or grade), the Treasurer, any Deputy Treasurer, the Chief Investment Officer and any Senior Vice President/Treasury or Corporate Investments Group of the Association or any individual designated by one the foregoing officers, and that each Authorized Officer may execute and deliver any document and take any action the officer deems appropriate in connection with anything authorized by any of the foregoing resolutions.



CIFG Assurance North America, Inc.
825 Third Avenue, Sixth Floor
New York, NY 10022
For information, contact (212) 909-3939
Toll-free (866) 243-4212

FINANCIAL GUARANTY INSURANCE POLICY IN RESPECT OF AN INTEREST RATE SWAP

OBLIGOR: Modesto Public Financing Authority Policy No.: CIFG NA-1569
OBLIGATIONS: Regular Payments by the Obligor under the Transaction Effective Date: April 18, 2007
SWAP COUNTERPARTY: Bank of America, N.A.

TRANSACTION: Confirmation having an effective date of September 3, 2008 under an ISDA Master Agreement dated as of April 11, 2007 between the Obligor and the Swap Counterparty (Ref. No. 5155191)

CIFG ASSURANCE NORTH AMERICA, INC. ("CIFG NA"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to each Policyholder, subject only to the terms and conditions of this Policy (which includes each endorsement hereto), the full and complete payment by or on behalf of the Obligor of Regular Payments of interest and other amounts due or payable with respect to the Obligations.

For the further protection of each Policyholder, CIFG NA irrevocably and unconditionally guarantees:

- (1) payment of any amount required to be paid under this Policy by CIFG NA following CIFG NA's receipt of notice and instruments of assignment as described in Endorsement No. 1 hereto and
- (2) payment of the amount of any distribution of interest and other amounts due or payable with respect to the Obligations made during the Term of this Policy to such Policyholder that is subsequently avoided in whole or in part as a preference payment under applicable law, all as described in Endorsement No. 1 hereto.

CIFG NA shall be subrogated to the rights of each Policyholder to receive payments under the Obligations to the extent of any payment by CIFG NA hereunder.

The following terms shall have the meanings specified below, subject to and including any modifications set forth in any endorsement hereto, for all purposes of this Policy. "Effective Date" and "Obligations" mean, respectively, the Effective Date and Obligations referenced above. "Obligor" and "Policyholder" mean, respectively, the Obligor and Swap Counterparty referenced above and any successor to or assignee of its rights and obligations under the Obligations as permitted under the Transaction. "Regular Payments" means payments of interest and other amounts which are agreed to be made during the Term of this Policy in accordance with the original terms of the Obligations when issued and without regard to any amendment or modification of such Obligations thereafter; payments which become due on an accelerated basis as a result of (a) a default by the Obligor or any other person, (b) an election by the Obligor to pay principal or other amounts on an accelerated basis or (c) any other cause, shall not constitute "Regular Payments" unless CIFG NA shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. "Term of this Policy" has the meaning set forth in Endorsement No. 1 hereto. "Transaction" means the Transaction referenced above.

This Policy sets forth in full the undertaking of CIFG NA, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto or to the Obligations (except a contemporaneous or subsequent agreement or instrument given by CIFG NA or to which CIFG NA has given its written consent) or by the merger, consolidation or dissolution of the Obligor. The premiums paid in respect of this Policy are nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity. This Policy may not be cancelled or revoked during the Term of this Policy, including for nonpayment of premium due to CIFG NA. Payments under this Policy may not be accelerated except at the sole option of CIFG NA.

In witness whereof, CIFG ASSURANCE NORTH AMERICA, INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

CIFG ASSURANCE NORTH AMERICA, INC.

By _____
Authorized Officer

Robert M. Drillings

Managing Director and Vice President



ENDORSEMENT NO. 1
TO FINANCIAL GUARANTY INSURANCE POLICY
IN RESPECT OF AN INTEREST RATE SWAP NO. CIFG NA-1569

CIFG ASSURANCE NORTH AMERICA, INC.

1. Definitions. For all purposes of this Policy, the terms specified below shall have the meanings or constructions provided below. Capitalized terms used without definition herein shall have the meanings provided in the Master Agreement unless the context shall otherwise require.

"Business Day" has the meaning specified in the Confirmation.

"CIFG NA" means CIFG Assurance North America, Inc. and its successors and permitted assigns.

"Confirmation" means the Confirmation (as defined in the Master Agreement) referenced under "Transaction" on the first page of this Policy and bearing a written acknowledgment by CIFG NA, and without regard to any subsequent amendment or modification thereof except amendments or modifications to which CIFG NA has given its prior written consent.

"Master Agreement" means the Master Agreement (including the Schedule (as defined in the Master Agreement) and the Confirmation) referenced under "Transaction" on the first page of this Policy and bearing a written acknowledgment by CIFG NA, and without regard to any subsequent amendment or modification thereof except amendments or modifications to which CIFG NA has given its prior written consent.

"Policy" means this Interest Rate Swap Insurance Policy and includes each endorsement thereto.

"Receipt" and "Received" mean actual delivery to each of CIFG NA and the Fiscal Agent (as defined below), if any, prior to 12:00 noon, New York City time, on a Business Day; delivery either on a day that is not a Business Day, or after 12:00 noon, New York City time, shall be deemed to be Receipt on the next succeeding Business Day. If any notice or certificate given hereunder by the Policyholder is not in proper form or is not properly completed, executed or delivered in all material respects, it shall be deemed not to have been Received, and CIFG NA or its Fiscal Agent shall promptly so advise the Policyholder and the Policyholder may submit an amended notice.

"Regular Payment Date" means each Payment Date specified in the Confirmation, or, in the case of an Insured Termination Payment, the date for payment determined in accordance with Section 6(d) of the Master Agreement.

“Regular Payments” means (1) any and all payments in respect of any Regular Payment Date which are specified in the Confirmation and required to be paid by the Obligor to the Policyholder in accordance with the terms of Section 2 of the Master Agreement (but not Section 2(d) or, if applicable, Section 2(e)), and (2) in the event (but only in the event) that CIFG NA designates an Early Termination Date as provided in Part 6(b) of the Schedule to the Master Agreement (an “Insured Termination Payment”), amounts which are required to be paid by the Obligor to the Policyholder in accordance with the terms of Section 6(e) of the Master Agreement as a result of early termination of the Transaction (but, for the avoidance of doubt, not in the case of any Transaction that has terminated in accordance with its terms), in each case in accordance with the original terms of the Master Agreement and without regard to any subsequent amendment or modification thereof except amendments or modifications to which CIFG NA has given its prior written consent. Except as expressly provided in the preceding sentence, Regular Payments shall not include, nor shall coverage be provided under this Policy in respect of: (1) termination payments; (2) any other payments which become due on an accelerated basis as a result of (a) a default by the Obligor or any other person, (b) an election by the Obligor to make payment on an accelerated basis or (c) any other cause, unless CIFG NA shall elect, in its sole discretion, to pay any amount due upon such acceleration together with any accrued interest to the date of acceleration; (3) any amounts due in respect of the Obligations attributable to any increase in interest rate, penalty or other sum payable by the Obligor by reason of any default or event of default in respect of the Obligations, whether by the Obligor or any other person, or by reason of any deterioration of the creditworthiness of the Obligor or any other person, or (4) any taxes, withholding or other charge imposed by any governmental authority due in connection with the payment of any Regular Payment to the Policyholder.

“Term of this Policy” means the period from and including the Effective Date to and including the date on which (i) all Regular Payments have been paid and the Obligations have been terminated in accordance with their terms; (ii) any period during which any Regular Payment could have been avoided in whole or in part as a preference payment under applicable bankruptcy, insolvency, receivership or similar law shall have expired; and (iii) if any proceedings requisite to avoidance as a preference payment have been commenced prior to the occurrence of (i) and (ii), a final and nonappealable order in resolution of each such proceeding has been entered.

2. Notices and Conditions to Payment in Respect of Regular Payments. Following Receipt by CIFG NA of a notice of claim and certificate from the Policyholder in the form attached as Exhibit A to this Endorsement (a “Notice of Claim and Certificate”), CIFG NA will pay any amount payable hereunder in respect of Regular Payments on the Obligations on (i) in respect of the first Regular Payment Date after Receipt by CIFG NA of such Notice of Claim and Certificate, the later to occur of (a) 10:00 a.m., New York City time, on the third Business Day following such Receipt and (b) 10:00 a.m., New York City time, on the Regular Payment Date on which such payment is due on the Obligations and (ii) in respect of each subsequent Regular Payment Date after Receipt by CIFG NA of such Notice of Claim and Certificate, 10:00 a.m., New York City time, on the Regular Payment Date on which such payment is due on the Obligations. Payments due hereunder in respect of Regular Payments will be disbursed to the Policyholder by wire transfer of immediately available funds to such account as the Policyholder



TRIPLE-A FINANCIAL GUARANTY

Policy Number CIFG NA-1569

Effective Date: April 18, 2007

shall specify in writing at the time of or prior to the delivery of the Notice of Claim and Certificate in respect of such Regular Payment.

CIFG NA shall be entitled to pay any amount hereunder in respect of Regular Payments on the Obligations, including any amount payable upon its election on the Obligations on an accelerated basis, whether or not any notice and certificate shall have been Received by CIFG NA as provided above; provided, however, that by acceptance of this Policy the Policyholder agrees to provide upon request to CIFG NA a Notice of Claim and Certificate in respect of any such payments or deliveries made by CIFG NA. CIFG NA's obligation hereunder in respect of Regular Payments shall be discharged to the extent funds are disbursed by CIFG NA as provided herein whether or not such funds are properly applied by any custodian or agent appointed by the Policyholder.

3. Notices and Conditions to Payment in Respect of Regular Payments Avoided as Preference Payments. If any Regular Payment paid in respect of the Obligations during the Term of this Policy is avoided as a preferential transfer or similar payment (a "Preference Payment") under applicable bankruptcy, insolvency, receivership or similar law ("Insolvency Law"), CIFG NA will pay such amount out of the funds of CIFG NA on the later of (a) the date when due to be paid pursuant to the Order referred to below or (b) the first to occur of (i) the fourth Business Day following Receipt by CIFG NA from the Policyholder of (A) a certified copy of the order (the "Order") of the court or other governmental body of competent jurisdiction to the effect that the Policyholder is required to return all or part of such Regular Payment because such payment was avoidable as a Preference Payment under applicable Insolvency Law, (B) a certificate of the Policyholder that the Order has been entered and is not subject to any stay and (C) an assignment duly executed and delivered by the Policyholder in such form as is reasonably required by CIFG NA, and provided to the Policyholder by CIFG NA, irrevocably assigning to CIFG NA all rights and claims of the Policyholder relating to or arising under the Obligations against the Obligor or its estate or otherwise with respect to such Preference Payment or (ii) the date of Receipt by CIFG NA from the Policyholder of the items referred to in clauses (A), (B) and (C) above if, at least four Business Days prior to such date of Receipt, CIFG NA shall have Received written notice from the Policyholder that such items were to be delivered on such date and such date was specified in such notice. Such payment shall be disbursed to the receiver, conservator, debtor-in-possession or trustee in bankruptcy named in the Order, and not the Policyholder directly (unless the Policyholder has previously paid such amount to the receiver, conservator, debtor-in-possession or trustee in bankruptcy named in the Order, in which case such payment shall be disbursed to the Policyholder upon proof of such payment reasonably satisfactory to CIFG NA).

4. Fiscal Agent. At any time during the Term of this Policy, CIFG NA may appoint a fiscal agent (the "Fiscal Agent") for purposes of this Policy by written notice to the Policyholder at the notice address specified in the Master Agreement specifying the name and notice address of the Fiscal Agent. From and after the date of receipt of such notice by the Policyholder, (i) copies of all notices and documents required to be delivered to CIFG NA pursuant to this Policy shall be simultaneously delivered to the Fiscal Agent and CIFG NA and shall not be deemed Received until Received by each, and (ii) all payments required to be made by CIFG NA under this Policy may be made directly by CIFG NA or by the Fiscal Agent on behalf of CIFG NA. The Fiscal Agent is the agent of CIFG NA only and the Fiscal Agent shall in



TRIPLE-A FINANCIAL GUARANTY

Policy Number CIFG NA-1569

Effective Date: April 18, 2007

no event be liable to any Policyholder for any acts of the Fiscal Agent or any failure of CIFG NA to deposit, or cause to be deposited, sufficient funds to make payments due under the Policy.

5. Notices. All notices to be given hereunder shall be in writing (except as otherwise specifically provided herein) and shall be mailed by registered mail or personally delivered or telecopied to CIFG NA as follows:

CIFG Assurance North America, Inc.
825 Third Avenue, Sixth Floor
New York, New York 10022
Attention: General Counsel
Telecopy No.: (212) 909-3959

CIFG NA may specify a different address or addresses by writing mailed or delivered to the Policyholder.

6. Priorities. In the event that any term or provision of the face of this Policy is inconsistent with the provisions of this Endorsement, the provisions of this Endorsement shall take precedence and shall be binding.

7. Waiver of Defenses. CIFG NA's obligations under this Policy are irrevocable, absolute and unconditional, except that CIFG NA shall have no obligation to pay any claim under this Policy unless it has received a corresponding Notice of Claim and Certificate from the Policyholder pursuant to Clause 2 or the documentation referred to in Clause 3 of this Endorsement. To the fullest extent permitted by applicable law, for the benefit of the Policyholder, CIFG NA hereby waives, and agrees not to assert, any and all defenses to payment (including defenses of fraud in the inducement or fact, misrepresentation (whether innocent, negligent, reckless or otherwise) non-disclosure or invalidity and any grounds for avoidance or cancellation of this Policy available to an insurer, surety or guarantor) and any rights of setoff or counterclaim, to the extent such rights may be available to CIFG NA to avoid or reduce payment of amounts payable to the Policyholder in accordance with the provisions of this Policy, provided, however, that CIFG NA reserves any and all rights to seek payment of any amounts expressly due to it under any agreement between itself and the Obligor and (after payment has been made in full pursuant to the foregoing) to pursue recovery or claims for reimbursement from the Policyholder or any other Person for any liabilities, losses, damages costs and expenses incurred by CIFG NA based on any contractual or legal rights it may have against the Policyholder or any other Person (including any such rights resulting from the Policyholder's or such other Person's fraud, negligence or violation of any agreement to which it is a party) and that none of the waivers contained herein shall prejudice or limit any such right CIFG NA may otherwise have.

8. Assignment of CIFG NA Obligations. The obligations of CIFG NA hereunder may be assigned to any Affiliate of CIFG NA that is licensed as a financial guaranty insurance corporation, provided that at the time of such assignment the insurance strength or insurance financial strength of such affiliate is rated at least equal to the insurance strength or insurance



TRIPLE-A FINANCIAL GUARANTY

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financial strength of CIFG NA, and that the rating of the Obligations shall not have been reduced as a result of such assignment, by Moody's Investors Service and Standard & Poor's Ratings Group or their respective successors as nationally recognized statistical rating organizations.

9. Surrender of Policy: The Policyholder shall surrender this Policy to CIFG NA for cancellation upon expiration of the Term of this Policy.

IN WITNESS WHEREOF, CIFG ASSURANCE NORTH AMERICA, INC. has caused this Endorsement No. 1 to be executed by its Authorized Officer.

CIFG ASSURANCE NORTH AMERICA, INC.

By _____

Authorized Officer

Robert M. Drillings
Managing Director and Vice President

SPECIMEN

NOTICE OF CLAIM AND CERTIFICATE

CIFG Assurance North America, Inc.
825 Third Avenue, Sixth Floor
New York, NY 10022

The undersigned, a duly authorized officer of [Swap Counterparty] (or any permitted successor or assignee of its rights under the Obligations defined below) (the "Policyholder"), hereby certifies to CIFG Assurance North America, Inc. ("CIFG NA"), with reference to Interest Rate Swap Insurance Policy No. CIFG NA-1569 having an Effective Date of April 18, 2007 (the "Policy") issued by CIFG NA in respect of the Master Agreement (capitalized terms used without definition herein having the meanings provided in the Policy or, if not defined therein, in the Master Agreement unless the context shall otherwise require), that:

- (i) The Policyholder is the Policyholder under the Policy.
- (ii) As of _____ p.m. _____ time on _____, the Policyholder has not [received payment in full of a Regular Payment required to be made on [that date] [the preceding Regular Payment Date]] [been advised in writing by the Obligor as to a source of funds reasonably satisfactory to the Policyholder sufficient to make payment in full of a Regular Payment required to be made on the immediately following Regular Payment Date]. The Regular Payment has been calculated as follows: [show calculation].
- (iii) Accordingly, the Policyholder is hereby making a claim under the Policy for the amount of the foregoing Regular Payment and, when due, any subsequent Regular Payments. The Policyholder will withdraw this Notice of Claim and Certificate, or submit a restated Notice of Claim and Certificate reducing the amount of the claim hereunder, if the required amount of any Regular Payment has been reduced (including reduction to zero) on or prior to any date on which CIFG NA is required to make payment or delivery under the Policy.
- (iv) If the Policyholder receives from the Obligor and CIFG NA an amount in excess of a Regular Payment, the Policyholder shall immediately return the excess amount to CIFG NA.
- (v) In consideration of the payments made and to be made to the Policyholder by CIFG NA under the Policy, the Policyholder hereby assigns to CIFG NA all of its interest in and rights with respect to the Obligations (including the Master Agreement). The foregoing assignment is in addition to, and not in limitation of, rights of subrogation otherwise available to CIFG NA in respect of such

payments. Payments to CFIG NA in respect of the foregoing assignment shall in all cases be subject to and subordinate to the rights of the Policyholder to receive all Regular Payments in respect of the aforementioned Obligations. The Policyholder shall take such action and deliver such instruments as may be reasonably requested or required by CFIG NA to effectuate the purpose or provisions of this clause (v).

(vi) The Policyholder hereby agrees that, so long as no Additional Termination Event in respect of the Obligor specified in Part 6(c) of the Schedule to the Master Agreement shall have occurred and be continuing, CFIG NA may at any time during the continuation of any proceeding by or against the Obligor under any applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to such Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment made with respect to the Obligations (a "Preference Claim"), (B) the direction of any appeal of any order relating to any Preference Claim at the expense of CFIG NA and (C) the posting of any surety, supersedeas or performance bond pending any such appeal. In addition, so long as no Additional Termination Event in respect of the Obligor specified in Part 6(c) of the Schedule to the Master Agreement shall have occurred and be continuing, the Policyholder hereby agrees that CFIG NA shall be subrogated to, and the Policyholder hereby assigns, to the fullest extent permitted by law, the rights of the Policyholder in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding.

(vii) Payment should be made by wire transfer directed to the following account in [city]:

[Swap Counterparty's wire transfer information]

IN WITNESS WHEREOF, the Policyholder has executed and delivered this Notice of Claim and Certificate as of the _____ day of _____, _____.

[SWAP COUNTERPARTY]

By _____

Title _____

For CFIG NA or
Fiscal Agent Use Only

Wire transfer sent on _____ by _____

Confirmation Number _____

SPECIMEN



CIFG

TRIPLE-A FINANCIAL GUARANTY

**ENDORSEMENT NO. 2
TO FINANCIAL GUARANTY INSURANCE POLICY
IN RESPECT OF AN INTEREST RATE SWAP NO. CIFG NA-1569**

CIFG ASSURANCE NORTH AMERICA, INC.

Notwithstanding the terms and provisions contained in this Policy, it is further understood that any person who, with intent to defraud or knowing that he is facilitating a fraud against an insurer, submits an application or files a claim containing a false or deceptive statement is guilty of insurance fraud.

IN WITNESS WHEREOF, CIFG ASSURANCE NORTH AMERICA, INC. has caused this Endorsement No. 2 to be executed by its Authorized Officer.

CIFG ASSURANCE NORTH AMERICA, INC.

By _____
Authorized Officer
Robert M. Drillings
Managing Director and Vice President

SPECIMEN



CIFG

TRIPLE-A FINANCIAL GUARANTY

**ENDORSEMENT NO. 3
TO FINANCIAL GUARANTY INSURANCE POLICY
IN RESPECT OF AN INTEREST RATE SWAP NO. CIFG NA-1569**

CIFG ASSURANCE NORTH AMERICA, INC.

**THIS POLICY IS NOT COVERED BY THE CALIFORNIA INSURANCE
GUARANTY ASSOCIATION SPECIFIED IN CAL. INS. CODE §1063 ET SEQ.**

**IN WITNESS WHEREOF, CIFG ASSURANCE NORTH AMERICA, INC. has caused
this Endorsement No. 3 to be executed by its Authorized Officer.**

CIFG ASSURANCE NORTH AMERICA, INC.

SPECIMEN

By _____

Authorized Officer

Robert M. Drillings

Managing Director and Vice President



SIDLEY AUSTIN LLP
555 CALIFORNIA STREET
SAN FRANCISCO, CA 94104
(415) 772 1200
(415) 772 7400 FAX

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TOKYO
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FOUNDED 1866

April 18, 2007

Bank of America, N.A.
100 N. Tryon Street
NC1-007-13-01
Charlotte, NC 28255

CIFG Assurance North America, Inc.
825 Third Avenue, 6th Floor
New York, New York 10022

Re: Modesto Public Financing Authority
Lease Revenue Refunding and Capital Improvement Bonds
Series 2007

Dear Ladies and Gentlemen:

We have acted as bond counsel to the Modesto Public Financing Authority (the "Authority") in connection with the above-referenced bonds (the "Bonds"). In connection with the issuance of the Bonds, the Authority is executing the ISDA Master Agreement, dated as of April 11, 2007 (the "Master Agreement"), the U.S. Municipal Counterparty Schedule, dated as of April 11, 2007 (the "Schedule"), the Credit Support Annex to the Schedule, dated as of April 11, 2007 (the "Annex") and the Confirmation, dated April 12, 2007 (the "Confirmation" and, together with the Master Agreement, the Schedule and the Annex, collectively, the "Swap Agreement"), by and between the Authority and Bank of America, N.A. ("Party A"). You have asked us to advise you whether, under existing laws, regulations, rulings and court decisions, the Swap Agreement constitutes a valid and binding obligation of the Authority and whether, under existing laws, regulations, rulings and court decisions, the Facility Lease (as hereinafter defined) constitutes the valid and binding obligations of the Authority and the City of Modesto (the "City"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Indenture, dated as of April 1, 2007 (the "Indenture") by and between the Authority and The Bank of New York Trust Company, N.A.

Payments on the Bonds and the Swap Agreement are derived primarily from Base Rental Payments made by the City pursuant to the Facility Lease, dated as of April 1, 2007 (the "Facility Lease") by and between the Authority and the City.

In such connection, we have reviewed the Swap Agreement, the Resolution adopted by the Authority on April 3, 2007, approving the Swap Agreement (the "Authority Resolution"), the Resolution adopted by the City Council of the City on April 3, 2007, approving the Swap Agreement (the "City Resolution" and together with the Authority Resolution, the "Resolutions"), opinions of the City Attorney of the City, as counsel to the City and the Authority, dated April 12, 2007 and addressed to you, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. We have not undertaken to verify independently, and have assumed, (i) the genuineness of such documents, certificates and opinions presented to us (whether as originals or as copies) and of the signatures thereon, (ii) the accuracy of the factual matters represented, warranted or certified and of the

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legal conclusions contained in the aforementioned opinions of the City Attorney of the City, (iii) the due and legal authorization, execution and delivery thereof by parties other than the Authority and the City, and (iv) the validity and enforceability of the Swap Agreement against Party A.

The opinions expressed herein apply only to the interest rate swap transaction established by the Confirmation (the "Swap Transaction") and not to any other swap or other transaction whether entered into pursuant to the Master Agreement or otherwise. The opinions expressed herein are limited to those matters expressly set forth and are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. No opinion is to be inferred or implied beyond the matters expressly so stated. Such opinions are given as of the date hereof and may be affected by actions taken or omitted, events occurring or other facts of which we become aware, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling), after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or other matters coming to our attention after the date hereof, and we disclaim any obligation to update this letter in light of such actions, events or facts. Furthermore, except as noted below, we have assumed compliance by all parties with the covenants and agreements contained in the Swap Agreement.

The Authority is entering into the Swap Agreement in connection with the issuance of the Bonds and the Swap Agreement has a notional amount related to the principal amount of the Bonds, which Bonds bear interest at a variable interest rate. The Authority has entered into the Swap Agreement and has agreed to pay a fixed rate to Party A and Party A, in turn, has agreed to pay a variable rate to the Authority.

Section 5922 of the Government Code (the "Code") of the State of California provides as follows:

Notwithstanding any other provision of law, all of the following apply:

(a) In connection with, or incidental to, the issuance or carrying of bonds, or acquisition or carrying of any investment or program of investment, any state or local government may enter into any contracts which the state or local government determines to be necessary or appropriate to place the obligation or investment of the state or local government, as represented by the bonds, investment or program of investment and the contract or contracts, in whole or in part, on the interest rate, currency, cash-flow, or other basis desired by the state or local government, including, without limitation, contracts commonly known as interest rate swap agreements, currency swap agreements, forward payment conversion agreements, futures, or contracts providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, or contracts to exchange cash flows or a series of payments, or contracts, including, without limitation, interest rate floors or caps, options, puts or calls to hedge payment, currency, rate, spread, or similar exposure. These contracts or arrangements may also be entered into by state or local governments in connection with, or incidental to, entering into or maintaining any agreement which secures bonds, including bonds issued by private entities. These contracts and arrangements shall be entered into with the parties, selected by the means, and contain the payment, security, default, remedy, and

April 18, 2007

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other terms and conditions, determined by the state or local government, after giving due consideration for the creditworthiness of the counterparties, where applicable, including any rating by a nationally recognized rating agency or any other criteria as may be appropriate.

No local government shall enter into any of the contracts or arrangements pursuant to this subdivision, unless its governing body first determines that the contract or arrangement or program of contracts is designed to reduce the amount or duration of payment, currency, rate, spread, or similar risk or result in a lower cost of borrowing when used in combination with the issuance of bonds or enhance the relationship between risk and return with respect to the investment or program of investment in connection with, or incident to, the contract or arrangement which is to be entered into.

Pursuant to the City Resolution, the City Council of the City has made the determination that the Swap Agreement, entered into by the Authority, is designed to reduce the amount of interest rate risk, and reduce the cost of borrowing, with respect to the variable rate interest component of the Bonds with respect to which the Authority is entering into the Swap Agreement, as required by Section 5922(a) of the Code. Pursuant to the Authority Resolution, the Authority has made the determination that the Swap Agreement is designed to reduce the amount of interest rate risk, and reduce the cost of borrowing, with respect to the variable rate interest component of the Bonds with respect to which the Authority is entering into the Swap Agreement, as required by Section 5922(a) of the Code. The City has not sought the assent of the electors of the City to the execution and delivery of the Facility Lease by the City or the Swap Agreement by the Authority.

Under certain circumstances, and pursuant to the terms of the Swap Agreement, Party A may be entitled to payment from the Authority in connection with the designation of an Early Termination Date (the "Settlement Amount") which would reflect the market value of the Authority's obligation (net of Party A's obligation) under the Swap Agreement in future years.

The Swap Agreement therefore complies with the Code and is valid unless the Swap Agreement constitutes an "indebtedness" or "liability" of the City prohibited by Article XVI, Section 18 of the Constitution of the State of California.

Article XVI, Section 18 provides that "[n]o . . . county . . . shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year, without the assent of two-thirds of the qualified electors thereof, voting at an election to be held for that purpose" This constitutional provision was designed to prevent "municipal extravagance"; that is, borrowing funds for current use that would have to be repaid by future governing bodies or taxpayers or otherwise out of the income and revenues of future years. San Francisco Gas Company v. Brickwedel, 62 Cal. 641 (1882). The provision has been interpreted to mean that any indebtedness or liability incurred in any fiscal year that is not voter approved and that is not payable, and paid, from unencumbered funds available that year is unenforceable and cannot be required to be paid from funds attributable to a later year. McBean v. County of Fresno, 112 Cal. 159 (1896). The cases considering the provision do not distinguish "indebtedness" from "liability."

April 18, 2007

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Under the terms of the Swap Agreement, the Authority and, through the Facility Lease, the City, may be obligated to make net payments to Party A out of the income or revenues attributable to fiscal years following the fiscal year in which the Swap Agreement is executed. Because the Facility Lease has not been assented to by the qualified electors of the City, payments required of the City under the Facility Lease relating to the Swap Agreement would be prohibited by Article XVI, Section 18 if it constitutes an “indebtedness or liability” of the City within the meaning of Article XVI, Section 18. Interest rate swaps are a relatively new class of financial arrangement. There is no direct authority on whether an interest rate swap is an “indebtedness” or “liability” within the meaning of Article XVI, Section 18. Tax or accounting treatment is not dispositive, there being (for example) a number of instruments that are clearly debt for tax or accounting purposes but not debt for purposes of Article XVI, Section 18. Interest rate swaps are essentially *sui generis* (*i.e.*, unique and not like anything else), and as a result there are also no clear analogous authorities upon which to reliably base characterization for purposes of Article XVI, Section 18. In fact, apart from the provisions of Section 5922(a) of the Code set forth above and similar provisions in Section 5903(c) of the Code, there is little direct authority in California addressing interest rate swaps for any purpose.

A court could conclude that the City’s obligations under the Facility Lease affected by or relating to the Swap Agreement are not prohibited by Article XVI, Section 18 by determining that such obligations of the City fit within one of the articulated “exceptions” to the Constitutional prohibition. Because the obligations of the City under the Facility Lease may involve net payments by the City from the income and revenues of future fiscal years, the single year/annual appropriation exception to Article XVI, Section 18 is not applicable, and because the City, through the Facility Lease, is obligated to make any net payments required under the Swap Agreement from monies in its general fund, the “special fund” exception articulated in City of Oxnard v. Dale, 45 Cal. 2d 729 (1955), does not apply. The Article XVI, Section 18 “exception” arguably most applicable is the “contingent obligation” exception.

The contingent obligation exception to the prohibition of Article XVI, Section 18 is based upon the proposition that a contingency does not become a debt until the contingency happens. Doland v. Clark, 143 Cal. 176 (1904). Contingent obligation cases require, among other things, the provision of consideration by the non-city party in each year in which payments by the City are required. McBean v. City of Fresno, 112 Cal. 159 (1896); Starr v. City and County of San Francisco, 72 Cal. App. 3d 164 (1977). Under the Swap Agreement, no net payment obligation on the part of the Authority (and related obligation of the City under the Facility Lease) for any period is certain and any payment obligation in future fiscal years is “contingent” upon the fixed rate set forth in the Confirmation being greater than the floating rate set forth in the Confirmation and/or upon the Settlement Amount being a negative number. However, the potential overbreadth of the contingent obligation exception and its unclear basis in the Constitutional provision requires an examination of the particular circumstances under which it has been most often applied.

The subcategory of the contingent obligation exception most fully developed by California courts and for which the judicial authorities are the strongest is the lease exception articulated in City of Pasadena v. Offner, 19 Cal. 2d 483 (1942), Dean v. Kuchel, 35 Cal. 2d 444 (1950) and Rider v. City of San Diego, 18 Cal. 4th 1035 (1998). In Offner, the court stated the general rule as follows:

April 18, 2007

Page 5

[I]f the lease or other agreement is entered into in good faith and creates no immediate indebtedness for the aggregate installments therein provided for but, on the contrary, confines liability to each installment as it falls due and each year's payment is for the consideration actually furnished that year, no violence is done to the constitutional provision. (citations omitted) If, however, the instrument creates a full and complete liability upon its execution, or if its designation as a "lease" is a subterfuge and it is actually a conditional sales contract in which the "rentals" are installment payments on the purchase price for the aggregate of which an immediate and present indebtedness or liability exceeding the constitutional limitation arises against the public entity, the contract is void. (citations omitted) 19 Cal. 2d at 486.

Leases are not treated by California courts as "indebtedness or liability" within the meaning of Article XVI, Section 18 if each rental payment is conditioned on use and occupancy of the premises during the period with respect to which such rental is payable. In a number of cases holding that a lease is not an "indebtedness or liability," California courts have cited the absence of an acceleration clause as a relevant factor in finding a lease to be in conformance with the lease exception. City of Desert Hot Springs v. County of Riverside, 91 Cal. App. 3d 441 (1979); Starr v. City and County of San Francisco, 72 Cal. App. 3d 164 (1977); Ruane v. City of San Diego, 267 Cal. App. 2d 548 (1968); County of Los Angeles v. Nesvig, 231 Cal. App. 2d 603 (1965); Lagiss v. County of Contra Costa, 223 Cal. App. 2d 77 (1963).

Even though interest rate swaps are essentially sui generis, there is some useful analogy to the types of leases approved under the Offner-Dean-Rider line of cases. Like those leases, the Swap Agreement is executory, and each year's performance by the Authority (and through the Facility Lease, the City) is conditioned upon the readiness and ability of Party A to perform its obligations in such year and upon Party A's actual performance under the Swap Agreements both currently and over the prior term of the Swap Agreement. In addition, the Facility Lease expressly provides that the payments under the Swap Agreement constitute Base Rental Payments under the Facility Lease, such payments are conditioned upon the City's use and occupancy of the property leased under the Facility Lease, subject to abatement in the event damage or destruction or condemnation of the such property, and are limited in amount in the event they exceed the fair rental value of such property.

Finally it is instructive to note that the California courts have stated that the validity of a transaction, whether it creates indebtedness or liabilities, is measured at the time the transaction is entered into. See Arthur v. City of Petaluma, 175 Cal. 216, 223-24 (1917). Based in part upon such reasoning, one federal court, interpreting the scope of the contingent obligation exception to the prohibition of Article XVI, Section 18, determined that reverse repurchase agreements entered into by Orange County, California and which contributed significantly to the County's bankruptcy, did not violate the California Constitutional debt limit. In Re County of Orange, 31 F.Supp.2d 768 (C.D.Cal. 1998). Although not binding upon California courts, the federal district court's reasoning supports the conclusion that, as the Facility Lease, under which Base Rental Payments support the Authority's obligations under the Swap Agreement creates no immediate indebtedness or obligation of the City, but only a future payment obligation dependent upon future market conditions and conditioned upon the future performance of Party A and the use and occupancy of the leased property by the City, it does not constitute an indebtedness or liability under the California Constitution.

April 18, 2007

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Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the Swap Agreement constitutes a valid and binding agreement of the Authority, payable only from Revenues and other amounts held under the Indenture. We are of the further opinion that the Facility Lease constitutes a valid and binding agreement of the City, payable from its general fund, unless the obligation of the City to pay Base Rental Payments to satisfy the obligations of the Authority under the Swap Agreement, including the payment of any Settlement Amount payable by the Authority, is determined to constitute an “indebtedness” or “liability” of the City prohibited by Article XVI, Section 18 of the Constitution of the State of California.

While there is no judicial authority directly on point and no assurance can be given that a court could not hold otherwise, based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that if the matter were properly briefed and presented to a court, the court would hold that the indirect obligations of the City under the Swap Agreement taken as a whole (taking into account the provisions therein respecting the severability of invalid, illegal or unenforceable provisions) does not constitute an indebtedness or liability of the City prohibited by Article XVI, Section 18 of the Constitution of the State of California.

With respect to the opinions expressed herein, the rights and obligations under the Swap Agreement are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting the creditors’ rights, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against cities in the State of California.

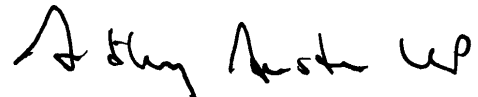
We express no opinion with respect to any indemnification, contribution, choice of forum or waiver provisions contained in the foregoing documents. In addition, we express no opinion as to any provision of the Swap Agreement (i) purporting to create any security interest, (ii) providing that every right and remedy shall be cumulative and in addition to every other right and remedy, or that any failure or delay in exercising any right, power or privilege shall not impair any right or remedy or constitute a waiver thereof, or (iii) regarding specific performance or the grant of any power of attorney.

Our opinion is subject, as to enforceability, to (i) general principles of equity, including concepts of reasonableness, materiality, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity); in particular, a court might decline to enforce the conditions set forth in Section 2(a)(iii) of the Swap Agreement and a non-defaulting party’s right set forth in Section 6 of the Swap Agreement to designate an Early Termination Date, if the condition or right were invoked in connection with a default deemed immaterial, (ii) the effect of applicable laws, regulations and judicial or other decisions upon the availability and enforceability of particular covenants and remedies, including the remedies of specific performance and self-help, and provisions imposing penalties and forfeitures, and (iii) a court’s power to limit the non-defaulting party’s recovery to actual damages and impose its own settlement procedures in lieu of the provisions of Section 6(e) of the Swap Agreement. In addition, the enforcement of the Swap Agreement may be conditioned upon the party seeking enforcement having acted in a commercially reasonable manner and in good faith in performing its obligations and exercising its rights and remedies thereunder and is subject to the discretion of a court to invalidate or decline to enforce any right, remedy or provision of the Swap Agreement (including, without limitation, the termination payment provisions thereof) determined by it to be a penalty.

April 18, 2007
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This opinion is limited to the laws of the States of California and New York and the Federal laws of the United States. The opinions in this letter are expressed solely as of the date hereof for your benefit and may not be relied upon in any manner or for any purposes by any other person.

Respectfully Submitted,

Handwritten signature in black ink, appearing to read "Ashley Anshu WP".

Legal Department

April 18, 2007

Modesto Public Financing Authority
City of Modesto Finance Department
City Hall
1010 Tenth Street, Suite 5200
Modesto, California 95353

CIFG Assurance North America, Inc.
825 Third Avenue, 6th Floor
New York, New York 10022

Ladies and Gentlemen:

I have acted as counsel to Bank of America, N.A., a national banking association ("Party A") organized under the laws of the United States. This opinion letter is being delivered to you in connection with the execution and delivery by Party A of the ISDA Master Agreement (including the Schedule and Credit Support Annex thereto), dated as of April 11, 2007, and the Confirmation (our Reference No. 5155191) dated as of April 12, 2007 (Revised April 17, 2007) (collectively, the "Agreement"), between Modesto Public Financing Authority ("Party B") and Party A. Any capitalized terms used but not defined herein shall have the respective meanings specified in the Agreement.

In connection with this opinion letter, I have examined, or had examined on my behalf, an executed copy of the Agreement and other documents as I have deemed necessary or appropriate for the purposes of this opinion letter. In such opinion, I have assumed, without independent verification, the genuineness of all signatures (other than those of Party A), the authenticity of all documents submitted to me as originals and the conformity to authentic original documents of all documents submitted to me as certified, conformed or photostatic copies.

Based upon the foregoing, I am of the opinion that:

1. Party A is a national banking association duly organized, validly existing, and in good standing under the laws of the United States.
2. The execution, delivery, and performance of the Agreement are within Party A's corporate power, have been duly authorized by all necessary corporate action, and do not conflict with any provision of Party A's articles of association or bylaws or any law, regulation, or material agreement to which Party A is subject or by which Party A is bound.
3. No consent, authorization, license or approval of, or registration or declaration with, any United States governmental authority is required in connection with Party A's execution, delivery, and performance of the Agreement.

4. The Agreement has been duly executed and delivered by Party A and, assuming that Party B has validly executed and delivered the Agreement, constitutes the legally valid and binding obligation of Party A, enforceable against Party A in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, receivership, conservatorship, or other laws affecting the enforcement of creditors' rights generally or by general equity principles.

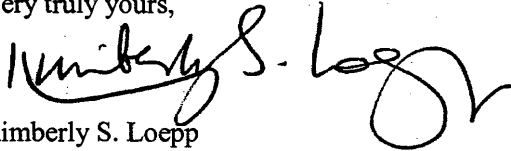
I am not expressing any opinion as to any matter relating to any jurisdiction other than the laws of the State of New York and the United States and I assume no responsibility as to the applicability of the laws of any other jurisdiction as to the subject transaction or the effect of such laws thereon.

This opinion letter is given solely in my capacity as Assistant General Counsel of Bank of America, and not in any individual capacity. I am not opining on specialized laws that are not customarily covered in opinion letters of this kind, such as tax, securities, insolvency, pension, antitrust, or insurance law matters or any rule or regulation promulgated thereunder or pursuant thereto.

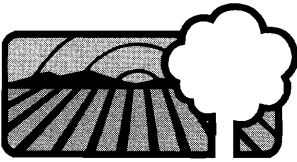
The opinions expressed herein are stated as of the date hereof and are limited to those matters expressly set forth herein. No opinion is to be inferred or implied beyond the matters expressly so stated, and I expressly disclaim any obligation to advise you of any change of law that occurs, or any facts of which I become aware, after the date hereof.

The opinions expressed herein are for the exclusive benefit of Party B and CIFG Assurance North America, Inc., in connection with the execution and delivery by Party A of the Agreement. This opinion is not to be used, circulated, quoted or otherwise referred to for any other purpose. This opinion letter may not be relied upon in any manner by any other person, entity and/or agency.

Very truly yours,



Kimberly S. Loep
Assistant General Counsel



CITY of MODESTO

April 12, 2007

Finance

Department

1010 Tenth Street

Suite 5200

P.O. Box 642

Modesto, CA 95353

209/577-5369

209/571-5880 Fax

Hearing and Speech

Impaired Only

TDD 209/526-9211

Bank of America, N.A.

100 N. Tryon Street

NC1-007-13-01

Charlotte, NC 28255

CIFG Assurance North America, Inc.

825 Third Avenue, 6th Floor

New York, New York 10022

Ladies and Gentlemen:

This opinion is furnished to you in connection with the execution and delivery of the ISDA Master Agreement, the U.S. Municipal Counterparty Schedule and the Credit Support Annex, each dated as of April 11, 2007 (collectively, the "Master Agreement"), by and between Bank of America, N.A. ("Party A") and the Modesto Public Financing Authority (the "Authority"), as supplemented by the confirmation of the transaction (the "Confirmation") entered into on April 11, 2007, by and between Party A and the Authority. The Master Agreement together with the Confirmation shall constitute one agreement (the "Agreement").

I have acted as counsel to the Authority and in that capacity I have examined originals or copies, certified or otherwise identified to my satisfaction, of such documents, corporate records, certificates of public officials and other instruments and have conducted such investigations of fact and law as I have deemed necessary or advisable for the opinions expressed herein.

Upon the basis of the foregoing, I am of the opinion that:

1. The Authority is a joint powers authority under Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California duly organized and validly existing under and by virtue of the Joint Exercise of Powers Agreement and the laws of the State of California.

2. The execution, delivery and performance by the Authority of the Agreement has been duly authorized by the Authority.

3. To the best of my knowledge without independent investigation, the execution, delivery and performance by the Authority of the Agreement do not violate, conflict with, or result in a breach of, any law, rule or regulation applicable to the Authority, or any material contractual restriction, order or judgment binding on the Authority or its assets which breach or default could have a material, adverse effect on the validity or enforceability of the Agreement or the Authority's performance of its obligations under the Agreement or the financial position or revenues of the Authority.

4. No authorization, consent, approval, exemption or license from, or filing of any registration with, any federal or state governmental authority is required to be have been obtained or made by the Authority with respect to the authorization, execution, delivery and performance by the Authority of the Agreement which has not been obtained.

5. The Authority is not entitled to claim immunity on the grounds of sovereignty or other similar grounds with respect to itself or its revenues or financial assets (irrespective of their use or intended use) from (i) suit, (ii) jurisdiction of any court or, (iii) except to the extent provided in Part 5 of Division 3.6 of Title 1 of the Government Code of the State of California ("Part 5") (x) relief by way of injunction, order for specific performance or for recovery of property, (y) attachment of its financial assets (whether before or after judgment) or (z) execution or enforcement of any judgment to which it or its revenues or financial assets might otherwise be subject.

I have relied as to certain matters on information obtained from public officials, officers of the Authority and other sources believed by me to be responsible and I have assumed that the signatures (other than those of the Authority) on all documents examined by me are genuine, assumptions which I have not independently verified.

This opinion is limited to the laws of the State of California and the federal laws of the United States. The opinions in this letter are expressed solely as of the date hereof for your benefit and for the benefit of your successors and permitted assigns under the Agreement and may not be relied upon in any manner or for any other purpose or by any other person.

Very truly yours,

A handwritten signature in black ink that reads "Roland Stevens". The signature is written in a cursive, slightly slanted style.

Roland Stevens
Assistant City Attorney

April 18, 2007

Modesto Public Financing Authority

Bank of America, N.A.,
as Counterparty under
the within-mentioned interest rate swap

Ladies and Gentlemen:

I am General Counsel, Global Infrastructure & Public Finance of CIFG Assurance North America, Inc., a New York stock insurance company ("CIFG"), and have acted as such in connection with the issuance by CIFG of a certain Interest Rate Swap Insurance Policy, number CIFG NA-1569 and endorsements thereto, effective as of the date hereof (the "Policy"), insuring the Confirmation having an effective date of September 3, 2008 under ISDA Master Agreement, dated as of April 11, 2007 between Bank of America, N.A. and Modesto Public Financing Authority, including the Schedule and Credit Support Annex thereto.

I or lawyers under my supervision have examined the Policy and such corporate records, certificates and other documents and such questions of law as I have considered necessary or appropriate in the circumstances for purposes of this opinion.

Based upon such examination and having regard to legal considerations I deem relevant, I am of the opinion that:

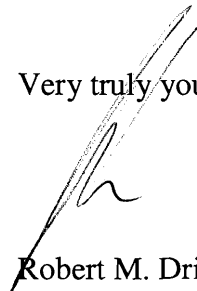
1. CIFG is a stock insurance company duly organized and validly existing in good standing under the laws of the State of New York with power and authority under applicable laws to conduct its insurance business in the manner in which it is being conducted.
2. The Policy has been duly authorized, executed and delivered by CIFG and constitutes a legal, valid and binding obligation of CIFG enforceable in accordance with its terms, subject as to enforcement to bankruptcy, insolvency, liquidation, reorganization, rehabilitation, moratorium and other state and federal laws affecting the enforcement of creditors' rights and to general principles of equity.

Modesto Public Financing Authority
Bank of America, N.A.
April 18, 2007
Page 2

3. The execution, delivery and performance of the Policy and the consummation of the transactions contemplated thereby will not conflict with or result in a breach of any of the terms, conditions or provisions of the Charter or By-Laws of CIFG, or any restriction contained in any contract, agreement or instrument to which CIFG is a party or by which it is bound or constitute a default under any of the foregoing.
4. All proceedings legally required for the issuance of the Policy have been taken by CIFG and all licenses, orders, consents or other authorizations or approvals of any governmental boards or bodies legally required for the enforceability of the Policy in all material respects have been obtained.

I have, with your approval, relied as to certain matters on information obtained from public officials, officers of CIFG and other sources believed by me to be responsible. This opinion is furnished to you solely for your benefit and may not be relied upon or distributed to any other person.

Very truly yours,



Robert M. Drillings

CONSENT OF MODESTO PUBLIC FINANCING AUTHORITY

The Modesto Public Financing Authority (the "Authority"), as lessor under the Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002 (as so amended, the "1998 Lease"), each by and between the Authority and the City of Modesto, hereby consents, in accordance with Section 5.3(a) of the 1998 Lease to the release of the following properties from the 1998 Lease:

1. Parcel No. 11, Morris Community Center, described as all of Block 603 of the City of Modesto as per map file December 21, 1942 in Volume 15 of Maps, Stanislaus County Records; and

2. Parcel No. 13, McHenry Museum, described as lots 27 through 32 in Block 113 of the City of Modesto as per map file December 21, 1942 in Volume 15 of Maps, Stanislaus County Records. Excepting therefrom Lot 27, the Southeasterly 3 feet of the Southwesterly 97 feet thereof.

Dated: April 18, 2007

MODESTO PUBLIC FINANCING AUTHORITY

By: _____



Authorized Officer



Moody's Investors Service

One Front Street, Suite 1900
San Francisco, CA 94111

April 12, 2007

Wayne Padilla
Finance Director
City of Modesto
P.O. Box 642
Modesto, CA 95353

Dear Mr. Padilla:

We wish to inform you that on April 12, 2007, Moody's Investors Service reviewed and affirmed that the release of parcels No. 11 and 13 will not affect the **A3** rating on Modesto's Lease Revenue Bonds Series 1998.

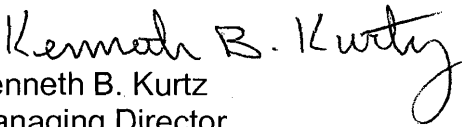
In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, including annual financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's ratings desk.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Michael Wertz, at 415-274-1722.

Sincerely,


Kenneth B. Kurtz
Managing Director

KBK:MW/cm

cc: Danielle Lan
Sidley Austin LLP
555 California Street
San Francisco, CA 94104

**STANDARD
& POOR'S**

One Market
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
tel 415 371-5004
reference no.: 40084820

April 3, 2007

Sidley Austin LLP
555 California Street, Suite 2000
San Francisco, CA 94104
Attention: Ms. Danielle Lan

Re: *Modesto Public Financing Authority, California, Lease Revenue Bonds (Capital Improvement & Refinancing Project) Series 1998*

Dear Ms. Lan:

Standard & Poor's has reviewed the Standard & Poor's underlying rating (SPUR) on the above-referenced obligations. After such review, we have affirmed the "A" rating and stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

Ms. Danielle Lan
Page 2
April 3, 2007

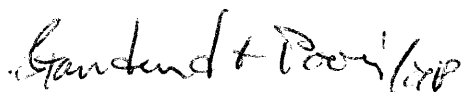
Please send all information to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

If you have any questions, or if we can be of help in any other way, please feel free to call or contact us at nypublicfinance@standardandpoors.com. For more information on Standard & Poor's, please visit our website at www.standardandpoors.com. We appreciate the opportunity to work with you and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services
a division of The McGraw-Hill Companies, Inc.

A handwritten signature in cursive script that reads "Standard & Poor's".

ly
enclosure

cc: Mr. Wayne Padilla, CPA

**STANDARD
& POOR'S**

One Market
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
tel 415 371-5004
reference no.: 40184610

April 3, 2007

Sidley Austin LLP
555 California Street, Suite 2000
San Francisco, CA 94104
Attention: Ms. Danielle Lan

Re: ***Modesto Public Financing Authority, California, (Modesto) Lease Revenue Bonds***

Modesto Public Financing Authority, California, (John Thurman Field Renovation)

Dear Ms. Lan:

Standard & Poor's has reviewed the rating on the above-referenced obligations. After such review, we have affirmed the "A" rating and stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

Ms. Danielle Lan

Page 2

April 3, 2007


Please send all information to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

If you have any questions, or if we can be of help in any other way, please feel free to call or contact us at nypublicfinance@standardandpoors.com. For more information on Standard & Poor's, please visit our website at www.standardandpoors.com. We appreciate the opportunity to work with you and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services
a division of The McGraw-Hill Companies, Inc.

A handwritten signature in cursive script that reads "Standard & Poor's".

ly

enclosure

cc: Mr. Wayne Padilla, CPA

Modesto, California

Primary Credit Analysts:

Lisa Schroeer
San Francisco
(1) 415-371-5006
lisa_schroeer@
standardandpoors.com

Secondary Credit Analysts:

Ian Carroll
San Francisco
(1) 415-371-5060
ian_carroll@
standardandpoors.com

Credit Profile

Modesto Pub Fin Auth, California

Modesto, California		
Modesto Pub Fin Auth lse rev bnds (Cap Imps & Refing Proj) ser 1998 due 09/01/2001-2013 2016 2020 2024 2029 2033		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
Modesto Pub Fin Auth (John Thurman Field Renovation)		
<i>Long Term Rating</i>	A/Stable	Affirmed
Modesto Pub Fin Auth (Modesto) lse rev bnds (Modesto) due 09/01/2033		
<i>Long Term Rating</i>	A/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'A' underlying rating (SPUR) on the City of Modesto, Calif.'s 1998 lease revenue refunding and capital improvement bonds, issued by Modesto Public Financing Authority. In addition, Standard & Poor's affirmed its 'A' standard long-term rating on the city's lease revenue refunding bonds.

The ratings reflect:

- The city's covenant to budget and appropriate lease payments; and
- The city's general creditworthiness.

The city's general credit characteristics include its:

- Continued growth in California's Central Valley, with average income levels and an economy that remains anchored in agriculture but is expanding to include other service industries, in particular the medical industry;
- Good financial operations bolstered by strong financial management policies; and
- Low debt and no anticipated additional general obligation or general fund-supported debt.

For the remaining 1998 revenue bonds, two previously pledged properties (a community center and a museum) are being released from the pledge. The city found the worth of these properties to be negligible and has pledged the remaining assets as sufficient to support its remaining lease payments.

For more information on the city's lease revenue bonds and the city's general credit worthiness, see the summary analysis published March 12, 2007, on RatingsDirect.

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RE: MODESTO PUBLIC FINANCING AUTHORITY
LEASE REVENUE BONDS, SERIES 1998
(CAPITAL IMPROVEMENTS AND REFINANCING PROJECT)
(BASE CUSIP NO. 607796)

NOTICE is hereby given to you that the Modesto Public Financing Authority (the "Authority"), as lessor under the Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002 (as so amended, the "1998 Lease"), each between the City of Modesto (the "City") and the Authority, intends to release the following properties from the 1998 Lease:

1. Parcel No. 11, Morris Community Center, described as all of Block 603 of the City of Modesto as per map file December 21, 1942 in Volume 15 of Maps, Stanislaus County Records; and
2. Parcel No. 13, McHenry Museum, described as lots 27 through 32 in Block 113 of the City of Modesto as per map file December 21, 1942 in Volume 15 of Maps, Stanislaus County Records. Excepting therefrom Lot 27, the Southeasterly 3 feet of the Southwesterly 97 feet thereof.

Exhibit C to the 1998 Lease is hereby amended in its entirety with the attached amended Exhibit.

This NOTICE is given to you pursuant to 5.3(a) of the 1998 Lease.

Dated: April 18, 2007

MODESTO PUBLIC FINANCING AUTHORITY

By: _____



Authorized Officer

33



Stanislaus, County Recorder
Lee Lundrigan Co Recorder Office
DOC- 2007-0048573-00

Recording Requested By:
City of Modesto, California

Acct 502-Fidelity National Title
Tuesday, APR 17, 2007 08:00:00
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When Recorded Mail To:
Sidley Austin LLP
555 California Street
20th Floor)
San Francisco, California 94104)
Attn: Eric D. Tashman, Esq.)

This document is recorded for the benefit of the City of Modesto, California and recording is fee-exempt under § 27383 of the Government Code.

AMENDMENT NO. 3 TO LEASE/PURCHASE AGREEMENT

Dated April 18, 2007

between the

MODESTO PUBLIC FINANCING AUTHORITY,
as Authority

and the

CITY OF MODESTO,
as City

ACCOMMODATION ONLY
THIS INSTRUMENT FILED FOR RECORD BY FIDELITY
TITLE COMPANY IS AN ACCOMMODATION ONLY.
IT HAS NOT BEEN EXAMINED AS TO ITS EXECU-
TION, OR AS TO ITS EFFECTS UPON TITLE.

13
✓

AMENDMENT NO. 3 TO LEASE/PURCHASE AGREEMENT

THIS AMENDMENT NO. 3 TO LEASE/PURCHASE AGREEMENT, dated April 18, 2007 (the "Amendment No. 3 to Lease/Purchase Agreement"), by and between the MODESTO PUBLIC FINANCING AUTHORITY, a joint powers agency duly organized and existing under the laws of the State of California (the "Authority"), and the CITY OF MODESTO, California, a charter city and a municipal corporation duly organized and existing under the laws of the State of California (the "City"), and accepted and agreed to by The Bank of New York Trust Company, N.A., a national banking corporation duly organized and existing under and by virtue of the laws of the United States of America, as successor trustee (the "Trustee") under the Trust Indenture, dated as of March 1, 1998, between the Authority and the Trustee.

W I T N E S S E T H :

WHEREAS, the Authority and the City previously executed the Site Lease (Parks Project, Police Headquarters Building and Miscellaneous Public Properties), dated as of March 1, 1998, and recorded in the official records of the County of Stanislaus Recorder's Office on March 11, 1998, as Document number 98-0022315-00 (the "1998 Site Lease") pursuant to which the City leased to the Authority the real property situated in the City of Modesto, State of California, described in Exhibit A thereto (the "1998 Site"); and

WHEREAS, the Authority leased back the 1998 Site, together with certain other properties (collectively referred to therein as the "Leased Property"), to the City pursuant to a Lease/Purchase Agreement, dated as of March 1, 1998, between the Authority and the City, and recorded in the official records of the County of Stanislaus Recorder's Office on March 11, 1998, as Document number 98-0022319-00 (the "1998 Lease/Purchase Agreement"); and

WHEREAS, the Authority and the City executed that Amendment No. 1 to Lease/Purchase Agreement to release the property constituting the parking garage retail pad from the 1998 Lease/Purchase Agreement, dated June 15, 2000 and recorded in the official records of the County of Stanislaus Recorder's Office on June 15, 2000, as Document number 2000-0048260-00;

WHEREAS, the Authority and the City executed that Amendment No. 2 to Lease/Purchase Agreement to release the property constituting Parking Lot No. 3 from the 1998 Lease/Purchase Agreement, dated October 15, 2002 and recorded in the official records of the County of Stanislaus Recorder's Office on November 6, 2002, as Document number 2002-0144999-00 (the "Amendment No. 2 to Lease/Purchase Agreement");

WHEREAS, Section 5.3 of the 1998 Lease/Purchase Agreement permits the removal of certain properties from the Leased Property, including the Morris Community Center and the McHenry Museum (collectively, the "Released Properties"), subject to the satisfaction of certain conditions; and

WHEREAS, the City has requested and the Authority has consented to the release of the Released Properties from the 1998 Lease/Purchase Agreement and 1998 Site Lease; and

WHEREAS, the City has filed with the Trustee and the Authority a certificate to the effect that (a) based on the findings of an independent MAI real estate appraiser the portion of the Leased Property remaining under the 1998 Lease after the release of the Released Properties has a fair market value such that the Lease Payments being made by the City thereunder will not be reduced; and (b) following the release of the Released Properties the remaining portion of the Leased Property has a useful life not less than the remaining term of the 1998 Lease; and

WHEREAS, the City has provided to the Trustee an amended Exhibit B and an amended Exhibit C to the 1998 Lease/Purchase Agreement which includes a new metes and bounds description for the 1998 Site which reflects the reconveyance and release of the Released Properties; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Amendment No. 3 to Lease/Purchase Agreement (including the delivery of certificates and opinions as required by Section 5.3 of the 1998 Lease/Purchase Agreement) do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into the Amendment No. 3 to Lease/Purchase Agreement;

NOW, THEREFORE, in consideration of the above premises and of the mutual covenants hereinafter contained and for other good and valuable consideration, the parties hereto agree as follows:

1. Exhibit B to the 1998 Lease/Purchase Agreement is hereby amended in its entirety with the substitution of Exhibit B attached hereto; and

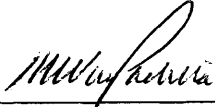
2. Exhibit C to the 1998 Lease/Purchase Agreement is hereby amended in its entirety with the substitution of Exhibit C attached hereto; and

3. Except as set forth in paragraphs 1 and 2, the 1998 Lease/Purchase Agreement shall remain in full force and effect in accordance with its terms; and


4. This Amendment No. 3 to Lease/Purchase Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and any and all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the Authority has caused this Amendment No. 3 to Lease/Purchase Agreement to be executed in its name by its duly authorized representative; and the City has caused this Amendment No. 3 to Lease/Purchase Agreement to be executed in its name by its duly authorized officer, all as of the day and year first above written.

MODESTO PUBLIC FINANCING AUTHORITY

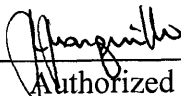
By: 
Authorized Officer
M. Wayne Padilla

CITY OF MODESTO

By: 
Authorized Officer
M/ Wayne Padilla

Accepted and Approved by

THE BANK OF NEW YORK TRUST
COMPANY, N.A., as successor trustee

By: 
Authorized Officer
Rosalinda Ronquillo

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

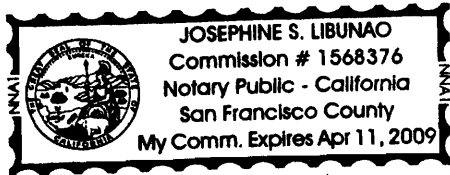
State of CALIFORNIA

County of SAN FRANCISCO

On APRIL 13, 2007 before me, JOSEPHINE S. LIBUNAO, NOTARY PUBLIC,
DATE NAME, TITLE OF OFFICER - E.G., "JANE DOE, NOTARY PUBLIC"

personally appeared ROSALINDA RONQUILLO,
NAME(S) OF SIGNER(S)

personally known to me - OR - proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.



WITNESS my hand and official seal.

Josephine S. Libunao
SIGNATURE OF NOTARY

OPTIONAL

Though the data below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent reattachment of this form.

CAPACITY CLAIMED BY SIGNER

- INDIVIDUAL
- CORPORATE OFFICER
- _____ TITLE(S)
- PARTNER(S) LIMITED
- GENERAL
- ATTORNEY-IN-FACT
- TRUSTEE(S)
- GUARDIAN/CONSERVATOR
- OTHER: _____
- _____
- _____

DESCRIPTION OF ATTACHED DOCUMENT

Amendment to No. 3 Lease/Purchase
TITLE OR TYPE OF DOCUMENT Agreement

NUMBER OF PAGES

DATE OF DOCUMENT

SIGNER IS REPRESENTING:
NAME OF PERSON(S) OR ENTITY(IES)

SIGNER(S) OTHER THAN NAMED ABOVE

GENERAL DESCRIPTION OF THE LEASED PROPERTY

1. The City's one-half undivided interest in and to portions of the City-County Administrative building, including the City's one-half undivided interest in the Site upon which such facility will be constructed, together with the City's rights and interests in the use of common areas, but excluding that certain airspace subdivision on the first floor of the City-County Administrative building.
2. The public parking garage containing approximately 700 spaces to be used by the general public, including the Site upon which such facility is located.
3. The Public Park Improvements, consisting of (i) the Floyd Neighborhood Park, (ii) the Riverside Neighborhood Park, (iii) the Sipherd Neighborhood Park (iv) the Wesson Ranch Neighborhood Park, and (v) the Park Graceada, including in each instance, all other improvements, facilities to be exclusively occupied or administered by the City.
4. The City's undivided fifty percent (50%) interest in and to the use of facilities constituting the Communications Dispatch Center, including its undivided fifty percent (50%) interest in and to the Site, and interests in the use of common areas.
5. The Police Headquarters building, including the Site upon which such facility is located.
6. The Miscellaneous Public Properties, such properties being located within the City and more commonly referred to as (i) Fire Station No. 1; (ii) Fire Station No. 3; (iii) Fire Station No. 5; (iv) Fire Station No. 6; (v) Fire Station No. 7; (vi) the McHenry Mansion; (vii) the Senior Citizen Center; (viii) Parking Lot No. 25; and (ix) the Parking Structure.

LEGAL DESCRIPTION OF THE SITES

Legal Description of the Sites

Parcel No. 1 -- Graceda Park

All of Blocks 531, 532 and 533 as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 2 -- Floyd Park

Parcels A and B as per Parcel Map filed October 9, 1969 in Volume 7 of Parcel Maps, Page 68, Stanislaus County Records.

Parcel No. 3 -- Communication Facility

An undivided one-half interest in the following:
Parcel 2 as per Parcel Map filed September 24, 1979 in Volume 29 of Parcel Maps, Page 100, Stanislaus County Records.

Parcel No. 4 -- Police Facility

Lots 1 thru 32, inclusive, in Block 71 of the CITY OF MODESTO, as per map recorded December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

TOGETHER WITH

All that real property in the State of California, County of Stanislaus, City of Modesto, being a portion of the Northeast quarter of Section 32, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, described as follows:

That portion of the 20-foot alley in Block 71 as delineated on the Official Map of the City of Modesto, as per map filed December 21, 1942, in Volume 15 of Maps, Stanislaus County Records, described as follows:

Beginning at the most Southerly corner of Lot 16 in said Block 71, said point being on the Northeastern line of said 20.00 foot alley in Block 71; thence along said Northeastern line of said alley, North 43° 29' 30" West, 150.00 feet, to the most Southerly corner of Lot 10 in Block 71; thence South 46° 30' 30" West, 20.00 feet, to the most Northerly corner of Lot 22 in Block 71, said point being on the Southwestern line of the 20.00 foot alley in Block 71; thence along said Southwestern line of said alley, South 43° 29' 30" East, 150.00 feet, to the most Easterly corner of Lot 17 in Block 71, said point being on the Northwestern line of 80.00 foot "F" Street; thence along said Northwestern line of "F" Street, North 46° 30' 30" East, 20.00 feet, to the point of beginning.

All that portion of Block 67 of the City of Modesto, as per the official map thereof, filed in Book 15 of Maps, together with the abandoned alley therein, lying in the south half of Section 29, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, City of Modesto, County of Stanislaus, State of California, described as follows:

BEGINNING at the north corner of said Block 67, said point being the intersection of the southwesterly line of 80.00 feet wide Eleventh Street with the southeasterly line of 80.00 feet wide K Street; thence on said Southeasterly line, South 46°48'48" West 253.06 feet; thence South 43°09'48" East 167.50 feet; thence North 46°50'12" East 23.24 feet; thence South 43°09'48" East 17.52 feet; thence North 46°50'12" East 16.00 feet; thence South 43°09'48" East 16.00 feet; thence South 46°50'12" West 16.00 feet; thence South 43°09'48" East 12.97 feet; thence South 46°48'48" West 54.07 feet; thence North 88°11'12" West 30.10 feet to the northeasterly line of 70.00 feet wide 10th Street; thence on said northeasterly line, South 43°10'10" East 207.48 feet to the northwesterly line of 80.00 feet wide J Street; thence on said northwesterly line, North 46°47'30" East 305.16 feet to the southwesterly line of 80.00 feet wide 11th Street; thence on said southwesterly line, North 43°09'48" west 400.08 feet to the point of beginning.

Containing 2.522 acres, more or less.

Parcel no. 7 -- Wesson Park

Parcel No. 1 as per Parcel Map filed January 28, 1980 in Volume 30 of Parcel Maps, Page 13, Stanislaus County Records.

Parcel No. 8 -- Hollywood Park

Lot 1 in Block 13158 of Hollywood Park No. 2 as per Map filed February 28, 1978 in Book 27 of Maps, Page 44, Stanislaus County Records.

Parcel No. 9-- Riverside Park

Parcel A:

Parcels 1 and 1-A as per Parcel Map recorded May 16, 1966 in Book 1 of Parcel Maps, Page 134, Stanislaus County Records.

Excepting Therefrom Parcels B-1 and B-2 as per Parcel Map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

Parcel B:

Parcel No. A as per map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

Parcel No. 10 -- Sipherd Park

Parcel B as per map recorded August 14, 1974 in Book 19 of Parcel Maps, Page 75, Stanislaus County Records.

Parcel No. 12 -- McHenry Mansion

Lots 17 through 24 in Block 122 of the City of Modesto as per Map file December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 14 -- Senior Citizens Center

Lots 18 through 31 in Block 590 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 15 -- Parking Structure

Lot 5 through 12 in Block 68 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 17 -- Parking Lot # 25

Lots 28 through 32 in Block 55 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 18 -- Fire Station # 1

Lots 17 through 26 in Block 81 of the City of Modesto as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

Parcel No. 19 -- Fire Station # 3

Lots 1 and 2 in Block 2283 of Dry Creek Estates No. 1 as per Map filed December 13, 1966 in Volume 21 of Maps, Page 55, Stanislaus County Records.

Parcel No. 20 -- Fire Station # 6

Parcel No. C as per Parcel Map filed August 17, 1977 in Book 25 of Parcel Maps, Page 83, Stanislaus County Records.

Parcel No. 21 -- Fire Station # 7

Parcel A as per Parcel Map filed June 27, 1974 in Volume 19 of Maps, Page 51, Stanislaus County Records.

Parcel No. 22 -- Fire Station #. 5

PARCEL 1:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at a point on the east line of said Lot 2 located on the centerline of a 50 foot public road designated as Oakdale Road on said map, which point is located North 0° 30' West 396 feet from the southeast corner of said Lot 2; thence from said point of beginning parallel to the south line of said Lot 2, North 88° 30' West 660 feet to a point on the west line of said Lot 2; thence North 0° 30' West along said west line of said Lot 2 a distance of 153.73 feet; thence east parallel with the south line of said Lot 2, a distance of 660 feet to a point on the east line of said Lot 2, located on the center line of said Oakdale Road; thence along the east line of said Lot 2 and the centerline of said Oakdale Road, South 0° 30' East 174.24 feet to the point of beginning.

ALSO EXCEPTING THEREFROM all that portion thereof lying northerly of the north line of Burchell Court (formerly Northern Boulevard) extending westerly to the west line of Lot 2.

ALSO EXCEPTING THEREFROM all that portion thereof lying within Briggsmore Avenue, Burchell Court and McHenry Avenue.

ALSO EXCEPTING THEREFROM all that certain property described in Deed to Chester D. Chambers, recorded March 10, 1964 in Book 1929 at Page 641, and in Deed to S.W.A.P., a Joint Venture, recorded July 10, 1962 in Book 1780 at Page 145, Stanislaus County Records.

PARCEL 2:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, Section 17, Township 3 South, Range 9 East, M.D.B. & M., described as follows:

COMMENCING at a point on the southerly line of the property conveyed to Chester D. Chambers by Deed recorded May 7, 1959 in Volume 1545 of Official Records at Page 321, as Instrument No. 13137, Stanislaus County Records, said point being the northeastern corner of Parcel "E" on the western line of Timothy Avenue as shown on the map entitled "Survey of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6, Record of Surveys, page 53, Stanislaus County Records; thence along a line at right angles to the western line of Timothy Avenue, North 89° 30' East, 30.00 feet to a point on the northerly extension of the centerline of Timothy Avenue; thence along said northerly extension, North 00° 30' West, 46.90 feet to the true point of beginning; thence North 7° 52' 29" East, 84.51 feet to a point on the northern line of said Chambers property, which is also the southern line of the property conveyed to the City of Modesto by Deed recorded October 11, 1957, as Instrument No. 26217, Stanislaus County Records, said line also being the southern line of Parcel "A" as per map of Record of Survey filed July 6, 1962 in Volume 9 of

Surveys, Page 25, Stanislaus County Records;

(continued)

Order No.: 904378 A

Legal Description - Continued

thence along said line, South 88° 32' 30" East, 142.76 feet to a 3/4 inch iron pipe at the southeastern corner of said Parcel "A", said corner being the northeast corner of said Chambers property which is also a point on the western line of a 20 foot alley conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, at Page 695, as Instrument No. 29947, Stanislaus County Records; thence along said western line, South 00° 30' East, 60.58 feet; thence South 82° 47' 55" West, 155.59 feet to the point of beginning.

PARCEL 3:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

BEGINNING at the northeast corner of Parcel A, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed July 6, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the north line of Parcel "A", South 89° 46' 50" West 135.63 feet to the true point of beginning; thence continuing along said north line South 89° 46' 50" West 120.54 feet; thence South 37° 57' 43" East 166.35 feet to the southwest corner of property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence along the west line of the City of Modesto property as conveyed by Deed above referred to and the northerly extension of said westerly line North 7° 52' 29" East 132.90 feet, more or less, to the true point of beginning.

PARCEL 4:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:


BEGINNING at the northeast corner of Parcel D, as shown on a Record of Survey Map of a portion of Lot 2 of the Fresno Tract, filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence North 83° 31' 30" West along the north line of said Parcel D and its westerly extension, a distance of 155.02 feet, more or less, to the centerline of Timothy Avenue, as shown on the Record of Survey above referred to; thence North 0° 30' West, along the northerly extension of said centerline of Timothy Avenue to the southwest corner of the property conveyed to the City of Modesto by Deed recorded March 10, 1964, in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records; thence North 82° 47' 55" East along the south line of the City of Modesto property, as conveyed by Deed above referred to, to the southeast corner thereof, said point being on the west line of the property conveyed to the City of Modesto by Deed recorded October 19, 1960 in Volume 1639 of Official Records, Page 695, as Instrument No. 29947, Stanislaus County Records; thence south along the west line of the City of Modesto property as conveyed by Deed last above referred to, 71.83 feet, more or less, to the point of beginning.

PARCEL 5:

All that portion of Lot 2 of the Fresno Tract, as per map filed March 4, 1903 in Volume 1 of Maps, Page 76, Stanislaus County Records, described as follows:

COMMENCING at the 3/4 inch iron pipe set for the northeastern corner of Parcel "A", as per map of Record of Survey filed July 26, 1962 in Volume 9 of Record of Surveys, Page 25, Stanislaus County Records; thence along the northern line of said Parcel "A", South 89° 46' 50" West, 135.63 feet to the northeastern corner of the property conveyed to Chester D. Chambers by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 641, as Instrument No. 9844, Stanislaus County Records; thence along the eastern line of the Chambers property and the western line of the property conveyed to the City of Modesto by Deed recorded March 10, 1964 in Volume 1929 of Official Records, Page 643, as Instrument No. 9843, Stanislaus County Records, South 07° 52' 29" West, 132.90 feet to the southwestern corner of the City property as conveyed by Deed above referred to, and the true point of beginning; thence South 00° 30' 00" East, 48.44 feet, more or less, to a point on the southern line of property conveyed to Chester D. Chambers by Deed recorded May 7, 1959, as Instrument No. 13137, Stanislaus County Records, said point being on the centerline of the 60.00 foot Timothy Avenue, as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records; thence along said southern line of the property conveyed to Chambers by Deed last above referred to and the north line of Timothy Avenue as shown on a Record of Survey filed April 16, 1954 in Volume 6 of Record of Surveys, Page 53, Stanislaus County Records, North 88° 30' West, 30.02 feet to a point on the western line of Timothy Avenue, as shown on said Record of Surveys; thence along said western line, North 00° 30' 00" West, 0.52 feet; thence along a tangent curve concave to the southwest having a radius of 15.00 feet, a central angle of 46° 11' 13" and an arc length of 12.09 feet to a point of reverse curvature from which a radial line bears North 43° 18' 47" East; thence along said reverse curve concave to the east, having a radius of 50.00 feet, a central angle of 98° 43' 30" and an arc length of 86.15 feet; thence along a radial line, South 37° 57' 43" East, 50.00 feet to the southwest corner of the property conveyed to the City of Modesto by the Deed referred to and the true point of beginning.

27.
RECORDING REQUESTED BY:
City of Modesto, California

) 
) Stanislaus, County Recorder
) Lee Lundrigan Co Recorder Office
) **DOC- 2007-0048572-00**
) Acct 502-Fidelity National Title
) Tuesday, APR 17, 2007 08:00:00
) Ttl Pd \$0.00 Nbr-0002311872
) OJM/R3/1-10

WHEN RECORDED MAIL TO:
Sidley Austin LLP
555 California Street
20th Floor
San Francisco, California 94104
Attention: Eric D. Tashman, Esq.

This document is recorded for the benefit of the City of Modesto and recording is fee-exempt under Section 27383 of the Government Code.

AMENDMENT NO. 2 TO SITE LEASE
(Parks Project, Police Headquarters Building and Miscellaneous Public Properties)

by and between the
THE CITY OF MODESTO,

and the
MODESTO PUBLIC FINANCING AUTHORITY

Dated April 18, 2007

ACCOMMODATION ONLY
THIS INSTRUMENT FILED FOR RECORD BY FIDELITY
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TION, OR AS TO ITS EFFECTS UPON TITLE.

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JK

AMENDMENT NO. 2 TO SITE LEASE

This AMENDMENT NO. 2 TO SITE LEASE (the "Amendment No. 2 to Site Lease"), executed and entered into on April 18, 2007, by and between the CITY OF MODESTO, a charter city and a municipal corporation duly organized and existing under the laws of the State of California (the "City"), and the MODESTO PUBLIC FINANCING AUTHORITY, a joint exercise of powers agency duly organized and existing under the laws of the State of California (the "Authority"), and accepted and agreed to by The Bank of New York Trust Company, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America, as successor trustee (the "Trustee") under the Trust Indenture, dated as of March 1, 1998, between the Authority and the Trustee;

WITNESSETH:

WHEREAS, the Authority and the City previously executed the Site Lease (Parks Project, Police Headquarters Building and Miscellaneous Public Properties), dated as of March 1, 1998, and recorded in the official records of the County of Stanislaus Recorder's Office on March 11, 1998, as Document number 98-0022315-00 (the "1998 Site Lease") pursuant to which the City leased to the Authority the real property situated in the City of Modesto, State of California, described in Exhibit A thereto (the "1998 Site"); and

WHEREAS, the Authority leased back the 1998 Site, together with certain other properties (collectively referred to therein as the "Leased Property"), to the City pursuant to a Lease/Purchase Agreement, dated as of March 1, 1998, between the Authority and the City, and recorded in the official records of the County of Stanislaus Recorder's Office on March 11, 1998, as Document number 98-0022319-00 (the "1998 Lease/Purchase Agreement"); and

WHEREAS, the Authority and the City executed that Amendment No. 1 to Site Lease to release the property constituting Parking Lot No. 3 from the 1998 Site Lease, dated October 15, 2002 and recorded in the official records of the County of Stanislaus Recorder's Office on November 6, 2002, as Document number 2002-0144998-00 (the "Amendment No. 1 to Site Lease");

WHEREAS, Section 5.3 of the 1998 Lease/Purchase Agreement permits the removal of certain properties from the Leased Property, including the Morris Community Center and the McHenry Museum (collectively, the "Released Properties"), subject to the satisfaction of certain conditions; and

WHEREAS, the City has requested and the Authority has consented to the release of the Released Properties from the 1998 Lease/Purchase Agreement and 1998 Site Lease; and

WHEREAS, the City has filed with the Trustee and the Authority a certificate to the effect that (a) based on the findings of an independent MAI real estate appraiser the portion of the Leased Property remaining under the 1998 Lease after the release of the Released Properties has a fair market value such that the Lease Payments being made by the City thereunder will not be reduced; and (b) following the release of the Released Properties the remaining portion of the Leased Property has a useful life not less than the remaining term of the 1998 Lease; and

WHEREAS, the City has provided to the Trustee an amended Exhibit B and an amended Exhibit C to the 1998 Lease/Purchase Agreement which includes a new metes and bounds description for the 1998 Site which reflects the reconveyance and release of the Released Properties; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Amendment No. 2 to Site Lease (including the delivery of certificates and opinions as required by Section 5.3 of the 1998 Lease/Purchase Agreement) do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Amendment No. 2 to Site Lease;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements and covenants contained herein and for other valuable consideration, the parties hereto do hereby agree as follows:

1. Exhibit A to the 1998 Site Lease is hereby amended in its entirety with the substitution of Exhibit A attached hereto; and

2. Except as set forth in paragraph 1, the 1998 Site Lease shall remain in full force and effect in accordance with its terms.

3. This Amendment No. 2 to Site Lease may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and any and all such counterparts shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have executed and entered into this Amendment No. 2 to Site Lease by their officers thereunto duly authorized as of the day and year first above written.

CITY OF MODESTO

By: 

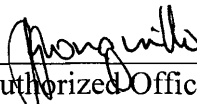
Authorized Officer
M. Wayne Padilla

MODESTO PUBLIC FINANCING AUTHORITY

By: 

Authorized Officer
M. Wayne Padilla

Accepted and Agreed by
THE BANK OF NEW YORK TRUST COMPANY, N.A.,
as successor trustee

By: 

Authorized Officer
Rosalinda Ronquillo

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

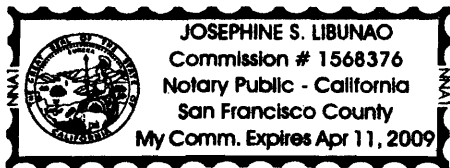
State of CALIFORNIA

County of SAN FRANCISCO

On APRIL 13, 2007 before me, JOSEPHINE S. LIBUNAO, NOTARY PUBLIC
DATE NAME, TITLE OF OFFICER - E.G., "JANE DOE, NOTARY PUBLIC"

personally appeared ROSALINDA RONQUILLO
NAME(S) OF SIGNER(S)

personally known to me - OR - proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.



WITNESS my hand and official seal.

Josephine S. Libunao
SIGNATURE OF NOTARY

OPTIONAL

Though the data below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent reattachment of this form.

CAPACITY CLAIMED BY SIGNER

- INDIVIDUAL
- CORPORATE OFFICER

TITLE(S)

- PARTNER(S) LIMITED
- ATTORNEY-IN-FACT GENERAL
- TRUSTEE(S)
- GUARDIAN/CONSERVATOR
- OTHER: _____

SIGNER IS REPRESENTING:
NAME OF PERSON(S) OR ENTITY(IES)

DESCRIPTION OF ATTACHED DOCUMENT

Amendment #2 To Site Lease
TITLE OR TYPE OF DOCUMENT

NUMBER OF PAGES

DATE OF DOCUMENT

SIGNER(S) OTHER THAN NAMED ABOVE

Legal Description of the Sites

1. The Police Headquarters Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 1 thru 32, inclusive, in Block 71 of the City of Modesto, as per map recorded December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

All that real property in the State of California, County of Stanislaus, City of Modesto, being a portion of the Northeast quarter of Section 32, Township 3 South, Range 9 East, Mount Diablo Base and Meridian, described as follows:

That portion of the 20-foot alley in Block 71 as delineated on the Official Map of the City of Modesto, as per map filed December 21, 1942, in Volume 15 of Maps, Stanislaus County Records, described as follows:

Beginning at the most Southerly corner of Lot 16 in said Block 71, said point being on the Northeastern line of said 20.00 foot alley in Block 71; thence along said Northeastern line of said alley, North $43^{\circ} 29' 30''$ West, 150.00 feet, to the most Southerly corner of Lot 10 in Block 71; thence South $46^{\circ} 30' 30''$ West, 20.0 feet, to the most Northerly corner of Lot 22 in Block 71, said point being on the Southwestern line of the 20.00 foot alley in Block 71; thence along said Southwestern line of said alley, South $43^{\circ} 29' 30''$ East, 150.00 feet, to the most Easterly corner of Lot 17 in Block 71, said point being on the Northwestern line of 80.00 foot "F" Street; thence along said Northwester line of "F" Street, North $46^{\circ} 30' 30''$ East, 20.00 feet, to the point of beginning.

2. The Graceda Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

All of Blocks 531, 532 and 533, inclusive, as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

3. The Floyd Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Parcels A and B as shown on that certain Parcel Map filed October 9, 1969 in Volume 7 of Parcel Maps, page 68, Stanislaus County Records.

4. The Wesson Ranch Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Parcel 1 as shown and designated on that certain Parcel Map filed January 28, 1980 in Volume 30 of Parcel Maps, at page 13, Stanislaus County Records.

5. The Hollywood Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lot 1 in Block 13158 of HOLLYWOOD PARK NO. 2, according to the Official Map thereof, filed in the office of the County Recorder of Stanislaus County, California, on February 28, 1978 in Book 27 of Maps, at Page 44.

6. The Riverside Neighborhood Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

PARCEL ONE:

Parcels 1 and 1-A as per Parcel Map recorded May 16, 1966 in Book 1 of Parcel Maps, Page 134, Stanislaus County Records.

EXCEPTING THEREFROM Parcels B-1 and B-2 as per map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

PARCEL TWO:

Parcel A per map filed June 5, 1974 in Book 19 of Parcel Maps, Page 31, Stanislaus County Records.

7. The Sipherd Park Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Parcel B as per map recorded August 14, 1974 in Book 19 of Parcel Maps, at Page 75, Stanislaus County Records.

8. The Fire Station No. 1 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 17 thru 26, inclusive, in Block 81 of the CITY OF MODESTO, as per map thereof filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

9. The Fire Station No. 3 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 1 and 2 in Block 2283 of DRY CREEK ESTATES NO. 1, according to the Official Map thereof filed in the Office of the Recorder of Stanislaus County, California, on December 13, 1966 in Volume 21 of Maps, Page 3, more 55.

10. The Fire Station No. 5 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

See Attachment II hereto.

11. The Fire Station No. 6 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Parcel C as per Parcel Map recorded August 17, 1977 in Book 25 of Parcel Maps, at Page 83, Stanislaus County Records.

12. The Fire Station No. 7 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Parcel A as shown on that certain Parcel Map filed June 27, 1974 in Volume 19 of Parcel Maps, page 51, Stanislaus County Records.

13. The McHenry Mansion Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 17 thru 24, inclusive, in Block 122 of the CITY OF MODESTO, according to the Official Map thereof, filed in the office of the Recorder of Stanislaus County, California, on December 21, 1942 in Volume 15 of Maps.

14. The Senior Citizens Center Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 18 thru 31, inclusive, in Block 590 of the CITY OF MODESTO, as per map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

15. The Parking Lot No. 25 Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 28 thru 32, inclusive, in Block 55 of the CITY OF MODESTO, as per Map filed December 21, 1942 in Volume 15 of Maps, Stanislaus County Records.

16. The Parking Structure Site is described below.

All that real property described in the County of Stanislaus, City of Modesto, described as follows:

Lots 5-12 inclusive in Block 68 of the CITY OF MODESTO, according to the Official Map thereof, filed in the office of the Recorder of Stanislaus County, California, on December 21, 1942 in Volume 15 of Maps.

**CERTIFICATE OF THE CITY OF MODESTO
PURSUANT TO SECTION 5.3 OF THE 1998 LEASE**

To: The Bank of New York Trust Company, N.A., successor to Harris Trust Company
of California, as trustee
Modesto Public Financing Authority (the "Authority")

1. I hereby certify that I am the Finance Director/Treasurer of the City of Modesto (the "City"), a charter city and municipal corporation duly organized and existing under the laws of the State of California, and as such I am authorized to execute this certificate on behalf of the City.

2. I am authorized to execute the (a) Amendment No. 3 to Lease/Purchase Agreement, dated as of April 18, 2007 (the "Amendment No. 3 to Lease/Purchase Agreement"), between the City and the Authority; and (b) Amendment No. 2 to Site Lease (Parks Project, Police Headquarters Building and Miscellaneous Public Properties), dated as of April 18, 2007, by and between the Authority and the City (the "Amendment No. 3 to Site Lease"), which provides for the release from the Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to Lease/Purchase Agreement, dated October 15, 2002 (as so amended, the "1998 Lease"), each between the City and the Authority and the Site Lease (Parks Project, Police Headquarters Building and Miscellaneous Public Properties), dated as of March 1, 1998, by and between the Authority and the City (the "1998 Site Lease") of the following properties:

(i) Parcel No. 11, Morris Community Center, described as all of Block 603 of the City of Modesto as per map file December 21, 1942 in Volume 15 of Maps, Stanislaus County Records; and

(ii) Parcel No. 13, McHenry Museum, described as lots 27 through 32 in Block 113 of the City of Modesto as per map file December 21, 1942 in Volume 15 of Maps, Stanislaus County Records. Excepting therefrom Lot 27, the Southeasterly 3 feet of the Southwesterly 97 feet thereof (collectively, the "Released Properties").

3. Based on the findings of an independent MAI real estate appraiser the portion of the Leased Property remaining under the 1998 Lease after the release of the Released Properties has a fair market value such that the Lease Payments (as defined in the 1998 Lease) being made by the City thereunder will not be reduced.

4. Pursuant to Section 5.3(c) of the 1998 Lease, following the release of the Released Properties the remaining portion of the Leased Property has a useful life not less than the remaining term of the 1998 Lease.

5. I hereby request the Authority to execute the Amendment No. 3 to Lease/Purchase Agreement and Amendment No. 2 to Site Lease, and the Authority and the Trustee to release the Released Properties and to reconvey the Released Properties to the City.

All capitalized terms have the meanings assigned to such terms in the 1998 Lease.

Dated: April 18, 2007

CITY OF MODESTO

A handwritten signature in black ink, appearing to read "Wayne Padilla", written in a cursive style.

Wayne Padilla
Finance Director/Treasurer



SIDLEY AUSTIN LLP
555 CALIFORNIA STREET
SAN FRANCISCO, CA 94104
(415) 772 1200
(415) 772 7400 FAX

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SINGAPORE
SYDNEY
TOKYO
WASHINGTON, D.C.

FOUNDED 1866

April 18, 2007

City of Modesto
Modesto, California

Modesto Public Financing Authority
Modesto, California

The Bank of New York Trust Company, N.A., successor to
Harris Trust Company of California
San Francisco, California

Re: \$61,430,000
Modesto Public Financing Authority
Lease Revenue Bonds
Series 1998
(Capital Improvements and Refinancing Project)

Ladies and Gentlemen:

We acted as Bond Counsel to the Modesto Public Financing Authority (the "Authority") in connection with the issuance of its Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "Bonds") in the aggregate principal amount of \$61,430,000. The Bonds were issued pursuant to the Constitution and the laws of the State of California, including the Marks-Roos Local Bond Pooling Act of 1985, consisting of Article 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6584) of the Government Code, as amended (the "Act") of the State of California, a resolution adopted by the Board of Directors of the Authority on February 10, 1998, and a Trust Indenture (the "Trust Indenture"), dated as of March 1, 1998, by and between the Authority and The Bank of New York Trust Company, N.A., successor to Harris Trust Company of California, as trustee (the "Trustee").

In connection with the issuance of the Bonds, the City of Modesto (the "City") leased certain real property to the Authority pursuant to a Site Lease (Parks Project, Police Headquarters Building and Miscellaneous Public Properties), dated as of March 1, 1998, as amended by Amendment No. 1 to Site Lease, date as of October 15, 2002 (as so amended, the "1998 City Site Lease"), each by and between the City and the Authority. The Authority in turn leased the real property which was the subject of the 1998 City Site Lease to the City pursuant to the terms of the Lease/Purchase Agreement, dated as of March 1, 1998, as amended by Amendment No. 1 to Lease/Purchase Agreement, dated June 15, 2000 and Amendment No. 2 to

April 18, 2007

Page 2

Lease/Purchase Agreement, dated October 15, 2002 (as so amended, the “1998 Lease/Purchase Agreement”), each between the City and the Authority. The Bonds are secured as to payment from Lease Payments (as that term is defined in the Trust Indenture) to be made by the City to the Authority under the 1998 Lease/Purchase Agreement and certain other revenues and moneys pledged under the Trust Indenture.

The City and the Authority have executed and delivered an Amendment No. 2 to Site Lease, dated April 18, 2007, accepted and agreed to by the Trustee (the “Amendment No. 2 to Site Lease”), and the Authority and the City have executed and delivered an Amendment No. 3 to Lease/Purchase Agreement, dated April 18, 2007, accepted and agreed to by the Trustee (the “Amendment No. 3 to Lease/Purchase Agreement”), pursuant to which the Morris Community Center and the McHenry Museum (as described in the 1998 Lease Purchase/Agreement) are to be released from the 1998 City Site Lease and the 1998 Lease/Purchase Agreement.

We have, as such counsel, reviewed the Trust Indenture, the 1998 City Site Lease, the 1998 Lease/Purchase Agreement, Amendment No. 2 to Site Lease, Amendment No. 3 to Lease/Purchase Agreement and such other documents and matters as we deemed necessary to render this opinion. We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. We have assumed compliance with all covenants and agreements contained in the Trust Indenture, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. Furthermore, we express no opinion with respect to the state or quality of title to any of the real or personal property described in the 1998 City Site Lease, the 1998 Lease/Purchase Agreement, Amendment No. 2 to Site Lease, Amendment No. 3 to Lease/Purchase Agreement or the Trust Indenture, nor the accuracy or sufficiency of the description of any such property contained therein, nor do we express any opinion with respect to any deed of trust on such property.

Based upon the foregoing and such other information and documents as we have considered necessary in order to render this opinion, we are of the opinion that:

(1) the execution and delivery of Amendment No. 2 to Site Lease and Amendment No. 3 to Lease/Purchase Agreement (i) are authorized and in compliance with the Act and the Trust Indenture, and (ii) will not adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes and the exemption of interest on the Bonds from State of California personal income taxes; and

(2) Amendment No. 3 to Lease/Purchase Agreement and Amendment No. 2 to Site Lease are legal, valid and binding obligations of the City and the Authority, respectively, enforceable against the City and the Authority, respectively, in accordance with their terms

April 18, 2007

Page 3

except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting the enforcement of creditors' rights generally, to the application of equitable principles (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint exercise of powers authorities or cities in the State of California. In addition, we express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, consent to non jury trial or waiver provisions contained in the foregoing documents.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Sidley Austin LLP", is written below the typed text.

WRITTEN DIRECTION OF THE CITY OF MODESTO
RELATING TO THE REIMBURSEMENT AGREEMENT

To: Redevelopment Agency of the City of Modesto (the "Redevelopment Agency")

The Bank of New York Trust Company, NA., as successor trustee (the "1998 Trustee") under the Trust Indenture, dated as of March 1, 1998 (the "1998 Indenture"), by and between the Authority and the Trustee, providing for the issuance of the Authority's \$61,430,000 Lease Revenue Bonds, Series 1998 (Capital Improvements and Refinancing Project) (the "Series 1998 Bonds") and as trustee (the "2007 Trustee") under the Indenture, dated as of April 1, 2007 (the "2007 Indenture"), by and between the Modesto Public Financing Authority (the "Authority") and the Trustee, providing for the issuance of the Authority's \$62,275,000 Lease Revenue Refunding and Capital Improvement Bonds Series 2007 (the "Series 2007 Bonds")

1. The undersigned hereby certifies that he is the Finance Director/Treasurer of the City of Modesto (the "City"), a charter city and municipal corporation duly organized and existing under the laws of the State of California, and as such he is authorized to execute this certificate on behalf of the City.

2. Pursuant to the Reimbursement Agreement, dated as of March 1, 1998 (the "Reimbursement Agreement") between the Redevelopment Agency and the City the Redevelopment Agency is obligated to make certain reimbursement payments to the City as set forth in the attached Exhibit A.

3. As a result of the refunding of a portion of the Series 1998 Bonds and the issuance of the Series 2007 Bonds, the reimbursement obligation payable from the Redevelopment Agency to the City pursuant to that Reimbursement Agreement shall be reduced as shown on the amended payment schedule attached hereto as Exhibit B.

4. As a result of the refunding, only the amounts shown under the columns for "Series 1998 Bonds" shall be payable to the 1998 Trustee; the amounts shown under the columns "Series 2007 Bonds" shall be payable to the 2007 Trustee. Payments to the 2007 Trustee shall be directed as follows:

The Bank of New York
ABA #021000018
GLA 111-565
Account Name: Modesto PFA 2007 Revenue FD
Account Number: 198758
REF: Josephine Libunao 415 263-2418

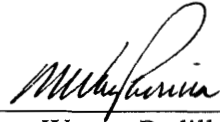
5. The Redevelopment Agency is hereby directed to make the payments as directed in this Written Direction of the City of Modesto.

6. The 1998 Trustee and the 2007 Trustee are hereby directed to apply the amounts as set forth in the attached Exhibit B to the Series 1998 Bonds and the Series 2007 Bonds as indicated.

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Dated: April 18, 2007

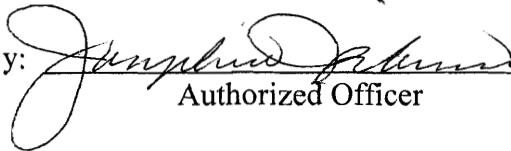
CITY OF MODESTO



Wayne Padilla
Finance Director/Treasurer

Acknowledged and Accepted by:

THE BANK OF NEW YORK TRUST
COMPANY, N.A., as successor trustee
under the 1998 Indenture and as trustee
under the 2007 Indenture

By: 
Authorized Officer

Acknowledged and Accepted by:

REDEVELOPMENT AGENCY OF THE
CITY OF MODESTO

By: 
Authorized Officer

EXHIBIT A

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
09/01/98	\$0.00	\$434,093.22	\$434,093.22
03/01/99	0.00	459,628.13	459,628.13
09/01/99	0.00	459,628.13	459,628.13
03/01/00	0.00	459,628.13	459,628.13
09/01/00	0.00	459,628.13	459,628.13
03/01/01	0.00	459,628.13	459,628.13
09/01/01	0.00	459,628.13	459,628.13
03/01/02	0.00	459,628.13	459,628.13
09/01/02	0.00	459,628.13	459,628.13
09/01/03	10,000.00	459,628.13	469,628.13
03/01/04	0.00	459,428.13	459,428.13
09/01/04	35,000.00	459,428.13	494,428.13
03/01/05	0.00	458,728.13	458,728.13
09/01/05	50,000.00	458,728.13	508,728.13
03/01/06	0.00	457,703.13	457,703.13
09/01/06	80,000.00	457,703.13	537,703.13
03/01/07	0.00	456,063.13	456,063.13
09/01/07	95,000.00	456,063.13	551,063.13
03/01/08	0.00	454,068.13	454,068.13
09/01/08	125,000.00	454,068.13	579,068.13
03/01/09	0.00	451,411.88	451,411.88
09/01/09	150,000.00	451,411.88	601,411.88
03/01/10	0.00	448,130.63	448,130.63
09/01/10	180,000.00	448,130.63	628,130.63
03/01/11	0.00	444,080.63	444,080.63
09/01/11	210,000.00	444,080.63	654,080.63
03/01/12	0.00	439,250.63	439,250.63
09/01/12	245,000.00	439,250.63	684,250.63
03/01/13	0.00	433,493.13	433,493.13
09/01/13	285,000.00	433,493.13	718,493.13
03/01/14	0.00	426,653.13	426,653.13
09/01/14	315,000.00	426,653.13	741,653.13
03/01/15	0.00	418,778.13	418,778.13
09/01/15	355,000.00	418,778.13	773,778.13
03/01/16	0.00	409,903.13	409,903.13
09/01/16	395,000.00	409,903.13	804,903.13
03/01/17	0.00	400,028.13	400,028.13
09/01/17	440,000.00	400,028.13	840,028.13
03/01/18	0.00	388,753.14	388,753.14
09/01/18	490,000.00	388,753.14	878,753.14
03/01/19	0.00	376,196.88	376,196.88
09/01/19	540,000.00	376,196.88	916,196.88
03/01/20	0.00	362,359.39	362,359.39
09/01/20	600,000.00	362,359.39	962,359.39
03/01/21	0.00	346,984.39	346,984.39
09/01/21	655,000.00	346,984.39	1,001,984.39
03/01/22	0.00	331,428.14	331,428.14
09/01/22	715,000.00	331,428.14	1,046,428.14
03/01/23	0.00	314,446.89	314,446.89
09/01/23	775,000.00	314,446.89	1,089,446.89
03/01/24	0.00	296,040.64	296,040.64
09/01/24	845,000.00	296,040.64	1,141,040.64

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
03/01/25	0.00	275,971.89	275,971.89
09/01/25	910,000.00	275,971.89	1,185,971.89
03/01/26	0.00	253,221.89	253,221.89
09/01/26	994,000.00	253,221.89	1,248,221.89
03/01/27	0.00	228,346.89	228,346.89
09/01/27	1,070,000.00	228,346.89	1,298,346.89
03/01/28	0.00	201,596.89	201,596.89
09/01/28	1,155,000.00	201,596.89	1,356,596.89
03/01/29	0.00	172,721.89	172,721.89
09/01/29	1,215,000.00	172,721.89	1,387,721.89
03/01/30	0.00	142,346.89	142,346.89
09/01/30	1,285,000.00	142,346.89	1,427,346.89
03/01/31	0.00	109,418.76	109,418.76
09/01/31	1,350,000.00	109,418.76	1,459,418.76
03/01/32	0.00	74,825.01	74,825.01
09/01/32	1,425,000.00	74,825.01	1,499,825.01
03/01/33	0.00	38,309.38	38,309.38
09/01/33	1,495,000.00	38,309.38	1,533,309.38
	<hr/>	<hr/>	<hr/>
	\$18,490,000.00	\$25,171,752.58	\$43,661,752.58

EXHIBIT B

<u>Date</u>	<u>Series 1998 Bonds</u>	<u>Series 2007 Bonds</u>	<u>Total Payments</u>
9/1/2007	\$147,486.66	\$641,973.82	\$789,460.48
3/1/2008	28,344.30	383,981.42	412,325.73
9/1/2008	163,019.11	750,267.35	913,286.47
3/1/2009	25,418.02	371,848.32	397,266.34
9/1/2009	34,604.90	663,895.50	698,500.40
3/1/2010	25,217.03	366,480.31	391,697.34
9/1/2010	35,986.59	699,038.48	735,025.06
3/1/2011	24,974.72	360,361.76	385,336.48
9/1/2011	37,238.83	725,635.52	762,874.35
3/1/2012	24,692.63	353,624.35	378,316.98
9/1/2012	38,560.50	759,838.78	798,399.28
3/1/2013	24,366.73	346,126.29	370,493.02
9/1/2013	41,579.70	798,662.12	840,241.82
3/1/2014	23,953.82	337,762.92	361,716.74
9/1/2014	42,393.58	817,846.81	860,240.39
3/1/2015	23,492.81	328,849.93	352,342.74
9/1/2015	43,471.22	856,212.73	899,683.95
3/1/2016	22,993.35	319,064.01	342,057.36
9/1/2016	45,960.69	893,536.64	939,497.33
3/1/2017	22,419.11	308,396.31	330,815.42
9/1/2017	46,948.47	840,792.35	887,740.82
3/1/2018	21,790.55	298,460.72	320,251.27
9/1/2018	49,439.65	880,449.94	929,889.59
3/1/2019	21,082.04	287,596.69	308,678.73
9/1/2019	51,677.84	910,032.56	961,710.40
3/1/2020	20,297.99	275,964.24	296,262.23
9/1/2020	54,230.97	951,809.08	1,006,040.05
3/1/2021	19,428.46	263,328.61	282,757.07
9/1/2021	56,330.00	1,002,861.01	1,059,191.01
3/1/2022	18,552.04	249,584.68	268,136.72
9/1/2022	58,616.69	1,047,097.39	1,105,714.08
3/1/2023	17,600.51	234,766.76	252,367.27
9/1/2023	60,655.91	1,088,710.47	1,149,366.38
3/1/2024	16,577.95	218,893.09	235,471.04
9/1/2024	64,378.91	1,133,108.40	1,197,487.32
3/1/2025	15,442.69	201,896.06	217,338.75
9/1/2025	66,083.26	1,185,109.01	1,251,192.27
3/1/2026	14,176.70	183,535.18	197,711.88
9/1/2026	69,797.86	1,240,410.48	1,310,208.34
3/1/2027	12,786.16	163,789.76	176,575.92
9/1/2027	72,743.07	1,288,890.92	1,361,633.99
3/1/2028	11,287.24	142,767.49	154,054.72
9/1/2028	75,795.14	1,288,201.10	1,363,996.24
3/1/2029	9,674.55	121,334.24	131,008.79
9/1/2029	77,345.33	1,309,433.41	1,386,778.75
3/1/2030	7,982.81	99,101.31	107,084.12
9/1/2030	80,485.80	1,341,171.20	1,421,657.00
3/1/2031	6,124.92	75,796.75	81,921.67
9/1/2031	81,638.62	1,367,106.48	1,448,745.10
3/1/2032	4,189.88	51,560.63	55,750.52
9/1/2032	84,558.59	1,397,136.82	1,481,695.41
3/1/2033	2,130.49	26,298.19	28,428.68

9/1/2033	85,271.58	1,426,329.70	1,511,601.28
Total	<u>\$2,231,296.97</u>	<u>\$33,676,728.09</u>	<u>\$35,908,025.09</u>

CITY OF MODESTO, CALIFORNIA
Public Financing Agency
Lease Revenue and Lease Revenue Refunding Bonds
Series 2007



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