

TRANSCRIPT

\$68,840,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020A (Federally Taxable)

and

\$25,470,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020B

Closing Date: November 10, 2020

PROCEEDINGS RELATED TO CLOSING

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Time

Virtual Preclosing: Monday, November 9, 2020, 1:00 p.m. (California Time)

Closing: Tuesday, November 10, 2020, 9:00 a.m. (California Time)

## Parties

### Interested Parties

City of Modesto, California  
("City")

PFM Financial Advisors LLC  
("Municipal Advisor")

BofA Securities, Inc., on behalf of itself and as representative  
("Representative") of Citigroup Global Markets, Inc. and J.P. Morgan Securities LLC  
(collectively, the "Underwriters")

The Bank of New York Mellon Trust Company, N.A.  
("Trustee")

### Counsel

\*Norton Rose Fulbright US LLP  
("BC")

Nixon Peabody LLP  
("UC")

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\* *Transcripts will be prepared in electronic form for all parties. In addition, those parties indicated above with an asterisk (\*) will receive the transcript in paper (binder) format.*

## Closing

The parties indicated above delivered each of the respective documents so indicated below in five (5) copies (unless otherwise indicated). The documents were executed in advance of the Closing by the respective parties thereto and delivered no later than the Virtual Preclosing. All of such deliveries were deemed to have been placed in escrow until final delivery at the Closing had been made. Responsibility for preparing or assembling the documents is indicated in parentheses.

	<u>Index Number</u>
I. <u>AUTHORIZING DOCUMENTS; BASIC DOCUMENTS RELATING TO THE FINANCING</u>	
Certificate of the City Clerk of the City Council (the “City Council”) of the City, with the following attachment:	1
RESOLUTION NO. 2020-360, A RESOLUTION AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$110,000,000 PRINCIPAL AMOUNT OF WASTEWATER REVENUE REFUNDING BONDS, SERIES 2020, AUTHORIZING AND DIRECTING EXECUTION OF A FIFTH SUPPLEMENTAL WASTEWATER REVENUE BOND INDENTURE PURSUANT TO WHICH SUCH BONDS ARE ISSUED, APPROVING A BOND PURCHASE AGREEMENT, AN OFFICIAL STATEMENT AND A CONTINUING DISCLOSURE AGREEMENT, AND AUTHORIZING OTHER OFFICIAL ACTION, adopted on September 1, 2020 (City/BC)	
Copy, certified by the Trustee to be true and correct, of the Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the “Indenture”), as supplemented by a First Supplemental Indenture, dated as of April 1, 2005, a Second Supplemental Indenture, dated as of April 1, 2005, a Third Supplemental Indenture, dated as of December 1, 2006 and a Fourth Supplemental Indenture, dated as of April 1, 2018 each between the City and the Trustee. (BC)	2
Fifth Supplemental Indenture, dated as of November 1, 2020, between the City and the Trustee. (BC)	3
II. <u>DOCUMENTS RELATING TO SALE OF THE BONDS</u>	
Preliminary Official Statement, dated October 15, 2020. (BC)	4
Rule 15c2-12 Certificate, dated October 15, 2020. (BC)	5
Bond Purchase Agreement, dated October 27, 2020, by and between the City and the Underwriters. (UC)	6
Official Statement, dated October 27, 2020. (BC)	7
Preliminary and Final Blue Sky Survey. (UC)	8
Evidence of Rating from Standard & Poor’s. (BC)	9

	<u>Index Number</u>
Disclosure Dissemination Agent Agreement. (BC)	10
Receipt for Purchase Price. (BC)	11
Copy of City’s Depository Trust Corporation Blanket Letter of Representations. (BC)	12
Specimen Bonds. (BC)	13
<b>III. <u>DOCUMENTS RELATING TO PREPAYMENT OF 2011 STATE LOAN</u></b>	
Direction to Trustee Regarding Prepayment of 2011 State Loan, dated November 10, 2020, executed by the City. (BC)	14
Written Request of the City to Trustee, dated November 10, 2020. (BC)	15
<b>IV. <u>CLOSING DOCUMENTS</u></b>	
<b>A. <u>Of the City</u></b>	
Tax Certificate And Agreement, dated the Closing Date, executed by the City, together with the following Exhibits thereto:	16
a. Certificate of Underwriters;	
b. IRS Form 8038-G. (BC)	
City Incumbency and Signature Certificate, dated the Closing Date. (BC)	17
Closing Certificate of the City, dated the Closing Date. (BC)	18
(a) IRS Form 8038-G, and (b) Proof of Service by mail. (BC)	19
<b>B. <u>Of the Underwriter</u></b>	
Receipt of Bonds by Underwriters, dated the Closing Date. (UW)	20
<b>C. <u>Of the Trustee</u></b>	
Certificate of the Trustee, including Secretary’s Certificate. (BC and Trustee)	21
<b>D. <u>Of the Municipal Advisor</u></b>	
Certificate of the Municipal Advisor, dated the Closing Date. (BC)	22

	<u>Index Number</u>
V. <u>LEGAL OPINIONS AND LETTERS</u>	
Approving Opinion of Bond Counsel. (BC)	23
Supplemental Opinion of Bond Counsel, as required by the Bond Purchase Agreement. (BC)	24
Opinion of Bond Counsel regarding prepayment of the 2011 State Loan, as required by the Bond Purchase Agreement. (BC)	25
Letter of Disclosure Counsel, as required by the Bond Purchase Agreement. (BC)	26
Opinion of City Attorney, as required by the Bond Purchase Agreement. (City)	27
Opinion of Trustee’s Counsel, as required by the Bond Purchase Agreement. (Trustee’s Counsel)	28
Opinion of Underwriter’s Counsel, as required by Bond Purchase Agreement. (UC)	29
VI. <u>MISCELLANEOUS</u>	
Preliminary and Final CDIAC filings. (BC)	30
Letter from the State Water Board Regarding Use of Prepayment Proceeds (BC)	31
Requisition No. 1. (BC)	32
Closing Memorandum of the Municipal Advisor. (Municipal Advisor)	33
Distribution List. (Municipal Advisor)	34

\$68,840,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020A (Federally Taxable)

\$25,470,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020B

November 10, 2020

CERTIFICATE OF THE CITY CLERK

I, Stephanie Lopez, certify that I am the City Clerk of the City of Modesto, California (the “City”), a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California, and that I am authorized to execute this Certificate on behalf of the City.

I further certify that the attached Resolution No. 2020-360 (the “Resolution 2020-360”) is a copy of the resolution adopted at the regular meeting of the City Council called and held on September 1, 2020, of which meeting all the members of the City Council had due notice and at which quorum was present and acting throughout.

I further certify that I have carefully compared the same with the original Resolution 2020-360 so adopted at the meeting and entered in the minutes of the City Council on file and of record in my office, and that it is a full, true and correct copy of the Resolution; and that the Resolution has not been amended, modified or rescinded since the date of adoption and are now in full force and effect.

This certificate may be delivered by the delivery of signed signature pages by electronic means, facsimile transmission, or by e-mail with a PDF copy attached, and any printed or copied versions of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, the undersigned have executed this Certificate of the City Clerk  
as of the date first written above.

CITY OF MODESTO, CALIFORNIA

By: Stephanie Lopez  
Stephanie Lopez  
City Clerk

**MODESTO CITY COUNCIL  
RESOLUTION NO. 2020-360**

**RESOLUTION AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$110,000,000 PRINCIPAL AMOUNT OF WASTEWATER REVENUE REFUNDING BONDS, SERIES 2020, AUTHORIZING AND DIRECTING EXECUTION OF A FIFTH SUPPLEMENTAL WASTEWATER REVENUE BOND INDENTURE PURSUANT TO WHICH SUCH BONDS ARE ISSUED, APPROVING A BOND PURCHASING AGREEMENT, AN OFFICIAL STATEMENT AND A CONTINUING DISCLOSURE AGREEMENT, AND AUTHORIZING OTHER OFFICIAL ACTION**

WHEREAS, the City of Modesto is a charter city and a municipal corporation organized and existing under the laws of the State of California (the “City”); and

WHEREAS, pursuant to Section 200 of the Charter of the City of Modesto and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the “Bond Law”), the City is authorized to issue revenue bonds to finance the acquisition, construction, improvement, furnishing, equipping, remodeling, repair, reconstruction or rehabilitation of the wastewater treatment facilities of the City (the “Enterprise”) or for the purpose of refunding bonds issued for such purposes; and

WHEREAS, the City has entered into a Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the “Master Indenture”), between the City and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the “Trustee”) to U.S. Bank National Association, providing for the issuance of wastewater revenue bonds thereunder and for the pledge of and first claim on the Net Revenues of the Wastewater System (as defined in the Master Indenture), which are held by the City in the Sewer Enterprise Fund established under the Master Indenture, to the payment of bonds and parity obligations issued thereunder; and

WHEREAS, in accordance with the Bond Law and the Master Indenture, as supplemented by a First Supplemental Indenture, dated as of April 1, 2005 (the “First Supplemental Indenture”), a Second Supplemental Indenture, dated as of April 1, 2005 (the “Second Supplemental Indenture”), a Third Supplemental Indenture, dated as of December 1, 2006 (the “Third Supplemental Indenture”) and a Fourth Supplemental Indenture, dated as of April 1, 2018 (the “Fourth Supplemental Indenture,” and together with the Master Indenture, the First Supplemental Indenture, the Second Supplemental Indenture and the Third Supplemental Indenture, the “Indenture”), each by and between the City and the Trustee, the City has previously issued its City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2005A (the “Series 2005A Bonds”), its City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2005B (Taxable) (“Series 2005B Bonds”) its City of Modesto, California Wastewater Revenue Bonds, Series 2006A (the “Series 2006 Bonds”) and its City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (Series 2018A Bonds”); and

WHEREAS, the Series 2005A Bonds, the Series 2005B Bonds and the Series 2006A Bonds matured, were paid timely or were redeemed prior to maturity and are no longer outstanding; and

WHEREAS, the Indenture provides that the City may issue any indebtedness, installment sale obligation, lease obligation or other obligation of the City for borrowed money having an equal lien and charge upon the Net Revenues, therefore payable on a parity with the Prior Bonds (whether or not any Bonds are Outstanding under the Indenture) (“Parity Debt”), from time to time in accordance with the terms of the Indenture; and

WHEREAS, the City previously incurred an obligation (the “2011 State Loan”), pursuant to a Project Finance Agreement, dated as of August 26, 2011, as amended, by and between the State Water Resources Control Board, an administrative and regulatory agency of the State of California (the “SWRCB”), and the City, which 2011 State Loan constitutes Parity Debt pursuant to Section 3.05(c) of the Indenture; and

WHEREAS, the City previously issued a bond (the “Series 2015 Bond”), pursuant to a Bond Purchase Agreement, dated as of October 30, 2015, among the City, Capital One Public Funding, LLC, and The Bank of New York Mellon Trust Company, N.A., as paying agent, which Series 2015 Bond constitutes Parity Debt pursuant to Section 3.05(c) of the Indenture, and which refunded all of the Series 2005A Bonds and the November 1, 2023 and 2024 maturities of the Series 2006 Bonds; and

WHEREAS, the City previously incurred an obligation (the “2016 State Loan”), pursuant to a Project Finance Agreement, dated as of June 8, 2016, by and between the SWRCB and the City, which 2016 State Loan constitutes Parity Debt pursuant to Section 3.05(c) of the Indenture; and

WHEREAS, the Indenture provides that the City may issue bonds from time to time as authorized by a supplemental indenture; and

WHEREAS, the City has determined that it is desirable and necessary and in the best interest of the City to authorize an additional series of wastewater revenue bonds in order to provide moneys to refund the 2011 State Loan, in a principal amount not to exceed \$110,000,000, to be designated “City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020 (Federally Taxable)” (the “Series 2020 Bonds”),

to be issued pursuant to the Indenture, as supplemented and amended by the Fifth Supplement (defined below); and

WHEREAS the Series 2020 Bonds are proposed to be sold to BofA Securities, Inc., Citigroup Global Markets Inc., and J.P. Morgan Securities LLC (collectively, the “Underwriters”) pursuant to the Bond Purchase Agreement described below; and

WHEREAS, it is proposed that the City execute and deliver the Continuing Disclosure Agreement described below to allow the Underwriters to comply with Rule 15c2-12(b)(5) of the Securities Exchange Act of 1934; and

WHEREAS, it is proposed that the City deem final for purposes of Rule 15c(2)-12 of the Securities Exchange Act of 1934, as amended, a Preliminary Official Statement (the “Preliminary Official Statement”) and to execute and deliver a final Official Statement (the “Official Statement”) and to authorize the distribution of the Preliminary Official Statement to prospective purchasers of the Series 2020 Bonds and the Official Statement to the actual purchasers of the Series 2020 Bonds; and

WHEREAS, The Bank of New York Mellon Trust Company, N.A. serves as Trustee and

WHEREAS, the forms of the Preliminary Official Statement, the Bond Purchase Agreement, the Continuing Disclosure Agreement and the Fifth Supplement are on file with the City Clerk; and

WHEREAS, all acts, conditions and things required by the Bond Law and the laws of the State of California to exist, to have happened and to have been performed

precedent to and in connection with the sale and issuance of the Series 2020 Bonds authorized hereby do exist, have happened and have been performed in regular and due time, form and manner required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to issue and sell the Series 2020 Bonds for the purpose, in the manner and upon the terms herein provided.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MODESTO DOES HEREBY RESOLVE, DETERMINE AND ORDER AS FOLLOWS:

1. Recitals. The above recitals are true and correct.
2. Approval of Series 2020 Bonds. The City Council hereby authorizes the issuance of its Wastewater Revenue Bonds, Series 2020 (Federally Taxable) in an aggregate principal amount not to exceed \$110,000,000.
3. Fifth Supplement; Form of Series 2020 Bonds. The City Council hereby approves the form of the Fifth Supplemental Wastewater Revenue Bond Indenture (the “Fifth Supplement”) by and between the Trustee, in substantially the form on file with the City Clerk together with any additions thereto or changes therein deemed necessary or advisable by Norton Rose Fulbright US LLP, Bond Counsel, or by the authorized officer executing the same, whose execution thereof shall be conclusive evidence of such officer’s approval of any such additions and changes. Each of the Mayor, the City Manager or the Finance Director, or any duly authorized designee of any of such officers (each, an Authorized Officer”), acting singly, is authorized and directed to execute, and the City Clerk is authorized and directed to attest to said signature on, the final form of the Fifth Supplement for and in the name and on behalf of the City. The City hereby

authorizes the delivery and performance of the Fifth Supplement. The proposed form of the Series 2020 Bonds as set forth in the Fifth Supplement is hereby approved and any Authorized Officer, acting singly, is hereby authorized and directed to execute for and on behalf of the City the Series 2020 Bonds in substantially such forms and the City Clerk is authorized and directed to attest to said signature on the Series 2020 Bonds, and the Trustee is hereby authorized and directed to authenticate and deliver the Series 2020 Bonds to the Underwriters in accordance with the Fifth Supplement and the Bond Purchase Agreement approved herein, subject to the limitations set forth in Section 4 hereof.

4. Bond Purchase Agreement. The City Council hereby approves the form of the Bond Purchase Agreement (the “Bond Purchase Agreement”) by and between the City and BofA Securities as representative of the Underwriters in substantially the form on file with the City Clerk together with any additions thereto or changes, therein deemed necessary or advisable by Bond Counsel, or by the Authorized Officer executing the same, whose execution thereof shall be conclusive evidence of such Authorized Officer’s approval of any such additions and changes; provided, however, that the Underwriter’s discount shall not exceed 0.5% of the principal amount of the Series 2020 Bonds, the net present value savings resulting from the issuance of the Series 2020 Bonds shall be no less than 3% of the principal amount of the 2011 State Loan being refunded, and the final maturity of the Series 2020 Bonds shall be not later than November 1, 2036. Each Authorized Officer, acting singly, is authorized and directed to execute the final form of the Bond Purchase Agreement for and in the name and on behalf of the City. The City hereby authorizes the delivery and performance of the Bond Purchase Agreement.

5. Official Statement. The City Council hereby approves the form of preliminary official statement of the City relating to the Series 2020 Bonds (the “Preliminary Official Statement”) in substantially the form on file with the City Clerk. Each Authorized Officer, acting singly, is authorized to certify that the Preliminary Official Statement, with such changes therein as the Authorized Officer so certifying shall approve after consultation with Bond Counsel, is as of its date “deemed final” for purposes of Rule 15c2-12 of the Securities and Exchange Commission. Each Authorized Officer, acting singly, is authorized and directed to execute for and on behalf of the City 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 2020 Bonds) as such Authorized Officer, acting singly, shall approve after consultation with Bond Counsel, such approval to be evidenced by the execution and delivery thereof. The Underwriters are authorized to distribute copies of the Preliminary Official Statement to persons who may be interested in the purchase of the Series 2020 Bonds, and the Underwriter is directed to deliver copies of any final official statement to all actual purchasers of the Series 2020 Bonds.

6. Continuing Disclosure Agreement. The City Council hereby approves the form of the Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”) by and between the City and Digital Assurance Certification, L.L.C. in substantially the form on file with the City Clerk together with any additions thereto or changes therein deemed necessary or advisable by Bond Counsel, or by the Authorized Officer executing the same, whose execution thereof shall be conclusive evidence of such Authorized Officer’s approval of any such additions and changes. Each Authorized Officer, acting

singly, is authorized and directed to execute the final form of the Continuing Disclosure Agreement for and in the name and on behalf of the City. The City hereby authorizes the delivery and performance of the Continuing Disclosure Agreement.

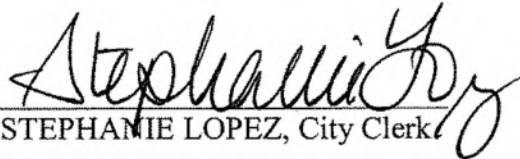
7. Other Actions. All actions heretofore taken by the officers and agents of the City with respect to the issuance of the Series 2020 Bonds are hereby approved, confirmed and ratified. Each Authorized Officer and any and all other officers of the City are hereby authorized and directed, for and in the name and on behalf of the City, to do any and all things and take any and all actions, necessary to effectuate the purposes of this Resolution, including the negotiating and obtaining of a municipal bond insurance policy, debt service reserve surety bond or investment agreement for any funds and accounts held under the Indenture if an Authorized Officer, upon the advice of PFM Financial Advisors LLC, Municipal Advisor, determines that such policy, bond or agreement will result in debt service savings or will otherwise be financially advantageous to the City, and the execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance, sale and delivery of the Series 2020 Bonds.

The foregoing resolution was introduced at a regular meeting of the Council of the City of Modesto held on the 1<sup>st</sup> day of September, 2020, by Councilmember Ah You, who moved its adoption, which motion being duly seconded by Councilmember Kenoyer, was upon roll call carried and the resolution adopted by the following vote:

AYES: Councilmembers: Ah You, Grewal, Kenoyer, Madrigal, Ridenour,  
Zoslocki, Mayor Brandvold

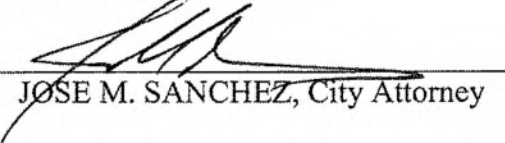
NOES: Councilmembers: None

ABSENT: Councilmembers: None

ATTEST:   
STEPHANIE LOPEZ, City Clerk

(SEAL)

APPROVED AS TO FORM:

BY:   
JOSE M. SANCHEZ, City Attorney

\$68,840,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020A (Federally Taxable)

\$25,470,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020B

November 10, 2020

CERTIFIED COPY OF INDENTURE AND FIRST, SECOND, THIRD AND FOURTH  
SUPPLEMENTAL INDENTURES

The undersigned, authorized officer of The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), in connection with the \$68,840,000 aggregate principal amount of City of Modesto, California Wastewater Revenue Bonds Series 2020A (Federally Taxable) (the "Series 2020A Bonds") and \$25,470,000 aggregate principal amount of Wastewater Revenue Refunding Bonds, Series 2020B (the "Series 2020B Bonds" and, collectively with the Series 2020A Bonds, the "Series 2020 Bonds"), DOES HEREBY CERTIFY that attached hereto are true and correct copies of (i) the Wastewater Revenue Bond Indenture, dated as of April 1, 2005, (ii) the First Supplemental Indenture, dated as of April 1, 2005, (iii) the Second Supplemental Indenture, dated as of April 1, 2005, (iv) the Third Supplemental Indenture, dated as of December 1, 2006, and (v) the Fourth Supplemental Indenture, dated as of April 1, 2018, each between the City of Modesto, California and the Trustee.

This certificate may be delivered by the delivery of signed signature pages by electronic means, facsimile transmission, or by e-mail with a PDF copy attached, and any printed or copied versions of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page.

IN WITNESS WHEREOF, the undersigned have executed this Certificate as of the date first written above.

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A.

By:   
Authorized Officer

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WASTEWATER REVENUE BOND INDENTURE

by and between the

CITY OF MODESTO, CALIFORNIA

and

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

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Dated as of April 1, 2005

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**TABLE OF CONTENTS**

Page

ARTICLE I

EQUALITY OF SECURITY; DEFINITIONS; CONTENT OF CERTIFICATES AND  
OPINIONS

SECTION 1.01. Equality of Security .....	2
SECTION 1.02. Definitions.....	2
SECTION 1.03. Content of Certificates and Opinions.....	18

ARTICLE II

THE BONDS

SECTION 2.01. Authorization of Bonds.....	19
SECTION 2.02. Terms of the Bonds .....	19
SECTION 2.03. Form of Bonds .....	20
SECTION 2.04. Execution of Bonds.....	20
SECTION 2.05. Transfer of Bonds.....	20
SECTION 2.06. Exchange of Bonds .....	21
SECTION 2.07. Bond Register.....	21
SECTION 2.08. Temporary Bonds.....	21
SECTION 2.09. Bonds Mutilated, Lost, Destroyed or Stolen.....	21

ARTICLE III

ISSUANCE OF BONDS AND PARITY DEBT

SECTION 3.01. Issuance of Bonds .....	22
SECTION 3.02. Proceedings for Issuance of Additional Series of Bonds.....	23
SECTION 3.03. Issuance of Refunding Bonds .....	24
SECTION 3.04. Application of Proceeds.....	24
SECTION 3.05. Limitations on the Issuance of Obligations.....	24

ARTICLE IV

REDEMPTION OF BONDS

SECTION 4.01. Terms of Redemption.....	25
--	----

ARTICLE V

NET REVENUES

SECTION 5.01. Pledge of Net Revenues; Sewer Enterprise Fund. ....	26
---	----

	<u>Page</u>
SECTION 5.02. Application of Interest Fund .....	28
SECTION 5.03. Application of Principal Fund.....	28
SECTION 5.04. Application of Redemption Fund.....	29
SECTION 5.05. Parity Reserve Fund.....	30
SECTION 5.06. Investment of Moneys in Funds and Accounts.....	32

## ARTICLE VI

### COVENANTS

SECTION 6.01. Punctual Payment.....	33
SECTION 6.02. Operation of Enterprise in Efficient and Economical Manner .....	33
SECTION 6.03. Waiver of Laws.....	34
SECTION 6.04. Further Assurances.....	34
SECTION 6.05. Discharge of Claims.....	34
SECTION 6.06. Against Sale, Eminent Domain.....	34
SECTION 6.07. Insurance.....	35
SECTION 6.08. Records and Accounts.....	35
SECTION 6.09. Rates and Charges.....	35
SECTION 6.10. No Priority for Additional Obligations.....	36
SECTION 6.11. Rebate Fund.....	36
SECTION 6.12. Tax Covenants.....	38
SECTION 6.13. Continuing Disclosure Agreement.....	39

## ARTICLE VII

### EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

SECTION 7.01. Events of Default .....	39
SECTION 7.02. Application of Net Revenues and Other Funds After Default; Acceleration.....	40
SECTION 7.03. Trustee to Represent Bondholders.....	41
SECTION 7.04. Bondholders' Direction of Proceedings.....	42
SECTION 7.05. Limitation on Bondholders' Right to Sue.....	42
SECTION 7.06. Absolute Obligation of the City.....	42
SECTION 7.07. Termination of Proceedings.....	42
SECTION 7.08. Remedies Not Exclusive.....	43
SECTION 7.09. No Waiver of Default.....	43

## ARTICLE VIII

### THE TRUSTEE

SECTION 8.01. Appointment; Duties, Immunities and Liabilities of Trustee.....	43
SECTION 8.02. Merger or Consolidation.....	45

	<u>Page</u>
SECTION 8.03. Liability of Trustee.....	45
SECTION 8.04. Right of Trustee to Rely on Documents.....	47
SECTION 8.05. Compensation and Indemnification of Trustee.....	47

## ARTICLE IX

### MODIFICATION OR AMENDMENT OF THIS INDENTURE

SECTION 9.01. Amendments Permitted.....	48
SECTION 9.02. Effect of Supplemental Indenture .....	50
SECTION 9.03. Endorsement of Bonds; Preparation of New Bonds .....	50
SECTION 9.04. Amendment of Particular Bonds.....	50

## ARTICLE X

### DEFEASANCE

SECTION 10.01. Discharge of Indenture.....	50
SECTION 10.02. Discharge of Liability on Bonds .....	51
SECTION 10.03. Deposit of Money or Securities with Trustee .....	51
SECTION 10.04. Payment of Bonds After Discharge of Indenture.....	52

## ARTICLE XI

### MISCELLANEOUS

SECTION 11.01. Liability of City Limited to Net Revenues.....	52
SECTION 11.02. Successor is Deemed Included in All References to Predecessor .....	53
SECTION 11.03. Limitation of Rights to City, Trustee and Bondholders.....	53
SECTION 11.04. Waiver of Notice .....	53
SECTION 11.05. Destruction or Delivery of Cancelled Bonds .....	53
SECTION 11.06. Severability of Invalid Provisions.....	53
SECTION 11.07. Notice to City and Trustee .....	53
SECTION 11.08. Evidence of Rights of Bondholders .....	54
SECTION 11.09. Disqualified Bonds.....	54
SECTION 11.10. Money Held for Particular Bonds .....	54
SECTION 11.11. Funds and Accounts .....	55
SECTION 11.12. Article and Section Headings and References .....	55
SECTION 11.13. Waiver of Personal Liability .....	55
SECTION 11.14. Governing Law .....	55
SECTION 11.15. Business Day.....	55
SECTION 11.16. Effective Date of Indenture.....	55
SECTION 11.17. Execution in Counterparts.....	55

## WASTEWATER REVENUE BOND INDENTURE

This WASTEWATER REVENUE BOND INDENTURE, dated as of April 1, 2005 (the "Indenture"), by and between the CITY OF MODESTO, CALIFORNIA (the "City"), a municipal corporation and chartered city duly organized and existing under the Constitution and laws of the State of California, and U.S. BANK NATIONAL ASSOCIATION, as trustee (the "Trustee");

### WITNESSETH:

WHEREAS, the City of Modesto is a charter city and a municipal corporation organized and existing under the laws of the State of California (the "City"); and

WHEREAS, pursuant to Section 200 of the Charter of the City of Modesto and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the "Bond Law"), the City is authorized to issue revenue bonds to finance the acquisition, construction, improvement, furnishing, equipping, remodeling, repair, reconstruction or rehabilitation of the wastewater treatment facilities of the City (the "Enterprise") or for the purpose of refunding bonds issued for such purposes; and

WHEREAS, in accordance with the Bond Law, and pursuant to Resolution No. 87-1242 adopted November 24, 1987 and an Indenture of Trust, dated as of December 1, 1987 (the "Prior Indenture"), the City has previously issued its Wastewater Treatment Facility Refunding Revenue Bonds, Series 1987 (the "Series 1987 Bonds") in an aggregate principal amount of \$11,785,000 to provide funds to advance refund certain outstanding wastewater revenue bonds; and

WHEREAS, in accordance with the Bond Law, and pursuant to Resolution No. 93-467 adopted August 10, 1993 and the Prior Indenture, as amended and supplemented by a First Supplemental Indenture, dated as of September 1, 1993 (the "First Supplemental Indenture"), the City has previously issued its Wastewater Revenue Bonds, Series 1993 (the "Series 1993 Bonds") in an aggregate principal amount of \$8,555,000 to provide funds for the acquisition and construction of improvements to the Enterprise; and

WHEREAS, in accordance with the Bond Law, and pursuant to Resolution No. 96-206 adopted April 23, 1996 and the Prior Indenture, as previously amended and supplemented and as amended and supplemented by a Second Supplemental Indenture, dated as of August 1, 1996 (the "Second Supplemental Indenture"), the City has previously issued its Wastewater Treatment Facility Refunding Revenue Bonds, Series 1996 (the "Series 1996 Bonds") in an aggregate principal amount of \$8,695,000 to provide funds to current refund the Series 1987 Bonds; and

WHEREAS, in accordance with the Bond Law, and pursuant to Resolution No. 97-182 adopted April 8, 1997 and the Prior Indenture, as previously amended and supplemented and as amended and supplemented by a Third Supplemental Indenture, dated as of April 1, 1997 (the "Third Supplemental Indenture"), the City has previously issued its Wastewater Treatment Facility Revenue Bonds, Series 1997 (the "Series 1997 Bonds") in an aggregate principal amount of \$32,400,000 to finance the acquisition and construction of improvements to the Enterprise;

WHEREAS, the City has determined that it is desirable and necessary and in the best interest of the City to refund all of the outstanding Series 1993 Bonds, Series 1996 Bonds and Series 1997 Bonds and to enter into this Indenture in order to provide for the authentication and delivery of wastewater revenue bonds (the "Bonds") hereafter, to establish and declare the terms and conditions upon which the Bonds shall be issued and secured and to secure the payment of the principal thereof and premium (if any) and interest thereon;

WHEREAS, the execution and delivery of this Indenture has in all respects been duly and validly authorized by resolutions duly passed and approved by the City; 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 the entering into of this Indenture do exist, have happened and have been performed in due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Indenture;

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in order to secure the payment of the principal of, premium, if any, and the interest on all Bonds at any time issued, authenticated and delivered hereunder and to provide the terms and conditions under which all property, rights and interests hereby assigned and pledged are to be dealt with and disposed of, and to secure the performance and observance of the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes hereinafter expressed, and in consideration of the premises and of the material covenants herein contained and of the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable consideration, the receipt of which is hereby acknowledged, the City does hereby agree and covenant with the Trustee for the benefit of the respective Owners, from time to time, of the Bonds, as follows:

## ARTICLE I

### EQUALITY OF SECURITY; DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

SECTION 1.01. Equality of Security. In consideration of the acceptance of the Bonds by the Owners thereof from time to time, this Indenture shall be deemed to be and shall constitute a contract between the City, the Trustee and the Owners from time to time of the Bonds and the covenants and agreements herein set forth to be performed by or on behalf of the City or the Trustee shall be for the equal and proportionate benefit, security and protection of all Owners of the Bonds, without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reasons of the series, time of issue, sale or negotiation thereof or for any cause whatsoever, except as expressly provided therein or herein. Nothing herein shall prevent additional security being provided to particular Bonds or the creation of a separate bond reserve fund therefor under any Supplemental Indenture.

SECTION 1.02. Definitions. The terms defined in this Section shall, for all purposes of this Indenture and of any Supplemental Indenture 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 any Capital Appreciation Indebtedness, the principal amount thereof plus the interest accrued thereon, compounded at the interest rate thereon on each date as specified therein.

### Annual Debt Service

“Annual Debt Service” means, for any Fiscal Year, the aggregate amount of principal and interest on all Bonds and Parity Debt becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

### Average Annual Debt Service

“Average Annual Debt Service” means, as of any date of calculation, an amount equal to (i) the Annual Debt Service remaining to be paid on all Bonds and Parity Debt on the date of calculation, divided by (ii) the number of Fiscal Years (or partial years) commencing with the Fiscal Year of the date of calculation to and including the Fiscal Year which includes the first date on which none of such Bonds or Parity Debt remains Outstanding. Such interest and principal shall be calculated on the assumption that no Bonds or Parity Debt at the date of calculation shall cease to be Outstanding except by reason of the payment when due of each principal installment (including mandatory sinking account payments).

### Balloon Indebtedness

“Balloon Indebtedness” means any Series of Bonds or Parity Debt 50% or more of the principal of which matures or is payable on the same date and which is not required by the instrument pursuant to which such Bonds or Parity Debt were issued to be amortized by payment or redemption prior to such date.

### Bond Law

“Bond Law” means the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code, as now in effect or as hereafter amended.

### Bond Obligation

“Bond Obligation” means, as of any given date of calculation, (1) with respect to any Current Interest Indebtedness, the principal amount thereof, and (2) with respect to any Capital Appreciation Indebtedness, the Accreted Value thereof.

### Bonds; Serial Bonds; Term Bonds

“Bonds” means the City of Modesto, California Wastewater Revenue Bonds authorized by, and at any time Outstanding pursuant to, this Indenture.

“Serial Bonds” means Bonds, maturing in specified years, for which no mandatory sinking fund payments are provided.

“Term Bonds” means Bonds payable at or before their specified maturity date or dates from mandatory sinking fund payments 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 other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, and (2) for purposes of payments and other actions relating to Bonds secured by a letter of credit, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under the letter of credit are to be presented are authorized or obligated by law or executive order to be closed.

Capital Appreciation Indebtedness

“Capital Appreciation Indebtedness” means Bonds and Parity Debt on which interest is compounded and paid less frequently than annually.

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

“Certificate,” “Statement,” “Request,” “Requisition” or “Order” of the City mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the City by its City Manager, Finance Director or any other person authorized by the City Manager or Finance Director to execute such instruments. 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 1.03 hereof, certificates and opinions shall include the statements provided for in Section 1.03 hereof.

Charter

“Charter” means the City Charter of the City, as amended from time to time.

City

“City” means the City of Modesto, California.

City Council

“City Council” means the City Council of the City or any other legislative body of the City hereafter provided for pursuant to law.

## Code

“Code” means the Internal Revenue Code of 1986, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code shall be deemed to be a reference to any successor to any such Section.

## Continuing Disclosure Agreement

“Continuing Disclosure Agreement” means any Continuing Disclosure Agreement executed and delivered by the City relating to any Series of Bonds.

## Corporate Trust Office

“Corporate Trust Office” or “corporate trust office” means the corporate trust office of the Trustee at One California Street, Suite 2550, San Francisco, California 94111, Attention: Corporate Trust Services, or such other or additional offices as may be designated by the Trustee.

## Costs of Issuance

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City and related to the authorization, execution, 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, travel expenses and costs relating to rating agency meetings and other meetings concerning the Bonds, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, surety, insurance and credit enhancement costs, and any other cost, charge or fee in connection with the delivery of Bonds.

## Current Interest Indebtedness

“Current Interest Indebtedness” means Bonds and Parity Debt on which interest is paid at least annually.

## Debt Service

“Debt Service” means, during any period of computation, the amount of principal and interest becoming due and payable on all Bonds and Parity Debt for such period, determined by totaling the following amounts:

- (a) The Bond Obligation of all Outstanding Serial Bonds and all Parity Debt coming due and payable by their terms in such period;
- (b) The minimum Bond Obligation of all Outstanding Term Bonds and all Parity Debt scheduled to be redeemed by operation of mandatory sinking fund deposits in such period, together with any premium thereon; and

(c) The interest which would be due during such period on the aggregate principal amount of Bonds and Parity Debt which would be Outstanding in such period if the Bonds or Parity Debt are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds or Parity Debt no longer Outstanding;

provided, that for the purposes of determining compliance with Sections 3.01(d) and 6.09 and the amount of the Reserve Fund Requirement, the following provisions apply:

(i) Generally. Except as otherwise provided in subparagraph (ii) below with respect to Variable Interest Rate Indebtedness, in subparagraph (iii) below with respect to Bonds or Parity Debt with respect to which a Public Finance Contract is in force, and in subparagraph (iv) below with respect to Balloon Indebtedness, interest on any Bond or Parity Debt shall be calculated based on the actual amount of interest that is payable under such Bond or Parity Debt;

(ii) Interest on Variable Interest Rate Indebtedness. Interest deemed to be payable on any Variable Interest Rate Indebtedness for periods when the actual interest rate can be determined shall be the actual Variable Interest Rates and for periods when the actual interest rate cannot yet be determined shall be calculated on the assumption that the interest rate on such Variable Interest Rate Indebtedness would be equal to (a) the average rate that accrued on such Variable Interest Rate Indebtedness over the preceding twelve (12) months, or (b) if the Variable Interest Rate Indebtedness has not been accruing interest at a variable rate for twelve (12) months, the average interest rate that accrued on any outstanding Variable Interest Rate Indebtedness for which interest is computed on substantially the same basis during the preceding twelve (12) month period, or (c) if no such comparable Variable Interest Rate Indebtedness was outstanding during the twelve (12) months preceding the date of calculation, then (x) if the interest on such Variable Interest Rate Indebtedness is excluded from gross income for purposes of Federal income taxation, 90% of the average rate of interest for The Bond Buyer Revenue Bond Index over the preceding twelve (12) months, or, if that index is no longer published, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Variable Rate Interest Indebtedness, or if there are no such Treasury Bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets, and (y) if interest on such Variable Interest Rate Indebtedness is not excluded from gross income for purposes of Federal income taxation, 110% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Variable Rate Interest Indebtedness, or if there are no such United States Treasury Bonds having equivalent maturities, 110% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets;

(iii) Interest on Bonds or Parity Debt with respect to which a Public Finance Contract is in force. Interest deemed to be payable on any Bonds or Parity Debt with respect to which a Public Finance Contract is in force shall be based on the net economic effect on the City expected to be produced by the terms of such Bonds or Parity Debt and such Public Finance Contract, including but not limited to the effects that (a) such Bonds or Parity Debt would, but for such Public Finance Contract, be treated as an obligation bearing interest at a Variable Interest Rate instead shall be treated as an obligation bearing interest at a fixed interest rate, and (b) such Bonds or Parity Debt would, but for such Public Finance Contract, be treated as an obligation bearing interest at a fixed interest rate instead shall be treated as an obligation bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Bonds or Parity Debt with respect to which a Public Finance Contract is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Bonds or Parity Debt plus the Public Finance Contract Payments minus the Public Finance Contract Receipts, and for the purpose of calculating as nearly as practicable the Public Finance Contract Receipts and the Public Finance Contract Payments under such Bonds or Parity Debt, the following assumptions shall be made:

(1) City Obligated to Pay Net Variable Payments. If a Public Finance Contract has been entered into by the City with respect to Bonds or Parity Debt resulting in the payment of a net variable interest rate with respect to such Bonds or Parity Debt and Public Finance Contract by the City, the interest rate on such Bonds or Parity Debt for future periods when the actual interest rate cannot yet be determined shall be assumed (but only during the period the Public Finance Contract is in effect) to be equal to the sum of (x) the fixed rate or rates stated in such Bonds or Parity Debt, minus (y) the fixed rate paid by the Qualified Counterparty to the City, plus (z) the lesser of (A) the interest rate cap, if any, provided by a Qualified Counterparty with respect to such Public Finance Contract (but only during the period that such interest rate cap is in effect) and (B) the applicable Variable Interest Rate calculated in accordance with subparagraph (ii) above; and

(2) City Obligated to Pay Net Fixed Payments. If a Public Finance Contract has been entered into by the City with respect to Bonds or Parity Debt resulting in the payment of a net fixed interest rate with respect to such Bonds or Parity Debt and Public Finance Contract by the City, the interest on such Bonds or Parity Debt shall be included in the calculation of Debt Service (but only during the period the Public Finance Contract is in effect) by including for each Fiscal Year or twelve (12) calendar month period an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Public Finance Contract;

(iv) Interest on Balloon Indebtedness. If any outstanding Bonds or Parity Debt constitute Balloon Indebtedness (and such Bonds or Parity Debt do

not constitute Short-Term Indebtedness excluded from the calculation of the Debt Service pursuant to clause (v), below) or if Bonds or Parity Debt proposed to be incurred would constitute Balloon Indebtedness (and such Bonds or Parity Debt would not constitute Short-Term Indebtedness excluded from the calculation of the Debt Service pursuant to clause (v), below), then such Balloon Indebtedness shall be treated as if the principal amount of such Bonds or Parity Debt were amortized from the date originally incurred in substantially equal installments of principal and interest over a term of thirty (30) years; provided, however, that the full principal amount of such Balloon Indebtedness shall be included in making such calculation if such principal amount is due within ninety (90) days of the date such calculation is being made); and, if interest accrues under such Balloon Indebtedness at other than a fixed rate, the interest rate used for such computation shall be (x) if the interest on such Bonds or Parity Debt is excluded from gross income for purposes of Federal income taxation, 90% of the average rate of interest for The Bond Buyer Revenue Bond Index over the preceding twelve (12) months, or if that index is no longer published, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Bonds or Parity Debt on the date incurred, or if there are no such United States Treasury bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets, and (y) if the interest on such Bonds or Parity Debt is not excluded from gross income for purposes of Federal income taxation, the rate equal to 110% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Balloon Indebtedness, or, if there are no such United States Treasury Bonds having equivalent maturities, 110% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets;

(v) Exclusion of Certain Short-Term Indebtedness. If any outstanding Bonds or Parity Debt constitute Short-Term Indebtedness or if the Bonds or Parity Debt proposed to be issued would constitute Short-Term Indebtedness, and such Short-Term Indebtedness are or will be payable only out of Net Revenues of the Fiscal Year in which such Short-Term Indebtedness are incurred, then such Short-Term Indebtedness shall be disregarded and not included in calculating Debt Service;

(vi) Credit for Accrued and Capitalized Interest. If amounts constituting accrued interest or capitalized interest have been deposited with a trustee for such Bonds or Parity Debt, then the interest payable from such amounts with respect to such Bonds or Parity Debt shall be disregarded and not included in calculating Debt Service.

## Defeasance Securities

“Defeasance Securities” means any of the following:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of the United States of America;

(ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (i) held by a bank or trust company as custodian, under which the owner thereof is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying bonds or other obligations which as to principal and interest constitute direct obligations of the United States of America are not available to any person claiming through the custodian or to whom the custodian may be obligated; or

(iii) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i) or (ii) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i) or (ii) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (iii) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (iii), as appropriate, and (d) which have been rated “AAA” by Standard & Poor’s and “Aaa” by Moody’s or which are eligible to be rated “AAA” by Standard & Poor’s under the then existing defeasance criteria of Standard & Poor’s;

## Enterprise

“Enterprise” means any and all facilities of the City for the disposal or reuse of wastewater, including sewage treatment plants, intercepting and collecting sewers, outfall sewers, force mains, pumping stations, ejector stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification or disposal of sewage and any necessary lands, rights of way and other real or personal property useful in connection therewith. The term “Enterprise” does not include, however, facilities relating to the production, distribution and use of methane gas.

Event of Default

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

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 twelve-month period hereafter selected and designated as the official fiscal year period of the City which designation shall be provided to the Trustee in a Certificate of the City.

Generally Accepted Accounting Principles Applicable to Governments

“Generally Accepted Accounting Principles Applicable to Governments” means generally accepted accounting principles applicable to governments as promulgated by the Governmental Accounting Standards Board or its successor.

Gross Revenues

“Gross Revenues” means all gross income and revenue received by the City from the ownership and operation of the Enterprise, including (a) all fees and charges received by the City for the services of the Enterprise, (b) all other income and revenue howsoever derived by the City from the ownership and operation of the Enterprise or arising from the Enterprise, and (c) all sums deposited, or required hereunder to be deposited, in the Sewer Enterprise Fund; but excluding (x) the proceeds of any ad valorem property taxes received by the City to pay debt service on any outstanding obligations of the City, (y) any contributed capital (other than connection fees), and (z) any moneys received by the City as a result of litigation arising out of perchloroethylene (PCE) contamination that are to be expended on capital costs of the Enterprise.

Indenture

“Indenture” means this Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, as originally executed and as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions hereof.

Independent Accountant

“Independent Accountant” means any accountant or firm of such accountants appointed and paid by the City, and who, or each of whom-

- (a) is in fact independent and not under domination of the City;
- (b) does not have any substantial interest, direct or indirect, with the City; and

(c) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

#### Information Services

“Information Services” means national information services that disseminate securities redemption notices; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds, or no such services as the City may designate in a written request delivered to the Trustee.

#### Interest Fund

“Interest Fund” means the fund by that name established with the Trustee pursuant to Section 5.01 hereof.

#### Investment Securities

“Investment Securities” means the following:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the federal agencies and federally sponsored entities set forth in clause (iii) below to the extent unconditionally guaranteed by the United States of America;

(ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (i);

(iii) obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks, and Federal Home Loan Mortgage Corporation;

(iv) obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing; provided that at the time of their purchase such obligations are rated not lower than their respective ratings on the Bonds by Moody’s (if Moody’s is then rating the Bonds) and Standard & Poor’s (if Standard & Poor’s is then rating the Bonds);

(v) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i), (ii) or (iii) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or

other obligations on the interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i), (ii) or (iii) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (v) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (v), as appropriate, and (d) which have been rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(vi) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds) in their respective highest short-term Rating Categories, or, if the term of such indebtedness is longer than three (3) years, rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(vii) demand or time deposits or certificates of deposit, whether negotiable or nonnegotiable, issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee), provided that such certificates of deposit shall be purchased directly from such a bank, trust company or national banking association and shall be either (1) continuously and fully insured by the Federal Deposit Insurance Corporation, or (2) continuously and fully secured by such securities and obligations as are described above in clauses (i) through (iv), inclusive, which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and shall be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit, and the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to the principal amount of each such certificate of deposit and the Trustee shall be entitled to rely on each such undertaking;

(viii) taxable commercial paper or tax-exempt commercial paper, rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(ix) variable rate obligations required to be redeemed or purchased by the obligor or its agent or designee upon demand of the holder thereof secured as to such redemption or purchase requirement by a liquidity agreement with a corporation and as to the payment of interest and principal either upon maturity or redemption (other than upon demand by the holder thereof) thereof by an unconditional credit facility of a corporation provided that the variable rate obligations themselves are rated in their respective highest Rating Categories for its short-term rating, if any, and not lower than their respective ratings on the Bonds for its long-term rating, if

any, by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds), and that the corporations providing the liquidity agreement and credit facility have, at the date of acquisition of the variable rate obligation by the Trustee, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(x) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of one hundred million dollars (\$100,000,000) and with short-term debt rated by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds) in their respective four highest short-term rating categories or with government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clauses (i), (ii) or (iii) above, which shall have a market value (exclusive of accrued interest and valued at least monthly) at least equal to the principal amount of such investment and shall be lodged with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement, and the entity executing each such repurchase agreement required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to the principal amount of each such repurchase agreement and the Trustee shall be entitled to rely on each such undertaking;

(xi) any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (i), (ii), (iii), (iv) and (x) of this definition of Investment Securities and any money market fund, the entire investments of which are limited to investments described in clauses (i), (ii), (iii), (iv) and (x) of this definition of Investment Securities and which money market fund is rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds); provided that as used in this clause (xi) and clause (xii) investments will be deemed to satisfy the requirements of clause (x) if they meet the requirements set forth in clause (x) ending with the words "clauses (i), (ii) or (iii) above" and without regard to the remainder of such clause (x);

(xii) investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by Standard & Poor's and "Aa" by Moody's; provided that the terms of the investment agreement shall be approved in writing by each insurer of the Bonds, if any;

(xiii) shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (i) through (xii) of this definition of Investment Securities and which companies are rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard

& Poor's is then rating the Bonds) or have an investment advisor registered with the Securities and Exchange Commission with not less than 5 years experience investing in such securities and obligations and with assets under management in excess of \$500,000,000;

(xiv) the California Asset Management Program (CAMP);

(xv) forward purchase and sale agreements for underlying securities otherwise authorized under this definition of "Investment Securities" with providers acceptable to each insurer of the Bonds, if any; and

(xvi) any other investment approved by the City Council.

#### Maximum Annual Debt Service

"Maximum Annual Debt Service" means the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Debt in the Fiscal Year in which the calculation is made or any subsequent Fiscal Year using the principles and assumptions set forth under the definition of Debt Service.

#### Moody's

"Moody's" means Moody's Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

#### Net Revenues

"Net Revenues" means, with respect to any period, the amount of the Gross Revenues received during such period less the amount of Operating Expenses becoming payable during such period.

#### Operating Expenses

"Operating Expenses" means the reasonable and necessary costs of maintaining and operating the Enterprise, calculated on the basis of generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs, but excluding (a) depreciation, replacement and obsolescence charges or reserves therefor or other bookkeeping entries of a similar nature, and (b) interest on the Bonds and any Parity Debt.

#### Opinion of Bond Counsel

"Opinion of Bond Counsel" means a written opinion of a law firm of national standing in the field of public finance selected by the City.

### Outstanding

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.09) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the City shall have been discharged in accordance with Section 10.02, 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.

### Owner or Bondholder or Bondowner

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

### Parity Debt

“Parity Debt” means any indebtedness, installment sale obligation, lease obligation or other obligation of the City for borrowed money having an equal lien and charge upon the Net Revenues, therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

### Parity Reserve Fund

“Parity Reserve Fund” means the fund by that name established with the Trustee pursuant to Section 5.01 hereof.

### Principal Fund

“Principal Fund” means the fund by that name established with the Trustee pursuant to Section 5.01 hereof.

### Public Finance Contract

“Public Finance Contract” means a written agreement for the purpose of managing or reducing the City’s exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the City and a Qualified Counterparty as authorized under any applicable laws of the State in connection with, or incidental to, the issuance of Bonds or Parity Debt, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device.

### Public Finance Contract Payments

“Public Finance Contract Payments” means the amounts periodically required to be paid by the City to all Qualified Counterparties under all Public Finance Contracts.

### Public Finance Contract Receipts

“Public Finance Contract Receipts” means the amounts periodically required to be paid by all Qualified Counterparties to the City under all Public Finance Contracts.

### Qualified Counterparty

“Qualified Counterparty” means a party (other than the City or a party related to the City) who is the other party to a Public Finance Contract and (1) (A) who is rated at least “A2” from Moody’s and “A” from Standard & Poor’s, or (B) whose senior debt obligations are rated at least “A2” from Moody’s and “A” from Standard & Poor’s, or guaranteed by an entity so rated, or (C) whose obligations under the Public Finance Contract are guaranteed for the entire term of the Public Finance Contract by a bond insurer or other institution which has been assigned a credit rating at least equal to “A2” from Moody’s and “A” from Standard & Poor’s, or (D) whose obligations under the Public Finance Contract are collateralized in such a manner as to obtain a rating at least equal to the ratings assigned by each of the Rating Agencies to the Bonds or Parity Debt to which such Public Finance Contract relates, and (2) who is otherwise qualified to act as the other party to a Public Finance Contract under all applicable laws of the State.

### Rating Category

“Rating Category” means (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

### Rebate Fund

“Rebate Fund” means the fund by that name established with the Trustee pursuant to Section 6.11 hereof.

### Rebate Requirement

“Rebate Requirement” means the Rebate Requirement defined in the Tax Certificate.

### Redemption Fund

“Redemption Fund” means the fund by that name established with the Trustee pursuant to Section 5.04 hereof.

### Redemption Price

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

### Reserve Fund Requirement

“Reserve Fund Requirement” means, as of any date of determination and excluding any Parity Debt for which no reserve fund is to be maintained or for which a separate reserve fund is to be maintained, the lesser of (a) the Maximum Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, or (b) one hundred twenty-five percent (125%) of the Average Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund; provided that in no event shall the deposit to the Parity Reserve Fund with respect to any Series of Bonds or Parity Debt to be secured by the Parity Reserve Fund be an amount greater than ten percent (10%) of the initial offering price to the public of each Series of Bonds and any Parity Debt to be secured by the Parity Reserve Fund as determined under the Code, all as computed and determined by the City and specified in writing to the Trustee.

### Securities Depositories

“Securities Depositories” means the following registered securities depository: The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York 10041 0099, Attention: Call Notification Department, Fax (212) 855 7232; or in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depositories, or no such other securities depositories, as the City may designate in a written request delivered to the Trustee.

### Series

“Series,” whenever used herein with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as herein provided.

### Sewer Enterprise Fund

“Sewer Enterprise Fund” means the existing fund by that name established and held by the City with respect to the Enterprise.

### Short-Term Indebtedness

“Short-Term Indebtedness” means Bonds or Parity Debt having an original maturity of less than or equal to one year and which are not renewable at the option of the City for a term greater than one year beyond the date of original incurrence.

### Standard & Poor’s

“Standard & Poor’s” means Standard & Poor’s, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

State

“State” means the State of California.

Supplemental Indenture

“Supplemental Indenture” means any indenture hereafter duly executed and delivered, supplementing, modifying or amending this Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

Tax Certificate

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

Trustee

“Trustee” means U.S. Bank National Association, acting as trustee hereunder, or its successor, as Trustee as provided in Section 8.01.

Variable Interest Rate

“Variable Interest Rate” means any variable interest rate or rates to be paid under any Bonds or Parity Debt, the method of computing which variable interest rate shall be as specified in the Supplemental Indenture providing for the issuance of the applicable Bonds or the instrument providing for the issuance of the Parity Debt, which Supplemental Indenture or other instrument shall also specify either (i) the payment period or periods or time or manner of determining such period or periods or time for which each value of such variable interest rate shall remain in effect, and (ii) the time or times based upon which any change in such variable interest rate shall become effective, and which variable interest rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indices.

Variable Interest Rate Indebtedness

“Variable Interest Rate Indebtedness” means, for any period of time, any Bonds or Parity Debt that bear a Variable Interest Rate during such period, except that no Bonds or Parity Debt shall be treated as a Variable Interest Rate Indebtedness if the net economic effect of a Public Finance Contract with respect to any particular Bonds or Parity Debt is to produce obligations that bear interest at a fixed interest rate, and any Bonds or Parity Debt with respect to which a Public Finance Contract is in force shall be treated as a Variable Interest Rate Indebtedness if the net economic effect of the Public Finance Contract is to produce obligations that bear interest at a Variable Interest Rate.

SECTION 1.03. Content of Certificates and Opinions. Every certificate or opinion provided for in this Indenture 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 him to express an informed opinion with respect to the subject matter referred to in the instrument to which his 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 City may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel, an accountant, a financial advisor, an investment banker or an independent 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 an independent consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the City) upon a certificate or opinion of or representation by an officer of the City, unless such counsel, accountant or independent 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 or representation may be based, as aforesaid, is erroneous. The same officer of the City, or the same counsel or accountant or independent 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 independent consultants may certify to different matters, respectively.

## ARTICLE II

### THE BONDS

SECTION 2.01. Authorization of Bonds. Bonds may be issued hereunder, in book-entry form or otherwise, from time to time as the issuance thereof is approved by the City. The maximum principal amount of Bonds which may be issued hereunder is not limited; subject, however, to the right of the City, which is hereby reserved, to limit the aggregate principal amount of Bonds which may be issued or Outstanding hereunder. The Bonds are designated generally as "City of Modesto, California Wastewater 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 City, subject to the covenants, provisions and conditions herein contained.

SECTION 2.02. Terms of the Bonds. The Bonds of each Series shall bear interest, if any, at such rate or rates or determined in such manner and payable at such intervals as may be determined by the City at the time of issuance thereof pursuant to the Supplemental Indenture under which such Bonds are issued, not to exceed the maximum rate of interest permitted by law and shall mature and become payable on such date or dates and in such year or years as the City may determine by the Supplemental Indenture creating such Series. Principal of, premium, if

any, and interest on such Bonds shall be payable in such manner as may be specified in the Supplemental Indenture creating such Series.

The Bonds of any Series may be issued in such denominations as may be authorized by the Supplemental Indenture creating such Series in fully registered form without coupons or in fully registered book-entry form or, for a Series maturing in one year or less, bearer form.

**SECTION 2.03. Form of Bonds.** The Bonds of any Series shall be in such form or forms as may be specified in the Supplemental Indenture creating such Series.

**SECTION 2.04. Execution of Bonds.** The Bonds shall be executed in the name and on behalf of the City with the facsimile or manual signature of the Mayor, the City Manager or the Finance Director of the City and attested by the facsimile or manual signature of the City Clerk under the printed seal of the City. Such seal may be in the form of a facsimile of the City's seal and may be reproduced, imprinted or impressed on the Bonds. Unless otherwise provided in any Supplemental Indenture, 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 City before the Bonds so signed or attested shall have been authenticated or delivered by the Trustee or issued by the City, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the City as though those who signed and attested the same had continued to be such officers of the City, and also any Bond may be signed and attested on behalf of the City by such persons as at the actual date of execution of such Bond shall be the proper officers of the City although at the nominal date of such Bond any such person shall not have been such officer of the City.

Except as may be provided in any Supplemental Indenture, only such of the Bonds as shall bear thereon a certificate of authentication substantially in the form recited in the Supplemental Indenture creating such Series, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of authentication when manually executed by 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 2.05. Transfer of Bonds.** Any Bond may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the provisions of Section 2.07 hereof, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds, of the same Series, tenor, maturity and interest rate and for a like aggregate principal amount; provided that no registration or transfer may occur during the period established by the Trustee for selection of Bonds for redemption, or of any Bond or portion of a Bond so selected for redemption. 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.

SECTION 2.06. Exchange of Bonds. Bonds may be exchanged at the Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same Series, tenor, maturity and interest rate by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation; provided that, unless otherwise provided in any Supplemental Indenture, no exchange may occur during the period established by the Trustee for selection of Bonds for redemption, or of any Bond or portion of a Bond so selected for redemption. 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.

SECTION 2.07. Bond Register. The Trustee will keep or cause to be kept, at its Corporate Trust Office sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection during normal business hours by the City upon reasonable prior notice; 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 2.08. Temporary Bonds. The Bonds may be issued in temporary form exchangeable for definitive Bonds. Any temporary Bond may be printed, lithographed or typewritten, shall be of such denomination as may be determined by the City, shall be in registered form and may contain such reference to any of the provisions of this Indenture as may be appropriate. A temporary Bond may be in the form of a single Bond payable in installments, each on the date, in the amount and at the rate of interest established for the Bonds maturing on such date. Every temporary Bond shall be executed by the City and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds it will execute and deliver definitive Bonds after being requested to do so, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Corporate Trust 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, tenor and maturity or maturities. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder.

SECTION 2.09. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the City, at the expense of the Owner 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 cancelled by it and delivered to, or upon the Order of, the City. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and the Trustee and, if such evidence be satisfactory to both and indemnity satisfactory to them shall be given, the City, at the expense of the Owner, 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 have been called for redemption, instead of issuing a substitute Bond, the Trustee may pay the same without surrender thereof upon receipt of the aforementioned indemnity). The City 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 City and the Trustee in the premises. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of this Indenture with all other Bonds secured by this Indenture. Neither the City nor the Trustee shall be required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued hereunder or for the purpose of determining any percentage of Bonds Outstanding hereunder, but both the original and replacement Bond shall be treated as one and the same.

### ARTICLE III

#### ISSUANCE OF BONDS AND PARITY DEBT

SECTION 3.01. Issuance of Bonds. The City may by Supplemental Indenture establish one or more Series of Bonds payable from Net Revenues and secured by the pledge made under this Indenture equally and ratably with Bonds previously issued, and the City may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as shall be determined by the City, but only, with respect to each Series of Bonds, upon compliance by the City with the provisions of Section 3.02 hereof (except any Series of Bonds delivered under a Supplemental Indenture of even date herewith may be issued upon compliance by the City with the requirements of Section 3.02(c) and without further condition) and any additional requirements set forth in said Supplemental Indenture and subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such additional Series of Bonds:

- (a) no Event of Default shall have occurred and then be continuing;
- (b) the aggregate principal amount of Bonds issued hereunder shall not exceed any limitation imposed by law or otherwise;
- (c) there shall be deposited in the Parity Reserve Fund an amount of money so as to increase the amount on deposit therein to the Reserve Fund Requirement; and
- (d) The Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the Supplemental Indenture pursuant to which such Series of Bonds are issued or the instrument pursuant to which such Parity Debt is issued, as shown by the books of the City, plus, at the option of the City, any or all of the items designated in (i) and (ii) below, but excluding connection charges, shall at least equal one hundred twenty-five percent (125%) of the Maximum Annual Debt Service on all Bonds and Parity Debt to be Outstanding immediately subsequent to the issuance of such Series of Bonds or Parity Debt. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring additional Series of Bonds or Parity Debt hereunder are the following:

(i) An allowance for Net Revenues from any additions to or improvements or extensions of the Enterprise to be made with the proceeds of such additional Series of Bonds or Parity Debt, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of such Fiscal Year or such twelve (12) month period, were not in service, all in an amount equal to ninety-five percent (95%) of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first thirty-six (36) month period in which each addition, improvement or extension is respectively to be in operation, all as shown by a Certificate of the City filed with the Trustee.

(ii) An allowance for earnings arising from any increase in the charges made for service from the Enterprise which has become effective prior to the incurring of such additional Series of Bonds or Parity Debt but which, during all or any part of such Fiscal Year or such twelve (12) month period, was not in effect, in an amount equal to ninety-five percent (95%) of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such twelve (12) month period, all as shown by a Certificate of the City filed with the Trustee.

In the event additional assets or revenues are included within the definition of "Net Revenues" by a Supplemental Indenture, such additional assets or revenues shall be included in the calculations in subsection (d) above, as appropriate, as if such additional assets or revenues had always been included in Net Revenues.

SECTION 3.02. Proceedings for Issuance of Additional Series of Bonds. Whenever the City shall determine to issue a Series of Bonds pursuant to Section 3.01, the City shall authorize the execution of a Supplemental Indenture specifying the principal amount, and prescribing the form or forms of Bonds of such additional Series and providing the terms, conditions, distinctive designation, denominations, date, maturity date or dates, interest rate or rates (or the manner of determining the same), redemption provisions and place or places of payment of principal or Redemption Price, if any, of and interest on such Bonds, and any other provisions respecting the Bonds of such Series not inconsistent with the terms of this Indenture.

Before such additional Series of Bonds shall be issued and delivered, the City shall file the following documents with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Bonds have been satisfied):

- (a) an executed copy of the Supplemental Indenture authorizing such Series;
- (b) a Certificate of the City stating that no Event of Default has occurred and is then continuing;
- (c) an Opinion of Bond Counsel to the effect that the execution of the Supplemental Indenture has been duly authorized by the City in accordance with this

Indenture; that such Series, when duly executed by the City and authenticated and delivered by the Trustee, will be valid and binding limited obligations of the City, and that upon the delivery of such Series the aggregate principal amount of Bonds then Outstanding will not exceed the amount permitted by law or otherwise;

(d) the Certificate of the City required by Section 3.01(d); and

(e) a Certificate of the City or of an independent certified public accountant that upon delivery of such Bonds, the aggregate principal amount of Bonds then Outstanding will not exceed the amount permitted hereunder.

SECTION 3.03. Issuance of Refunding Bonds. Notwithstanding any provisions herein, there shall be no limitation on the ability of the City to issue any Bonds at any time to refund any outstanding Bonds or Parity Debt; provided, however, that the Maximum Annual Debt Service with respect to any such refunding Bonds shall not exceed 1.10 times the Maximum Annual Debt Service with respect to the Bonds or Parity Debt being refunded.

SECTION 3.04. Application of Proceeds. Proceeds of each Series of Bonds shall be applied as specified in the Supplemental Indenture pursuant to which such Series of Bonds is created.

SECTION 3.05. Limitations on the Issuance of Obligations. The City will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Net Revenues, except the following:

(a) Bonds of any Series authorized pursuant to Sections 3.01 and 3.02;

(b) refunding Bonds authorized pursuant to Section 3.03;

(c) Parity Debt payable on a parity with the Bonds and which will have, when issued, an equal lien and charge upon the Net Revenues, provided that the following conditions to the issuance of such Parity Debt are satisfied:

(1) such Parity Debt has been duly and legally authorized for any lawful purpose;

(2) no Event of Default shall have occurred and then be continuing, as evidenced in a Certificate of the City filed with the Trustee;

(3) unless such Parity Debt is for the refunding purposes specified in Section 3.03, the City shall have obtained and placed on file with the Trustee a Certificate of the City that (on the basis of calculations as of the date of delivery of such Parity Debt) the requirements of Section 3.01(d) with respect to additional Bonds have been met with respect to such Parity Debt;

(4) the City shall have filed with the Trustee an Opinion of Bond Counsel to the effect that such Parity Debt has been duly authorized in accordance

with law and constitutes a valid and binding obligation of the City payable from Net Revenues on a parity with the Bonds; and

(5) the Trustee shall be designated as paying agent or trustee for such Parity Debt and the City shall deliver to the Trustee a transcript of the proceedings providing for the issuance of such Parity Debt (but the Trustee shall not be responsible for the validity or sufficiency of such proceedings or such Parity Debt); or

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

#### ARTICLE IV

#### REDEMPTION OF BONDS

SECTION 4.01. Terms of Redemption. Each Series of Bonds may be made subject to redemption or mandatory or optional tender and purchase prior to their respective stated maturities, as a whole or in part, at such time or times, upon such terms and conditions and upon such notice and with such effect as may be provided in the Supplemental Indenture creating such Series of Bonds.

Unless otherwise specified in a Supplemental Indenture, each notice of redemption shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, to each Owner, the Securities Depositories and two or more Information Services. Notice of redemption to the Securities Depositories shall be given by certified, registered or overnight mail or by such other method as may be requested by the Securities Depositories. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds to which such notice relates, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity, the distinctive certificate numbers of the Bonds of such maturity 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 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 date fixed for redemption, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice. Neither the City nor the Trustee shall have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto, and any such redemption

notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the City nor the Trustee shall be liable for any inaccuracy in such numbers.

With respect to any notice of optional redemption of Bonds, unless upon the giving of such notice, such Bonds shall be deemed to have been paid within the meaning of Section 10.01 of the Indenture or unless the Trustee has cash or Defeasance Securities sufficient to pay the principal, premium, if any, and interest on the Bonds to be redeemed, such notice may state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal, premium, if any, and interest on such Bonds and that if such moneys shall not have been so received said notice shall be of no force and effect and the Trustee shall not be required to redeem such Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made and the Trustee shall be within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Failure by the Trustee to give notice to any one or more of the Information Services or Securities Depositories or failure of any Owner to receive notice or any defect in any such notice shall not affect the sufficiency of the proceedings for redemption.

## ARTICLE V

### NET REVENUES

#### SECTION 5.01. Pledge of Net Revenues; Sewer Enterprise Fund.

(A) The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues and from the other funds pledged hereunder. All Net Revenues are hereby pledged to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds and any Parity Debt in accordance with their terms, 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 to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Trustee hereunder (except for amounts held in the Rebate Fund), subject only to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein. Said pledge shall constitute a first lien on the Net Revenues and amounts in such funds and shall be valid and binding from and after delivery by the Trustee of the Bonds or Parity Debt, without any physical delivery thereof or further act.

The Net Revenues are hereby pledged to the payment of Bonds and Parity Debt without priority or distinction of one over the other and the Net Revenues constitute a trust fund for the security and payment of the Bonds and Parity Debt; but nevertheless out of Net Revenues, certain amounts may be applied for other purposes as provided herein.

Out of Net Revenues, there shall be applied as hereinafter set forth all sums required for the payment of the principal of (including any premium thereon) and interest on the Bonds and all Parity Debt, together with any reserve fund requirements with respect thereto. All remaining Net Revenues, after making the foregoing allocation, shall be available to the City for all lawful City purposes. The pledge of Net Revenues herein made shall be irrevocable until all of the Bonds and all Parity Debt are no longer outstanding.

(B) In order to carry out and effectuate the obligation of the City contained herein to pay the Bonds, so long as any Bonds are Outstanding, the City covenants and agrees that all Gross Revenues, when and as received, will be received, deposited and held by the City in the Sewer Enterprise Fund and will be accounted for through and held in trust in the Sewer Enterprise Fund, and the City shall have no beneficial right or interest in any of such moneys except only as in this Indenture provided. The City hereby covenants and agrees to maintain the Sewer Enterprise Fund at all times so long as any Bonds shall be Outstanding hereunder. All Gross Revenues and Net Revenues, whether held by the City or deposited with the Trustee, all as herein provided, shall nevertheless be disbursed, allocated, and applied solely to the uses and purposes hereinafter set forth.

All amounts in the Sewer Enterprise Fund required to pay Operating Expenses of the Enterprise shall be applied for such purpose from time to time by the City. So long as any Bonds are Outstanding, the City shall transfer the remaining moneys in the Sewer Enterprise Fund to the Trustee as required for deposit into the following respective funds (each of which the Trustee shall establish, maintain and hold in trust for the benefit of the Owners of the Bonds) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Net Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to outstanding Parity Debt as provided in the proceedings for such Parity Debt (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Debt):

(1) Interest Fund. The City shall transfer to the Trustee and the Trustee shall set aside in the Interest Fund on or before the third Business Day prior to each interest payment date therefor an amount equal to the interest becoming due and payable on the Outstanding Bonds (excluding interest for which there are moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source to pay such interest).

(2) Principal Fund; Sinking Accounts. The City shall transfer to the Trustee and the Trustee shall set aside in the Principal Fund on or before the third Business Day prior to each principal or mandatory sinking fund payment date therefor an amount equal to (a) the amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds, plus (b) the mandatory sinking fund payments to be paid into the respective Sinking Accounts for the Term Bonds; provided that if the City certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from excess amounts on deposit in the Parity Reserve Fund or other

bond reserve fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid mandatory sinking fund payments shall be made without priority of any payment into any one such Sinking Account over any other such payment.

(3) Parity Reserve Fund. Upon the occurrence of any deficiency in the Parity Reserve Fund established pursuant to Section 5.05 hereof, the City shall transfer to the Trustee and the Trustee shall set aside in the Parity Reserve Fund an amount equal to the aggregate amount of each unreplenished prior withdrawal from the Parity Reserve Fund until there is on deposit in the Parity Reserve Fund an amount equal to the Reserve Fund Requirement.

(C) Any Net Revenues remaining in the Sewer Enterprise Fund after the foregoing transfers described in subsection (B) above, except as otherwise provided in a Supplemental Indenture, shall be held free and clear of this Indenture by the City and it may use and apply such Net Revenues for any lawful purpose of the City, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

(D) If on any principal payment date, interest payment date or mandatory sinking fund redemption date the amounts on deposit in the Interest Fund and Principal Fund, including the Sinking Accounts therein, are insufficient to make such payments, the Trustee shall immediately notify the City, by telephone or facsimile machine, of such deficiency and direct that the City transfer the amount of such deficiency to the Trustee on such payment date. The City hereby covenants and agrees to transfer to the Trustee from any Net Revenues in its possession the amount of such deficiency on the principal, interest or mandatory redemption date referenced in such notice.

SECTION 5.02. Application of Interest Fund. All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to this Indenture). In addition if so directed by the City, the Trustee may deposit into the Interest Fund, Public Finance Contract Receipts of the City and may pay from the Interest Fund, Public Finance Contract Payments on behalf of the City.

SECTION 5.03. Application of Principal Fund.

(A) All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that all amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided herein.

(B) The Trustee shall establish and maintain within the Principal Fund a separate sinking account for the Term Bonds of each Series and maturity. On or before the Business Day prior to any date upon which a mandatory sinking fund payment is due, the Trustee shall transfer the amount of such mandatory sinking fund payment (being the principal thereof, in the case of Current Interest Bonds and the Accreted Value, in the case of Capital Appreciation Bonds from

the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each mandatory sinking fund payment date established for such Sinking Account, the Trustee shall apply the mandatory sinking fund payment required on that date to the redemption of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of such redemption, the Trustee shall, upon receipt of a Request of the City, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the City, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal amount or Accreted Value thereof. If the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or purchased or redeemed Term Bonds of such Series and maturity at any time from the Redemption Fund and allocable to said mandatory sinking fund payment, or if the City has purchased or otherwise acquired Term Bonds and deposited such Term Bonds with the Trustee, such Term Bonds so purchased or deposited or redeemed by the Trustee or the City shall be applied, to the extent of the full principal amount thereof, to reduce said mandatory sinking fund payment. All Term Bonds purchased or deposited pursuant to this subsection shall be cancelled and destroyed by the Trustee. Any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the City to be deposited in the Sewer Enterprise Fund. All Term Bonds so purchased shall be allocated first to the next succeeding mandatory sinking fund payment for such Series and maturity of Term Bonds, then as a credit against such future mandatory sinking fund payment for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed from the Redemption Fund shall be credited to such future mandatory sinking fund payment for such Series and maturity of Term Bonds as may be specified in a Request of the City.

SECTION 5.04. Application of Redemption Fund. The Trustee shall establish, maintain and hold in trust a special fund designated as the "Redemption Fund" when required. All moneys deposited by the City with the Trustee for the purpose of redeeming Bonds of any Series pursuant to optional redemption or special mandatory redemption provisions applicable to such Series of Bonds shall, unless otherwise directed by the City, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving notice of such redemption, the Trustee shall, upon receipt of a Request of the City, apply such amounts to the purchase of Bonds of such Series at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Account) as is directed by the City, except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to mandatory sinking fund payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the City.

SECTION 5.05. Parity Reserve Fund.

(A) The Trustee shall 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 "Parity Reserve Fund." Amounts on deposit in the Parity Reserve Fund are hereby pledged to the payment of the Bonds and any Parity Debt to be secured by the Parity Reserve Fund and shall be applied only for such purposes as hereinafter permitted. The Trustee shall deposit in the Parity Reserve Fund, upon the direction of the City, the Reserve Fund Requirement and such other amounts transferred to the Trustee by the City pursuant to Section 5.01(B)(3) hereof. No deposit need be made in the Parity Reserve Fund so long as there shall be on deposit therein a sum equal to at least the amount required by this clause (A) to be on deposit therein. Whenever the amount on deposit in the Parity Reserve Fund is less than the Reserve Fund Requirement, notice thereof shall be provided to the insurer of the Bonds, if any, and such amount shall be increased to the Reserve Fund Requirement as provided for in this clause (A) not later than twelve months thereafter. Moneys on deposit in the Parity Reserve Fund (including all amounts that may be obtained from letters of credit and surety bonds and insurance policies, as provided below, on deposit in the Parity Reserve Fund) shall be transferred by the Trustee to the Principal Fund and Interest Fund to pay principal of and interest on the Bonds on any interest payment date in the event amounts on deposit therein are insufficient for such purposes. The Trustee shall also, from such amounts on deposit in the Parity Reserve Fund, transfer or cause to be transferred to any applicable debt service fund for any Parity Debt to be secured by the Parity Reserve Fund, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without discrimination or preference, that sum or sums, if any, equal to the amount required to be deposited therein pursuant to the documents under which any such Parity Debt to be secured by the Parity Reserve Fund is issued or incurred. Amounts on deposit in the Parity Reserve Fund in excess of the Reserve Fund Requirement shall, at the written Request of the City, be withdrawn from the Parity Reserve Fund and transferred to the City.

(B) The City may provide for all or any part of the Reserve Fund Requirement by delivering to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest Rating Categories of Moody's and Standard & Poor's, securing an amount, together with moneys, Investment Securities or surety bonds or insurance policies (as described in clause (C) below) on deposit in the Parity Reserve Fund, equal to the Reserve Fund Requirement. Such letter of credit shall have an original term of no less than three (3) years or, if less, the final maturity of the Bonds and such letter of credit shall provide by its terms that it may be drawn upon as provided herein. At least one year prior to the stated expiration of such letter of credit, the City shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year or, if less, the maturity of the Bonds or (iii) deliver to the Trustee a surety bond or an insurance policy satisfying the requirements of clause (C) below. Upon delivery of such replacement letter of credit, extended letter of credit, or surety bond or insurance policy, the Trustee shall deliver the then effective letter of credit to or upon the order of the City. If the City shall fail to deposit a replacement letter of credit, extended letter of credit, surety bond or insurance policy with the Trustee, the City shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the Reserve Fund Requirement will be on deposit in the Parity Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Reserve

Fund Requirement, as of the date following the expiration of the letter of credit, is not on deposit in the Parity Reserve Fund one week prior to the stated expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee shall draw on the letter of credit to fund the amount of any such deficiency in the Parity Reserve Fund.

(C) The City may also provide for all or any part of the Parity Reserve Fund by delivering to the Trustee a surety bond or an insurance policy securing an amount, together with moneys, Investment Securities or letters of credit on deposit in the Parity Reserve Fund, equal to the Reserve Fund Requirement. Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations (or obligations secured by such insurance company's insurance policies) are rated in one of the two highest Rating Categories of Moody's and Standard & Poor's. Such surety bond or insurance policy shall have a term of no less than the final maturity of the Bonds. In the event that such surety bond or insurance policy for any reason lapses or expires, the City shall immediately implement (i) or (iii) of clause (B) above or make the required deposits to the Parity Reserve Fund. Repayment of any draw under any such surety bond or insurance policy, and any expenses and accrued interest related to such draw (collectively the "Policy Costs") shall commence in the first month following each such draw, and shall be paid at the time specified in clause (A) above in an amount not less than one-twelfth (1/12th) of the aggregate of the Policy Costs related to such draw. If and to the extent that cash has also been deposited in the Parity Reserve Fund, all such cash shall be used (including investments purchased with such cash, which shall be liquidated and the proceeds thereof applied as required hereunder) prior to any drawing under surety bond or insurance policy, and repayment of any Policy Costs shall be made prior to any replenishment of any such cash amounts. If the City shall fail to repay any Policy Costs in accordance herewith, the insurance company issuing such surety bond or insurance policy shall be entitled to exercise any and all remedies available at law or hereunder other than (i) an acceleration of the interest on or principal of the Bonds as provided herein or (ii) any other remedy that would adversely affect Bondholders. The Trustee shall ascertain the necessity for a claim upon any surety bond or insurance policy provided hereby and provide notice to the insurance company issuing such bond or policy in accordance with the terms and conditions of such bond or insurance policy not less than two (2) Business Days prior to any interest payment date upon which such a claim should be paid.

(D) In the event of any deficiency in the Principal Fund or Interest Fund for the payment of principal and interest payments for the Bonds pursuant to clause (A) above, the Trustee shall, after first applying all cash and Investment Securities held in the Parity Reserve Fund to pay the Bond Obligation of, any mandatory sinking fund payments with respect to, and interest on, the Bonds when due, on a pro rata basis with respect to the portion of the Parity Reserve Fund held in the form of letters of credit and amounts held in the form of surety bonds and insurance policies (calculated by reference to the maximum amounts of such letters of credit and surety bonds and insurance policies), draw under each letter of credit or surety bond or insurance policy issued with respect to the Parity Reserve Fund, in a timely manner and pursuant to the terms of such letter of credit or surety bond or insurance policy to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, any mandatory sinking fund payments with respect to, and interest on, the Bonds when due. In the event that the Trustee has written notice from the City or any Bondholder that any payment of principal of, or interest on, a Bond has been recovered from a Bondholder

pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to and provided that the terms of the letter of credit or surety bond or insurance policy, if any, credited to the Parity Reserve Fund so provide, shall so notify the issuer thereof and draw on such letter of credit or surety bond or insurance policy to the lesser of the extent required or the maximum amount of such letter of credit or surety bond or insurance policy in order to pay to such Bondholder the principal of and interest so recovered. All amounts in the Parity Reserve Fund (other than amounts that may be obtained from letters of credit and surety bonds and insurance policies on deposit in the Parity Reserve Fund) may be used and withdrawn by the Trustee, if so directed by the City, for the payment or redemption of all Bonds then Outstanding, or for the payment of the final principal and interest payments of the Bonds.

SECTION 5.06. Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts held by the Trustee and established pursuant to this Indenture shall be invested, as directed by the City, solely in Investment Securities; provided, however, that Investment Securities (other than those described in clauses (x), (xii), (xv) or (xvi) of the definition thereof) purchased with moneys held by the Trustee in the Parity Reserve Fund shall have an average weighted term to maturity not greater than five years. All Investment Securities shall, as directed by the City in writing or by telephone, promptly confirmed in writing, 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 City. The Trustee may conclusively rely upon any investment direction from the City as a certification to the Trustee that such investment constitutes an Investment Security. If and to the extent the Trustee does not receive investment instructions from the City with respect to the moneys in the funds and accounts held by the Trustee pursuant to this Indenture, such moneys shall be invested in Investment Securities described in clause (xi) of the definition thereof and the Trustee shall thereupon request investment instructions from the City for such moneys.

Unless otherwise provided herein or in a Supplemental Indenture, all interest, profits and other income received from the investment of moneys in any fund or account, other than the Rebate Fund, shall be transferred by the Trustee to the City for deposit in the Sewer Enterprise Fund when received. All interest, profits and other income received from the investment of moneys in the Rebate Fund shall be deposited in the Rebate Fund, except as provided in Section 6.11. Notwithstanding anything to the contrary contained herein, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account from which such accrued interest was paid.

The Trustee may commingle any of the funds or accounts established pursuant to this Indenture 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 and, with the prior written consent of the City, may impose its customary charge therefor. The Trustee may sell or present for redemption, any Investment Securities 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, and the Trustee shall not be liable or responsible for any loss resulting from such investment.

The Trustee and the City shall each keep proper books of record and accounts containing complete and correct entries of all transactions made by it relating to the receipt, investment, disbursement, allocation and application of the moneys related to the Bonds, including moneys derived from, pledged to, or to be used to make payments on the Bonds. Such records shall specify the account or fund to which each investment (or portion thereof) is to be allocated and shall set forth, in the case of each investment security, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, including accrued interest, (d) the amounts and dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City will not receive such confirmations to the extent permitted by law. The Trustee will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

The Trustee may make any investments hereunder through its own bond or investment department or trust investment department, or those of its parent or any affiliate.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder.

The Trustee shall also provide to the City in accordance with a Request of the City, with respect to each Investment Security such documentation as is reasonably available to the Trustee and specified by the City to the Trustee in writing and is required by the Code or other applicable law to be obtained by the City as evidence to establish that each investment had been acquired and disposed of on an established market in an arm's-length transaction at a price equal to its fair market value and with no amounts having been paid to reduce the yield on the investments, or shall be United States Treasury Obligations-State and Local Government Series as set forth in the Tax Certificate.

## ARTICLE VI

### COVENANTS

**SECTION 6.01. Punctual Payment.** The City will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of this Indenture, according to the true intent and meaning thereof, and shall punctually pay or cause to be paid all mandatory sinking fund payments, but in each case only out of Net Revenues, as provided in this Indenture.

**SECTION 6.02. Operation of Enterprise in Efficient and Economical Manner.** The City covenants and agrees to operate the Enterprise in an efficient and economical manner and to operate, maintain and preserve the Enterprise in good repair and working order.

SECTION 6.03. Waiver of Laws. The City will 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 City to the extent permitted by law.

SECTION 6.04. Further Assurances. The City will make, execute and deliver any and all such 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 Owners of the Bonds of the rights and benefits provided in this Indenture.

SECTION 6.05. Discharge of Claims. The City covenants that in order to fully preserve and protect the priority and security of the Bonds, the City shall pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with Enterprise which, if unpaid, may become a lien or charge upon the Gross Revenues or the Net Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The City shall also pay from the Gross Revenues all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Enterprise or upon any part thereof or upon any of the Gross Revenues or the Net Revenues therefrom.

SECTION 6.06. Against Sale, Eminent Domain. Except as provided herein, the City covenants that the property, facilities and improvements of the Enterprise shall not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless: (a) the City shall cause to be filed with the Trustee written evidence from each Rating Agency that such sale or other disposition will not cause a reduction or withdrawal of the rating then assigned to the Bonds by each such Rating Agency; (b) such sale or other disposition shall be so arranged as to provide for a continuance of payments into the Sewer Enterprise Fund sufficient in amount to permit payment therefrom of the principal of and interest on and premiums, if any, due upon the call and redemption. thereof, of the Outstanding Bonds, and also to provide for such payments into the funds as are required under the terms of this Indenture and any Supplemental Indenture; and (c) the City shall have filed with the Trustee an opinion of nationally-recognized bond counsel to the effect that such sale or other disposition will not adversely affect the exemption from federal income taxation of interest on the Bonds. The City further covenants that the Net Revenues or any other funds pledged or otherwise made available to secure payment of the principal of and interest on the Outstanding Bonds shall not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used except as authorized by the terms of this Indenture. The City further covenants that it will not enter into any agreement which impairs the operation of the Enterprise or any part of it necessary to secure adequate Net Revenues to pay the principal and interest of the Bonds or which otherwise would impair the rights of the Bond Owners with respect to the Net Revenues. If any substantial part of the Enterprise is sold the payment therefor shall either be used for the acquisition and/or construction of improvements and extensions of the Enterprise or shall be deposited with the Trustee and shall be used to redeem the Outstanding Bonds and Parity Debt in respective amounts and on the respective dates identified by the City in writing.

The City covenants that any amounts received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the City, shall either (a) be used for the acquisition and or construction of improvements and extension of the Enterprise, or (b) be deposited with the Trustee (in an amount required to redeem the maximum amount of Outstanding Bonds and Parity Debt) to be used to pay or redeem the Outstanding Bonds and Parity Debt in respective amounts and on the respective dates identified by the City in writing.

**SECTION 6.07. Insurance.** The City covenants that it shall at all times maintain with responsible insurers all such insurance on the Enterprise as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Enterprise shall be damaged or destroyed, such part shall be restored to use. The money collected from insurance against accident to or destruction of the physical Enterprise shall either (a) be used for repairing or rebuilding the damaged or destroyed Enterprise, and to the extent not so applied shall be deposited with the Trustee (in an amount required to redeem the maximum amount of Outstanding Bonds and Parity Debt) to be used to pay or redeem the Outstanding Bonds and Parity Debt in respective amounts and on the respective dates identified by the City in writing.

Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the City, or may in the form of self-insurance by the City. The City shall establish such fund or funds or reserves as are necessary to provide for its share of any such self-insurance. The City shall file or cause to be filed with the Trustee, annually within one hundred twenty (120) days after the close of each Fiscal Year, a Certificate of the City (a) stating that the City is then in compliance with the requirements of this Section, and (b) stating whether during the preceding Fiscal Year any loss has been incurred with respect to the Enterprise and, if so, the amount of insurance proceeds, including the proceeds of any self-insurance fund covering such loss and specifying the reasonable and necessary costs of repair, reconstruction or replacement thereof.

**SECTION 6.08. Records and Accounts.** The City covenants that it shall keep proper books of record and accounts of the Enterprise, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Said books shall, upon reasonable request, be subject to the inspection of the Owners of not less than ten percent (10%) of the Outstanding Bonds or their representatives authorized in writing.

The City covenants that it will cause the books and accounts of the Enterprise to be audited annually by an Independent Accountant and will make available for inspection by the Bond Owners at the Trust Office of the Trustee, upon reasonable request, a copy of the report of such Independent Accountant.

**SECTION 6.09. Rates and Charges.** The City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which (together with other funds accumulated from Gross Revenues and which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year) are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

- (a) all Operating Expenses estimated by the City to become due and payable in such Fiscal Year;
- (b) the Debt Service on the Outstanding Bonds and Parity Debt becoming due and payable during such Fiscal Year;
- (c) all other payments required for compliance with this Indenture and the instruments pursuant to which any Parity Debt shall have been issued; and
- (d) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or the Net Revenues.

In addition, the City shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which are sufficient to yield Net Revenues during such Fiscal Year equal to at least 1.25 times the amount determined pursuant to the preceding clause (b) of this Section. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce such fees and charges below those then in effect unless the Gross Revenues from such reduced fees and charges will at all times be sufficient to meet the requirements of this Section 6.09.

SECTION 6.10. No Priority for Additional Obligations. The City covenants that no additional bonds, notes or other indebtedness shall be issued or incurred having any priority in payment of principal or interest out of the Net Revenues over the Bonds. Nothing in this Indenture shall prohibit or impair the authority of the City to issue bonds or other obligations which are unsecured or which are secured by a lien on Net Revenues which is subordinate to the lien established hereunder, upon such terms and in such principal amount as the City may determine.

SECTION 6.11. Rebate Fund.

(A) The Trustee shall establish and maintain, so long as any Bonds remain Outstanding, a fund separate from any other fund established and maintained hereunder designated as the "Rebate Fund" (the "Rebate Fund"). All amounts at any time on deposit in the Rebate Fund shall be held by the Trustee to the extent required to satisfy the requirement to make rebate payments to the United States (the "Rebate Requirement") pursuant to Section 148 of the Code and the Treasury Regulations promulgated thereunder (the "Treasury Regulations"). Such amounts shall be free and clear of any lien under this Indenture and shall be governed by this Section and Section 6.12 of this Indenture and by the Tax Certificate.

(B) Within 45 days of the end of each Bond Year (as such term is defined in the Tax Certificate), (i) the City shall calculate or cause to be calculated with respect to the Bonds the amount that would be considered the "rebate amount" within the meaning of Section 1.148-3 of the Treasury Regulations, using as the "computation date" for this purpose the end of such Bond Year, and (ii) upon the City's written direction, the Trustee shall deposit to the Rebate Fund from amounts received by the City, if and to the extent required, amounts sufficient to cause the balance in the Rebate Fund to be equal to the "rebate amount" so calculated.

The Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with the preceding sentence if the amount on deposit in the Rebate Fund prior to the deposit required to be made under this paragraph (B) equals or exceeds the "rebate amount" calculated in accordance with the preceding sentence. Such excess may be withdrawn from the Rebate Fund to the extent permitted under paragraph (C) of this Section.

The City shall not be required to calculate the "rebate amount," and the Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with this paragraph (B), with respect to all or a portion of the proceeds of the Bonds (including amounts treated as proceeds of the Bonds) (i) to the extent such proceeds satisfy the expenditure requirements of Section 148(f)(4)(B) or Section 148(f)(4)(C) of the Code or Section 1.148-7(d) of the Treasury Regulations, whichever is applicable, and otherwise qualify for the exception to the Rebate Requirement pursuant to whichever of said sections is applicable, (ii) to the extent such proceeds are subject to an election by the City under Section 148(f)(4)(C)(vii) of the Code to pay a 1½% penalty in lieu of arbitrage rebate in the event any of the percentage expenditure requirements of Section 148(f)(4)(C) are not satisfied, or (iii) to the extent such proceeds qualify for the exception to arbitrage rebate under Section 148(f)(4)(A)(ii) of the Code for amounts in a "bona fide debt service fund."

(C) Any funds remaining in the Rebate Fund after payment of all the Bonds hereunder and any amounts described in clause (2) of paragraph (D) of this section, or provision made therefor, including accrued interest, shall be transferred by the Trustee to the City for deposit to the Sewer Enterprise Fund.

(D) Subject to the exceptions contained in paragraph (A) of this section to the requirement to calculate the "rebate amount" and make deposits to the Rebate Fund, the Trustee shall, upon the City's written direction, pay to the United States, from amounts on deposit in the Rebate Fund,

(1) not later than 60 days after the end of (i) the fifth Bond Year, and (ii) each fifth Bond Year thereafter, an amount that, together with all previous rebate payments, is equal to at least 90% of the "rebate amount" calculated as of the end of such Bond Year in accordance with Section 1.148-3 of the Treasury Regulations; and

(2) not later than 60 days after the payment of all Bonds, an amount equal to 100% of the "rebate amount" calculated as of the date of such payment (and any income attributable to the "rebate amount" determined to be due and payable) in accordance with Section 1.148-3 of the Treasury Regulations.

(E) Each payment required to be made pursuant to paragraph (D) of this section shall be made to the Internal Revenue Service Center, Philadelphia, Pennsylvania 19255 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038 T, which shall be completed by or on behalf of the City and provided to the Trustee.

(F) In the event that, prior to the time any payment is required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the City shall calculate the amount of such deficiency and direct the Trustee to

deposit an amount equal to such deficiency into the Rebate Fund prior to the time such payment is due.

(G) In the event that immediately following the calculation required by paragraph (B) of this section, but prior to any deposit made under said paragraph, the amount on deposit in the Rebate Fund exceeds the "rebate amount" calculated in accordance with said paragraph, the City shall transfer the excess from the Rebate Fund to the Sewer Enterprise Fund.

(H) The City shall retain records of all determinations made hereunder until six years after the final payment or discharge of all Bonds.

(I) Notwithstanding anything in this Indenture to the contrary, the Rebate Requirement shall survive the payment in full or defeasance of the Bonds.

(J) The Trustee shall not be responsible for calculating rebate amounts or for the adequacy or correctness or any rebate report or rebate calculations. The Trustee shall be deemed conclusively to have complied with the provisions of this Indenture regarding calculation and payment of rebate if it follows the directions of the City and it shall have no independent duty to review or such calculations or enforce the compliance with such rebate requirements. The Trustee may conclusively rely upon and shall be fully protected from all liability in relying upon the determinations, calculations and certifications required by this Section.

SECTION 6.12. Tax Covenants. The City covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the City may exclude the application of the covenants contained in this Section 6.12 and Section 6.11 hereof to such Series of Bonds. The City will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the City, or take or omit to take any action that would cause the Bonds to be arbitrage bonds within the meaning of Section 148(a) of the Code. To that end, the City will comply with all requirements of Section 148 of the Code to the extent applicable to the Bonds. In the event that at any time the City is of the opinion that for purposes of this Section 6.12 it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under this Indenture, the City shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the City agrees that there shall be paid from time to time all amounts required to be rebated to the federal government of the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. The City specifically covenants to pay or cause to be paid to the federal government of the United States of America the Rebate Requirement at the times and in the amounts determined under and as described in the Tax Certificate.

Notwithstanding any provision of this Section 6.12 and Section 6.11 hereof, if the City shall receive an Opinion of Bond Counsel to the effect that any action required under this Section 6.12 and Section 6.11 hereof is no longer required, or to the effect that some further action is

required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the City and the Trustee may rely conclusively on such opinion in complying with the provisions hereof, and the covenants hereunder shall be deemed to be modified to that extent.

SECTION 6.13. Continuing Disclosure Agreement. The City will comply with and carry out all of its obligations under any Continuing Disclosure Agreement executed in connection with a Series of Bonds. Upon the failure of the City to comply with the Continuing Disclosure Agreement relating to any Series of Bonds, the Trustee (at the written request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Owners of at least 25% in aggregate Bond Obligation of the related Series of Bonds, shall, but only to the extent indemnified to its satisfaction from any liability or expense, including, without limitation, fees and expenses of its attorneys) 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 City, to comply with its obligations under this section. For purposes of this section, "Beneficial Owner" shall have the meaning prescribed thereto in the respective Continuing Disclosure Agreement relating to such Series of Bonds.

## 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 declaration or otherwise in the amounts and at the times provided therefor;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) failure by the City to observe or perform any covenant, condition, agreement or provision in this Indenture on its part to be observed or performed, other than as referred to in subsection (a) or (b) of this Section, for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, has been given to the City by the Trustee; except that, if such failure can be remedied but not within such thirty (30) day period and if the City has taken all action reasonably possible to remedy such failure within such thirty (30) day period, such failure shall not become an Event of Default for so long as the City shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee or any insurer of the Bonds;

(d) default by the City under any agreement governing any Parity Debt and the continuance of such default beyond the therein stated grace period, if any, with respect to such default;

(e) the filing by the City of a petition in voluntary bankruptcy for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or an assignment by the City for the benefit of creditors, or the admission by the City in writing to its insolvency or inability to pay debts as they mature, or the consent by the City in writing to the appointment of a trustee or receiver for itself;

(f) the entering by a court of competent jurisdiction of an order, judgment or decree declaring the City insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the City, or approving a petition filed against the City seeking reorganization of the City under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof; or

(g) the assumption, under the provisions of any other law for the relief or aid of debtors, by any court of competent jurisdiction of custody or control of the City or of the Net Revenues and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control.

**SECTION 7.02. Application of Net Revenues and Other Funds After Default; Acceleration.** If an Event of Default shall occur and be continuing, the City shall immediately transfer to the Trustee all Net Revenues held by it and received thereafter and the Trustee shall apply all Net Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of this Indenture (except as otherwise provided in this Indenture) 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 Owners of the Bonds and Parity Debt, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under this Indenture;

(2) To the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Debt (upon presentation of the Bonds and Parity Debt to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of this Indenture, with interest on such Bond Obligation at the rate or rates of interest borne by the respective Bonds and Parity Debt, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Debt 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 Bond Obligation and Parity Debt at the rate borne by the respective Bonds and Parity Debt, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Debt due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or interest or Accreted Value (plus accrued interest) due on such date to the persons entitled thereto, without any discrimination or preference.

In each and every such case during the continuance of such Event of Default (and subject to any rights granted to any insurer of the Bonds with respect to the enforcement of remedies upon an Event of Default pursuant to a Supplemental Indenture), the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds at the time Outstanding shall be entitled, upon notice in writing to the City, to declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Bonds contained to the contrary notwithstanding.

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, the City shall pay to or shall deposit with the Trustee a sum sufficient to pay all principal on such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds at the time Outstanding, by written notice to the City and to the Trustee, may, on behalf of the Owners of all the Bonds, rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

**SECTION 7.03. Trustee to Represent Bondholders.** The Trustee is hereby irrevocably appointed (and the successive respective Owners 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 Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, this Indenture 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 Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation 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 Owners 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 Owners under this Indenture 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 Net Revenues, and other assets pledged under this Indenture, pending such proceedings. All rights of 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 Owners of such Bonds, subject to the provisions of this Indenture (including Section 7.05).

SECTION 7.04. Bondholders' Direction of Proceedings. Anything in this Indenture to the contrary notwithstanding, the Owners of a majority in aggregate amount of Bond Obligation 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 furnishing the Trustee with indemnification satisfactory to it, 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, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, 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 or holders of Parity Debt not parties to such direction.

SECTION 7.05. Limitation on Bondholders' Right to Sue. No Owner 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 or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation 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; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (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; and (5) the Trustee shall not have received contrary directions from the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding.

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 Owner of Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture or the rights of any other Owners of Bonds, or to enforce any right under this Indenture 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 Owners of the Outstanding Bonds, subject to the provisions of this Indenture.

SECTION 7.06. Absolute Obligation of the City. Nothing in any other provision of this Indenture or in the Bonds contained shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal or Redemption Price of and interest on the Bonds to the respective Owners of the Bonds at their respective due dates therefor or upon call for redemption, as herein provided, but only out of the Net Revenues and other assets herein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

SECTION 7.07. Termination of Proceedings. In case any proceedings taken by the Trustee or any one 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 City, the Trustee 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 City, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

SECTION 7.08. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds 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 7.09. No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds 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 Owners 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. Appointment; Duties, Immunities and Liabilities of Trustee.

(A) U.S. Bank National Association is hereby appointed as Trustee under this Indenture and hereby accepts the trust imposed upon it as Trustee hereunder and to perform all the functions and duties of the Trustee hereunder, subject to the terms and conditions set forth in this Indenture. The Trustee shall, prior to an Event of Default, and after the curing or waiver 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 no implied covenants 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 or waived), 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 would exercise or use under the circumstances in the conduct of his or her own affairs.

(B) The City may 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 Owners of not less than a majority in aggregate amount of Bond Obligation 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 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 City shall promptly appoint a successor Trustee by an instrument in writing.

(D) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of himself 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 City and to its predecessor 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 City or 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 request of the successor Trustee, the City 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 acceptance of appointment by a successor Trustee as provided in this subsection, the City shall give notice of the succession of such Trustee to the trusts hereunder by mail to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the City 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 City.

(E) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company having a corporate trust office in the State, having a combined capital and surplus of at least fifty million dollars (\$50,000,000) 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.

If, by reason of the judgment of any court, the Trustee or any successor Trustee is rendered unable to perform its duties hereunder, and if no successor Trustee be then appointed,

all such duties and all of the rights and powers of the Trustee hereunder shall be assumed by and vest in the Treasurer of the City in trust for the benefit of the Bondowners.

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 City, and the Trustee assumes no responsibility for the correctness of the same (other than the certificate of authentication of the Trustee on each Bond), and makes no representations as to the validity or sufficiency of this Indenture or of the Bonds or of any Investment Security, as to the sufficiency of the Net Revenues, or the priority of the lien of this Indenture thereon, or as to the financial or technical feasibility of the Enterprise and shall not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly herein or in the Bonds assigned to or imposed upon it. 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, willful misconduct or breach of the express terms and conditions hereof. The Trustee and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if the Trustee was not the Trustee under this Indenture. The Trustee may in good faith hold any other form of indebtedness of the City, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of the City and make disbursements for the City and enter into any commercial or business arrangement therewith, without limitation.

(B) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts. The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duty hereunder, but the Trustee shall be answerable for the negligence or misconduct of any such attorney, agent, or receiver selected by it; provided, however, that the Trustee shall not be answerable for the negligence or misconduct of any attorney or certified public accountant selected by it with due care.

(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 Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation 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, including, without limitation, the provisions of Article VII hereof, unless such Bondholders shall have offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby.

(E) 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 or exercise of any of its duties hereunder.

(F) The Trustee shall not be deemed to have knowledge of and shall not be required to take any action with respect to, any Event of Default (other than an Event of Default described in subsections (a) or (b) of Section 7.01) or event which would, with the giving of notice, the passage of time or both, constitute an Event of Default, unless the Trustee shall have actual knowledge of such event or shall have been notified of such event by the City or the Owners of twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds at the time Outstanding. Without limiting the generality of the foregoing, the Trustee shall not be required to ascertain, monitor or inquire as to the performance or observance by the City of the terms, conditions, covenants or agreements set forth in Article VI hereof (including, without limitation, the covenants of the City set forth in Sections 6.07 or 6.08 hereof), other than the covenants of the City to make payments with respect to the Bonds when due as set forth in Section 6.01 and to file with the Trustee when due, such reports and certifications as the City is required to file with the Trustee hereunder.

(G) No permissive power, right or remedy conferred upon the Trustee hereunder shall be construed to impose a duty to exercise such power, right or remedy.

(H) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the City, personally or by agent or attorney.

(I) The Trustee shall not be responsible for:

(1) the application or handling by the City of any Net Revenues or other moneys transferred to or pursuant to any Requisition or Request of the City in accordance with the terms and conditions hereof;

(2) the application and handling by the City of any other fund or account designated to be held by the City hereunder;

(3) any error or omission by the City in making any computation or giving any instruction pursuant to Sections 6.07 and 6.08 hereof and may rely conclusively on

any computations or instructions furnished to it by the City in connection with the requirements of Section 6.08 and the Tax Certificate; or

(4) the construction, operation or maintenance of the Enterprise by the City.

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

(K) The Trustee shall have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

**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, note 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, including, without limitation, counsel of or to the City, 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 herewith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

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 City, 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 seem reasonable. The Trustee may also rely conclusively on any report or certification of any certified public accountant, investment banker, financial consultant, or other expert selected by the City or selected by the Trustee with due care in connection with matters required to be proven or ascertained in connection with its administration of the trusts created hereby.

**SECTION 8.05. Compensation and Indemnification of Trustee.** The City shall cause to be paid to the Trustee from time to time reasonable compensation for all service rendered under this Indenture, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents, and employees, incurred in and about the performance of their powers and duties under this Indenture, subject to the provisions of Section 11.10 hereof. The City further agrees to indemnify and save the Trustee, its officers, directors and employees harmless from and against any costs, claims, expenses or liabilities, including fees and expenses of its attorneys, which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence, misconduct or default.

## ARTICLE IX

### MODIFICATION OR AMENDMENT OF THIS INDENTURE

#### SECTION 9.01. Amendments Permitted.

(A) (1) This Indenture and the rights and obligations of the City, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding shall have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under this Section.

(2) For any Series of Bonds for which there is a letter of credit or policy of bond insurance in place securing such Series of Bonds, the written consents of each provider of a letter of credit or a policy of bond insurance for such Series of Bonds filed with the Trustee shall be accepted in lieu of consent of the Owners of such Series of Bonds and shall be deemed to be the consent of all of the Owners of such Series of Bonds for purposes of satisfying the requirements of Section 9.01(A)(1) hereof, provided that at the time such consent is given the payment of all the principal of and interest on all Outstanding Bonds of such Series shall be insured by a policy or policies of municipal bond insurance or payable under a letter of credit the provider of which shall be a financial institution or association having unsecured debt obligations rated, or insuring or securing other debt obligations rated on the basis of such insurance or letters of credit, in one of the two highest Rating Categories of Moody's or Standard & Poor's.

(3) No such modification or amendment shall (a) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any mandatory sinking fund payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof exclusively, without the consent of the Owner of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Revenues and other assets pledged under this Indenture prior to or on a parity with the lien created by this Indenture, or deprive the Owners of the Bonds of the lien created by this Indenture on such Net Revenues and other assets (in each case, except as expressly provided in this Indenture), without the consent of the Owners of all of the Bonds then Outstanding. 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 and delivery by the Trustee and the City 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 Owners of the Bonds at the addresses shown on the registration books of 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.

(4) A copy of each Supplemental Indenture entered into by the City and the Trustee pursuant to this Section 9.01(A) shall be sent by the City to Moody's and Standard & Poor's.

(B) This Indenture and the rights and obligations of the City, of the Trustee and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the City may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City in this Indenture contained 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 City;

(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 City may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Owners of the Bonds;

(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, and which shall not materially and adversely affect the interests of the Owners of the Bonds;

(4) to make modifications or adjustments necessary, appropriate or desirable to provide for the issuance of Variable Rate Indebtedness, Capital Appreciation Indebtedness or Parity Debt with such interest rate, payment, maturity and other terms as the City may deem desirable; subject to the provisions of Section 3.01, 3.03 and 3.05;

(5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision shall materially and adversely affect the interests of the Owners of the Bonds;

(6) if the City agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(7) to provide for the issuance of an additional Series of Bonds pursuant to provisions of Section 3.02 or Section 3.03; and

(8) for any other purpose that does not materially and adversely affect the interests of the Owners of the Bonds.

SECTION 9.02. Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective 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 City, the Trustee and all Owners 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 any Supplemental Indenture becomes effective pursuant to this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by the City and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such execution and presentation of his Bond for such purpose at the Corporate Trust Office 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 City and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the City and authenticated by the Trustee, and upon demand of the Owners of any Bonds then Outstanding shall be exchanged at the Principal Corporate Trust Office, without cost to any Bondholder, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts of the same Series, tenor and maturity.

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

## ARTICLE X

### DEFEASANCE

SECTION 10.01. Discharge of Indenture. Bonds of any Series or a portion thereof may be paid by the City in any of the following ways:

- (a) by paying or causing to be paid the Bond Obligation of and interest on such Outstanding Bonds, as and when the same become due and payable;
- (b) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem such Outstanding Bonds; or
- (c) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the City shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable hereunder by the City, then and in that case (but subject to any additional requirements in connection therewith as may be imposed by any insurer of the Bonds

and set forth in a Supplemental Indenture), at the election of the City (evidenced by a Certificate of the City filed with the Trustee signifying the intention of the City 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 Net Revenues and other assets made under this Indenture and all covenants, agreements and other obligations of the City under this Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the City, the Trustee shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary or desirable 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, as evidenced by a verification report, upon which the Trustee may conclusively rely, from a firm of certified public accountants, are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

SECTION 10.02. Discharge of Liability on Bonds. Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, 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, then (but subject to any additional requirements with respect thereto as may be imposed by any insurer of the Bonds and set forth in a Supplemental Indenture) all liability of the City in respect of such Bond shall cease, terminate and be completely discharged, provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the City shall remain liable for such payment, 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 and the continuing duties of the Trustee hereunder.

The City may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

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 pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to this Indenture 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, 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) Defeasance Securities, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (upon which opinion the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, 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 City) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

SECTION 10.04. Payment of Bonds After Discharge of Indenture. Any moneys held by the Trustee in trust for the payment of the principal or Redemption Price of, or interest on, any Bonds and remaining unclaimed for two years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption as provided in this Indenture), if such moneys were so held at such date, or two (2) years 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 trust created by this Indenture, and all liability of 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 Owners of any Bonds remaining unpaid 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. All moneys held by or on behalf of the Trustee for the payment of principal or Accreted Value of or interest or premium on Bonds, whether at redemption or maturity, shall be held in trust for the account of the Owners thereof and the Trustee shall not be required to pay Owners any interest on, or be liable to the Owners or any other person (other than the City) for any interest earned on, moneys so held. Any interest earned thereon shall belong to the City and shall be deposited monthly by the Trustee into the Sewer Enterprise Fund.

## ARTICLE XI

### MISCELLANEOUS

SECTION 11.01. Liability of City Limited to Net Revenues. Notwithstanding anything in this Indenture or in the Bonds contained, the City shall not be required to advance any moneys derived from any source other than the Net Revenues and other assets pledged hereunder 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.

The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith

and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held hereunder pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

SECTION 11.02. Successor is Deemed Included in All References to Predecessor. Whenever in this Indenture either the City or the Trustee is named or referred to, 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 City 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 City, Trustee 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 City, the Trustee and the Owners of the Bonds and any Parity Debt, 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 City, the Trustee and the Owners of the Bonds and any Parity Debt.

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 or Delivery of Cancelled Bonds. Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to the City of any Bonds, the Trustee may, in its sole discretion, in lieu of such cancellation and delivery, destroy such Bonds, and deliver a certificate of such destruction to the City.

SECTION 11.06. Severability of Invalid Provisions. If any one 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 City hereby declares that it would have executed and delivered 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 any one or more Sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable.

SECTION 11.07. Notice to City and Trustee. Any notice to or demand upon the Trustee may be served or presented, and such demand may be made, at the Corporate Trust Office of the

Trustee. Any notice to or demand upon the City, shall be deemed to have been sufficiently given or served for all purposes by being deposited, first-class mail postage prepaid, in a post office letter box, addressed, as the case may be, to the City at 1010 Tenth Street, Modesto, California 95354, Attention: Director of Finance (or such other address as may have been filed in writing by the City with the Trustee).

**SECTION 11.08. 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 City 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 him 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. The Trustee may establish a record date as of which to measure consent of the Bondowners in order to determine whether the requisite consents are received.

Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner 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 City in accordance therewith or reliance thereon.

**SECTION 11.09. Disqualified Bonds.** In determining whether the Owners of the requisite aggregate amount of Bond Obligation 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 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 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 City or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

**SECTION 11.10. 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 registered 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 Owners of the Bonds entitled thereto, subject, however, to the provisions of Section 10.04.

SECTION 11.11. 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 industry, to the extent practicable, and with due regard for the protection of the security of the Bonds and the rights of every holder thereof.

SECTION 11.12. Article and Section Headings and References. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Indenture.

All references herein to "Articles," "Sections" 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; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

SECTION 11.13. Waiver of Personal Liability. No Council member, officer, agent or employee of the City or the Trustee shall be individually or personally liable for the payment of the principal or Redemption Price of 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 Council member, officer, agent or employee of the City or the Trustee from the performance of any official duty provided by law or by this Indenture.

SECTION 11.14. Governing Law. This Indenture shall be construed and governed in accordance with the laws of the State of California.

SECTION 11.15. Business Day. Except as specifically set forth in a Supplemental Indenture, any payments or transfers which would otherwise become due on any day which is not a Business Day shall become due or shall be made on the next succeeding Business Day with the same effect as if made on such preceding non-Business Day.

SECTION 11.16. Effective Date of Indenture. This Indenture shall take effect upon its execution and delivery.

SECTION 11.17. Execution in Counterparts. This Indenture may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Indenture by their officers thereunto duly authorized as of the day and year first written above.

CITY OF MODESTO, CALIFORNIA

By: Gregory M. Baird  
Deputy Director of Finance

(Seal)

ATTEST:

By: Jean Fahr  
City Clerk

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_  
Authorized Officer

IN WITNESS WHEREOF, the parties hereto have executed this Indenture by their officers thereunto duly authorized as of the day and year first written above.

CITY OF MODESTO, CALIFORNIA

By: \_\_\_\_\_  
Deputy Director of Finance

(Seal)

ATTEST:

By: \_\_\_\_\_  
City Clerk

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: *Myra P. Chouh*  
Authorized Officer

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FIRST SUPPLEMENTAL  
WASTEWATER REVENUE BOND INDENTURE

by and between the

CITY OF MODESTO, CALIFORNIA

and

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

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Dated as of April 1, 2005

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(Supplemental to the Wastewater Revenue  
Bond Indenture dated as of April 1, 2005)

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FIRST SUPPLEMENTAL  
WASTEWATER REVENUE BOND INDENTURE

**Table of Contents**

**Page**

ARTICLE XII

THE 2005A BONDS

SECTION 12.01. Definitions.....	2
SECTION 12.02. Authorization; Terms of the Series 2005A Bonds.....	4
SECTION 12.03. Redemption of Series 2005A Bonds.....	6
SECTION 12.04. Selection of Series 2005A Bonds for Redemption.....	6
SECTION 12.05. Notice of Redemption of Series 2005A Bonds.....	6
SECTION 12.06. Partial Redemption of Series 2005A Bonds.....	6
SECTION 12.07. Effect of Redemption of Series 2005A Bonds.....	7
SECTION 12.08. Form of Series 2005A Bonds.....	7
SECTION 12.09. Issuance of Series 2005A Bonds.....	7
SECTION 12.10. Application of Proceeds of Series 2005A Bonds.....	7
SECTION 12.11. Establishment and Application of Series 2005 Costs of Issuance Fund.....	8
SECTION 12.12. Use of Depository.....	8
SECTION 12.13. Bond Insurance Provisions.....	9
SECTION 12.14. Terms of Series 2005A Bonds Subject to the Indenture.....	14
SECTION 12.15. Effective Date of First Supplement.....	15
SECTION 12.16. Execution in Counterparts.....	15
EXHIBIT A - Form of Series 2005A Bonds.....	A-1

First Supplemental Wastewater Revenue Bond Indenture  
(Supplemental to the Wastewater Revenue Bond Indenture  
dated as of April 1, 2005)  
Authorizing the Issuance of  
\$36,495,000 Aggregate Principal Amount of  
City of Modesto, California  
Wastewater Revenue Refunding Bonds, Series 2005A

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This FIRST SUPPLEMENTAL WASTEWATER REVENUE BOND INDENTURE, dated as of April 1, 2005 (the "First Supplement"), by and between the CITY OF MODESTO, CALIFORNIA (the "City"), a municipal corporation and chartered city duly organized and existing under the Constitution and laws of the State of California, and U.S. BANK NATIONAL ASSOCIATION, as trustee (the "Trustee"),

W I T N E S S E T H :

WHEREAS, Section 200 of the Charter of the City of Modesto and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the "Bond Law") authorizes the City to issue revenue bonds to finance the acquisition, construction, improvement, furnishing, equipping, remodeling, repair, reconstruction or rehabilitation of the wastewater treatment facilities of the City (the "Enterprise") or for the purpose of refunding bonds issued for such purposes; and

WHEREAS, in accordance with the Bond Law and an Indenture of Trust, dated as of December 1, 1987 (the "Prior Indenture"), the City has previously issued its Wastewater Treatment Facility Refunding Revenue Bonds, Series 1987 (the "Series 1987 Bonds") in an aggregate principal amount of \$11,785,000 to provide funds to advance refund certain outstanding wastewater revenue bonds of the City; and

WHEREAS, in accordance with the Bond Law and the Prior Indenture, as amended and supplemented by a First Supplemental Indenture, dated as of September 1, 1993 (the "First Supplemental Indenture"), the City has previously issued its Wastewater Revenue Bonds, Series 1993 (the "Series 1993 Bonds") in an aggregate principal amount of \$8,555,000 to provide funds for the acquisition and construction of improvements to the Enterprise; and

WHEREAS, in accordance with the Bond Law and the Prior Indenture, as previously amended and supplemented, and as amended and supplemented by a Second Supplemental Indenture, dated as of August 1, 1996 (the "Second Supplemental Indenture"), the City has previously issued its Wastewater Treatment Facility Refunding Revenue Bonds, Series 1996 (the "Series 1996 Bonds") in an aggregate principal amount of \$8,695,000 to provide funds to current refund the 1987 Bonds; and

WHEREAS, in accordance with the Bond Law and the Prior Indenture, as previously amended and supplemented, and as amended and supplemented by a Third Supplemental Indenture, dated as of April 1, 1997 (the "Third Supplemental Indenture"), the City has previously issued its Wastewater Treatment Facility Revenue Bonds, Series 1997 (the "Series 1997 Bonds") in an aggregate principal amount of \$32,400,000 to finance the acquisition and construction of improvements to the Enterprise;

WHEREAS, the City has determined that it is desirable and necessary and in the best interest of the City to refund all of the outstanding Series 1993 Bonds, Series 1996 Bonds and Series 1997 Bonds and to enter into a Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the "Indenture"), between the City and the Trustee, providing for the issuance of wastewater revenue bonds hereafter thereunder (the "Bonds"); and

WHEREAS, the Indenture provides that the City may issue Bonds from time to time as authorized by a supplemental indenture; and

WHEREAS, this First Supplement is supplemental to the Indenture; and

WHEREAS, the City has determined that it is necessary and required that the City enter into this First Supplement in order to establish and declare, in conjunction with the Indenture, the terms and conditions upon which City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2005A (the "Series 2005A Bonds") shall be issued and secured and to secure the payment of the principal thereof and premium (if any) and interest thereon; and

WHEREAS, the City has determined that 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 the entering into of this First Supplement 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 First Supplement;

NOW, THEREFORE, the parties hereto agree, as follows:

## ARTICLE XII

### THE 2005A BONDS

SECTION 12.01. Definitions. The terms defined in this Section shall, for all purposes of this First Supplement 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. Terms defined in the Indenture not otherwise defined herein shall have the meanings specified therein.

#### 1993 Bonds Escrow Agreement

"1993 Bonds Escrow Agreement" means the Escrow Agreement, dated as of April 1, 2005, between the City and U.S. Bank National Association, as escrow agent, relating to the defeasance of the outstanding Series 1993 Bonds.

### 1997 Bonds Escrow Agreement

“1997 Bonds Escrow Agreement” means the Escrow Agreement, dated as of April 1, 2005, between the City and U.S. Bank National Association, as escrow agent, relating to the defeasance of the outstanding Series 1997 Bonds.

### First Supplement

“First Supplement” means this First Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005, between the City and the Trustee.

### Prior Indenture

“Prior Indenture” means the Indenture of Trust, dated as of December 1, 1987, by and between the City and U.S. Bank National Association, as successor trustee, as amended and supplemented to the date hereof.

### Second Supplement

“Second Supplement” means the Second Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005, between the City and the Trustee, pursuant to which the Series 2005B Bonds are issued.

### Securities Depository

“Securities Depository” shall have the meaning assigned to such term in Section 12.12(A) hereof.

### Series 1993 Bonds

“Series 1993 Bonds” means the City of Modesto, California Wastewater Revenue Bonds, Series 1993 issued and outstanding under the Prior Indenture.

### Series 1997 Bonds

“Series 1997 Bonds” means the City of Modesto, California Wastewater Treatment Facility Revenue Bonds, Series 1997 issued and outstanding under the Prior Indenture.

### Series 2005 Bonds

“Series 2005 Bonds” means collectively, the Series 2005A Bonds and the Series 2005B Bonds.

### Series 2005 Costs of Issuance Fund

“Series 2005 Costs of Issuance Fund” means the fund by that name established pursuant to Section 12.11 hereof.

### Series 2005A Bonds

“Series 2005A Bonds” means the City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2005A, as described in Section 12.02(A) hereof.

### Series 2005A Bond Insurance Policy

“Series 2005A Bond Insurance Policy” means the insurance policy issued by the Series 2005A Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Series 2005A Bonds when due.

### Series 2005A Bond Insurer

“Series 2005A Bond Insurer” means Financial Security Assurance, Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

### Series 2005B Bonds

“Series 2005B Bonds” means the City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2005B (Taxable), issued simultaneously with the Series 2005A Bonds, pursuant to the Second Supplement.

#### SECTION 12.02. Authorization; Terms of the Series 2005A Bonds.

(A) A first Series of Bonds to be issued under the Indenture is hereby created. Such Series shall be known as the “City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2005A” (herein referred to as the “Series 2005A Bonds”). The Series 2005A Bonds shall be issued in the aggregate initial principal amount of \$36,495,000 in accordance with the Bond Law and this Indenture for the purposes of (i) refunding the outstanding Series 1993 Bonds and Series 1997 Bonds, (ii) funding a deposit to the Parity Reserve Fund, and (iii) paying the Costs of Issuance in connection with the issuance and delivery of the Series 2005A Bonds.

(B) The Series 2005A Bonds shall be issued in fully registered form and shall be initially registered in the name of “Cede & Co.”, as nominee of The Depository Trust Company. The Series 2005A Bonds shall be evidenced by one Series 2005A Bond maturing on each of the maturity dates as set forth in subsection 12.02(C) in a denomination corresponding to the total principal amount of the Series 2005A Bonds of such maturity. Each Series 2005A Bond may be assigned by the Trustee a distinctive number or letter and number, and a record of the same shall be maintained by the Trustee. Registered ownership of the Series 2005A Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 12.12.

(C) The Series 2005A Bonds shall be dated the date of delivery, shall be bonds which are Current Interest Indebtedness, shall be issued in denominations of \$5,000 or any integral multiple thereof, and shall bear interest from the date thereof at the following rates per annum and shall mature on November 1 in the following years in the following amounts:

Maturity Date (November 1)	Principal Amount	Interest Rate
2005	\$ 440,000	3.00%
2006	575,000	3.00
2007	595,000	3.00
2008	1,660,000	3.00
2009	1,710,000	3.00
2010	1,765,000	5.00
2011	1,855,000	5.00
2012	1,955,000	5.00
2013	2,050,000	5.00
2014	2,160,000	5.00
2015	2,270,000	5.00
2016	2,385,000	4.00
2017	2,485,000	5.25
2018	2,625,000	5.25
2019	2,765,000	5.00
2020	2,905,000	5.25
2021	3,065,000	5.25
2022	3,230,000	5.25

The Series 2005A Bonds maturing on November 1, 2005 through November 1, 2022 inclusive, are designated Serial Bonds.

Interest on the Series 2005A Bonds shall be payable commencing on November 1, 2005 and semiannually thereafter on May 1 and November 1 of each year in lawful money of the United States of America by check mailed by first-class mail on each interest payment date to the Owner thereof as of the close of business on the fifteenth (15th) day of the calendar month immediately preceding such interest payment date; provided, that upon the written request of an Owner of one million dollars (\$1,000,000) or more in aggregate principal amount of Series 2005A Bonds received by the Trustee prior to the applicable Record Date (which such request shall remain in effect until rescinded in writing by such Owner), interest shall be paid by wire transfer in immediately available funds. Interest on the Series 2005A Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. The principal of and premium, if any, on the Series 2005A Bonds are payable when due upon presentation thereof at the Corporate Trust Office of the Trustee, in lawful money of the United States of America.

So long as the Series 2005A Bonds are maintained in book-entry form, payments of principal, premium, if any, and interest shall be made by the Trustee to the Securities Depository by wire transfer.

The Trustee shall provide to Bondholders CUSIP number identification, with appropriate dollar amounts for each CUSIP number, on all redemption payments and interest payments, whether by check or by wire transfer.

SECTION 12.03. Redemption of Series 2005A Bonds.

(A) Optional Redemption. The Series 2005A Bonds maturing on or before November 1, 2015 are not subject to call or redemption prior to maturity. The Series 2005A Bonds maturing on or after November 1, 2016 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2015, at a Redemption Price equal to 100% of the principal amount of Series 2005A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

(B) Special Mandatory Redemption From Insurance or Condemnation Proceeds. The Series 2005A Bonds shall also be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to Sections 6.06 or 6.07 of the Indenture, at a Redemption Price equal to the principal amount of the Series 2005A Bonds plus interest accrued thereon to the date fixed for redemption, without premium. Notwithstanding the foregoing, in the event of a special mandatory redemption of less than all of the Outstanding Series 2005A Bonds pursuant to this Section 12.03(B), the designation by the City of the maturities of the Series 2005A Bonds from which such redemption will be made shall be subject to the prior written approval of the Series 2005A Bond Insurer.

SECTION 12.04. Selection of Series 2005A Bonds for Redemption. Whenever provision is made in this First Supplement for the redemption of less than all of the Series 2005A Bonds of any maturity (and interest rate), the Trustee shall select the Series 2005A Bonds to be redeemed, from all Series 2005A Bonds of the respective maturity (and interest rate) not previously called for redemption, in authorized denominations, by lot in any manner which the Trustee in its sole discretion shall deem appropriate. The Trustee shall promptly notify the City in writing of the Series 2005A Bonds so selected for redemption.

SECTION 12.05. Notice of Redemption of Series 2005A Bonds. The City shall notify the Trustee at least forty-five (45) days prior to the redemption date for Series 2005A Bonds pursuant to Section 12.03(A) or (B). Notice of redemption of any Series 2005A Bonds shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (i) to the respective Owners of any Series 2005A Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee by first-class mail, (ii) to the Securities Depositories by facsimile and by first-class mail, and (iii) to the Information Services by first-class mail. Notice of redemption shall be given in the form and in accordance with the terms of the Indenture.

SECTION 12.06. Partial Redemption of Series 2005A Bonds. Upon surrender of any Series 2005A Bond redeemed in part only, the City shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the City, a new Series 2005A Bond of authorized denominations, and of the same maturity and interest rate, equal in aggregate principal amount to the unredeemed portion of the Series 2005A Bond surrendered.

SECTION 12.07. Effect of Redemption of Series 2005A Bonds. 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 Series 2005A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2005A 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 date fixed for redemption, interest on the Series 2005A Bonds so called for redemption shall cease to accrue, said Series 2005A Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Series 2005A Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest.

All Series 2005A Bonds redeemed pursuant to the provisions of this Article shall be cancelled upon surrender thereof and destroyed.

SECTION 12.08. Form of Series 2005A Bonds. The Series 2005A Bonds and the certificate of authentication and registration to be executed thereon shall be in substantially the form set forth as Exhibit A hereto. The Series 2005A Bond designation letters and numbers, maturity dates, principal amounts, and interest rates and yields to maturity shall be inserted therein in conformity with Section 12.02.

SECTION 12.09. Issuance of Series 2005A Bonds. At any time after the execution and delivery of this First Supplement, the City may execute and the Trustee shall authenticate and deliver the Series 2005A Bonds in the aggregate principal amount of \$36,495,000 upon the Order of the City.

SECTION 12.10. Application of Proceeds of Series 2005A Bonds.

(A) The proceeds of the sale of the Series 2005A Bonds in the amount of \$38,434,769.37 (computed as \$36,495,000.00 aggregate principal amount of the Series 2005A Bonds, less \$227,734.04 Underwriter's discount, plus \$2,300,405.35 net original issue premium, less \$132,901.94 directly transferred, at the request and direction of the City and on behalf of the Trustee, by the Underwriter to the Series 2005A Bond Insurer, said amount representing the bond insurance premium for the Series 2005A Bond Insurance Policy) shall be received by the Trustee on behalf of the City and held in trust and set aside as follows:

(i) The Trustee shall transfer to U.S. Bank National Association, as escrow agent under the 1993 Bonds Escrow Agreement, \$4,137,837.71, to be applied, together with certain other amounts deposited therein at the direction of the City, towards the defeasance of the Series 1993 Bonds pursuant to the 1993 Bonds Escrow Agreement;

(ii) The Trustee shall transfer to U.S. Bank National Association, as escrow agent under the 1997 Bonds Escrow Agreement, \$34,114,056.00, to be applied, together with certain other amounts deposited therein at the direction of the City, towards the defeasance of the Series 1997 Bonds pursuant to the 1997 Bonds Escrow Agreement; and

(iii) The Trustee shall deposit in the 2005 Costs of Issuance Fund \$182,875.66, to be applied, together with certain other amounts transferred thereto at the direction of the City, in accordance with Section 12.11 hereof.

(B) On the date hereof, the Trustee shall transfer to the Parity Reserve Fund from the 1997 reserve account for the Series 1997 Bonds \$3,196,568.08, which shall be equal to the amount of the Reserve Fund Requirement attributable to the Series 2005 Bonds.

SECTION 12.11. Establishment and Application of Series 2005 Costs of Issuance Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Series 2005 Costs of Issuance Fund," which fund is hereby created and which fund the Trustee hereby agrees to maintain with the Trustee until November 1, 2005. The Trustee shall deposit to the Series 2005 Costs of Issuance Fund the amounts specified in Section 12.10 hereof and the amounts specified in Section 13.10 of the Second Supplement. All money in the Series 2005 Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance of the Series 2005 Bonds upon receipt of Requisitions of the City filed with the Trustee, each of which shall be sequentially numbered and shall state 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 said fund. On November 1, 2005 or upon the earlier Request of the City, any remaining balance in the Series 2005 Costs of Issuance Fund shall be transferred to the City.

SECTION 12.12. Use of Depository. Notwithstanding any provision of the Indenture or this First Supplement to the contrary:

(A) The Series 2005A Bonds shall be issued in fully registered form, in authorized denominations and shall be initially registered in the name of "Cede & Co.", as nominee of The Depository Trust Company (the "Securities Depository"), and shall be evidenced by one Series 2005A Bond maturing on each of the maturity dates as set forth in subsection 12.02(C) in a denomination corresponding to the total principal amount of the Series 2005A Bonds of such maturity. Each Series 2005A Bond shall be assigned by the Trustee a distinctive number or letter or letter and number, and a record of the same shall be maintained by the Trustee.

Registered ownership of the Series 2005A Bonds, or any portions thereof, may not thereafter be transferred except:

(i) To any successor of The Depository Trust Company or its nominee, or to any substitute depository designated pursuant to clause (ii) of this subsection (A) (a "Substitute Depository"); provided that any successor of The Depository Trust Company or Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it;

(ii) To any Substitute Depository not objected to by the Trustee, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the City that The Depository Trust Company 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

(iii) To any person as provided below, upon (1) the resignation of The Depository Trust Company or its successor (or Substitute Depository or its successor) from its functions as depository; provided that no Substitute Depository which is not objected to by the Trustee can be obtained, or (2) a determination by the City that it is in the best interests of the City to remove The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its function as depository.

(B) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection 12.12(A), upon receipt of all Outstanding Series 2005A Bonds by the Trustee, together with a Certificate of the City to the Trustee, a single new Series 2005A Bond for each maturity shall be executed and delivered, 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 City. In the case of any transfer pursuant to clause (iii) of subsection 12.12(A) hereof, upon receipt of all Outstanding Series 2005A Bonds by the Trustee together with a Certificate of the City to the Trustee, new Series 2005A Bonds shall be executed and delivered in such denominations and registered in the names of such persons as are requested in such a Certificate of the City, subject to the limitations of Section 12.02 hereof; provided the Trustee shall not be required to deliver such new Series 2005A Bonds within a period less than 60 days from the date of receipt of such a Certificate of the City.

(C) In the case of partial redemption, cancellation or an advance refunding of any Series 2005A Bonds evidencing all or a portion of the principal maturing in a particular year, The Depository Trust Company shall make an appropriate notation on the Series 2005A Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee.

(D) The City and the Trustee shall be entitled to treat the person in whose name any Series 2005A Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the City; and the City and the Trustee shall have no responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any beneficial owners of the Series 2005A Bonds. Neither the City nor the Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party including The Depository Trust Company or its successor (or Substitute Depository or its successor), except to the Owner of any Series 2005A Bond.

(E) So long as all Outstanding Series 2005A Bonds are registered in the name of "Cede & Co." or its registered assign, the City and the Trustee shall cooperate with "Cede & Co.," as sole registered Owner, and its registered assigns in effecting payment of the principal of and redemption premium, if any, and interest on the Series 2005A 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 12.13. Bond Insurance Provisions. Notwithstanding any other provision of the Indenture or this First Supplement to the contrary, so long as the Series 2005A Bond

Insurance Policy is in full force and effect and the Series 2005A Bond Insurer is not in default in its payment of obligations thereunder, the following provisions shall be in effect:

(A) The prior written consent of the Series 2005A Bond Insurer shall be a condition precedent to the deposit of any letter of credit, surety bond or insurance policy into the Parity Reserve Fund pursuant to Section 5.05 of the Indenture for purposes of satisfying all or any part of the Reserve Fund Requirement.

(B) Pursuant to the provisions of Section 9.01(A)(2) of the Indenture, any modification, amendment or supplement to the Indenture pursuant to Section 9.01(A) of the Indenture shall require the consent of the Series 2005A Bond Insurer in lieu of consent of the Owners of the Series 2005A Bonds. Copies of any Supplemental Indenture sent to Moody's and Standard & Poor's pursuant to Section 9.01(A)(4) shall be sent at least 10 days prior to the effective date thereof.

(C) (1) The Series 2005A Bond Insurer shall be deemed to be the sole Owner of the Series 2005A Bonds insured by it for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the Series 2005A Bonds insured by it are entitled to take pursuant to Article VII (pertaining to defaults and remedies) of the Indenture and Article VIII (pertaining to the Trustee) of the Indenture. The maturity of the Series 2005A Bonds insured by the Series 2005A Bond Insurer shall not be accelerated without the consent of the Series 2005A Bond Insurer.

(2) In the event the maturity of the Series 2005A Bonds is accelerated, the Series 2005A Bond Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued on such principal to the date of acceleration (to the extent unpaid by the City) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Series 2005A Bond Insurer's obligations under the Series 2005A Bond Insurance Policy with respect to such Series 2005A Bonds shall be fully discharged.

(3) The rights granted to the Series 2005A Bond Insurer hereunder to request, consent to or direct any action are rights granted to the Series 2005A Bond Insurer in consideration of its issuance of the Series 2005A Bond Insurance Policy. Any exercise by the Series 2005A Bond Insurer of such rights is merely an exercise of the Series 2005A Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Owners of the Series 2005A Bonds nor does such action evidence any position of the Series 2005A Bond Insurer, positive or negative, as to whether consent of the Owners of the Series 2005A Bonds is required in addition to consent of the Series 2005A Bond Insurer.

(4) In determining whether any amendment, consent or other action to be taken, or any failure to act, under the Indenture would adversely affect the security for the Series 2005A Bonds or the rights of the Owners, the Trustee shall consider the effect of any such amendment, consent, action or inaction as if there were no Series 2005A Bond Insurance Policy.

(5) The allowable grace period for the City to cure a failure to observe or perform any covenant, condition, agreement or provision of the Indenture prior to such failure

becoming an Event of Default pursuant to Section 7.01(b) of the Indenture shall not be extended beyond a sixty (60) day period without the prior written consent of the Series 2005A Bond Insurer. Notwithstanding any provision to the contrary that may be contained in any agreement governing any Parity Debt, for purposes of Section 7.01(d) of the Indenture there shall be no grace period for the default by the City in the due and punctual payment of any Parity Debt.

(D) (1) To the extent that the Indenture confers upon or gives or grants to the Series 2005A Bond Insurer any right, remedy or claim under or by reason of the Indenture, the Series 2005A Bond Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder or hereunder.

(2) Except as permitted under the terms of the Indenture, no contract shall be entered into by the City nor any action taken by the City by which the rights of the Series 2005A Bond Insurer or security for or sources of payment of the Series 2005A Bonds may be impaired or prejudiced except upon obtaining the prior written consent of the Series 2005A Bond Insurer.

(E) (1) In connection with any defeasance of Series 2005A Bonds pursuant to Article X of the Indenture, in addition to the requirements of Article X of the Indenture, the City shall cause to be delivered (i) an escrow deposit agreement (which shall be acceptable in form and substance to the Series 2005A Bond Insurer), and (ii) an opinion of nationally recognized bond counsel (which shall be acceptable in form and substance to the Series 2005A Bond Insurer) to the effect that the Series 2005A Bonds being defeased are no longer "Outstanding" under the Indenture, addressed to the City, the Trustee and the Series 2005A Bond Insurer. The Series 2005A Bond Insurer shall be provided with final drafts of the above-referenced documentation not less than five Business Days prior to the funding of the escrow. Any Series 2005A Bonds being defeased shall be deemed "Outstanding" under the Indenture unless and until they are in fact paid and retired or the above criteria are met.

(2) Amounts paid by the Series 2005A Bond Insurer under the Series 2005A Bond Insurance Policy shall not be deemed paid for purposes of the Indenture and shall remain Outstanding and continue to be due and owing until paid by the City in accordance with the Indenture.

(3) The Indenture shall not be discharged unless all amounts due or to become due to the Series 2005A Bond Insurer have been paid in full or duly provided for.

(F) While the Series 2005A Bond Insurance Policy is in effect, the City or the Trustee, as appropriate, shall furnish to the Series 2005A Bond Insurer:

(1) annual audited financial statements of the City within 150 days after the end of the City's Fiscal Year (together with a certification of the City that it is not aware of any Event of Default or any event which the passage of time or the giving of notice would constitute an Event of Default under the Indenture), and the City's annual budget within 30 days after the approval thereof, together with such other information, data or reports as the Series 2005A Bond Insurer shall reasonably request from time to time;

(2) notice of any draw upon the Parity Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Reserve Fund Requirement and (ii) withdrawals in connection with a refunding of Series 2005A Bonds;

(3) notice of any Event of Default under the Indenture known to the Trustee or the City within five Business Days after knowledge thereof;

(4) prior notice of the advance refunding or redemption of any of the Series 2005A Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(5) notice of the resignation or removal of the Trustee and the appointment of, and acceptance of duties by, any successor thereto;

(6) notice of the commencement of any proceeding by or against the City commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(7) notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of or interest on the Series 2005A Bonds;

(8) a full original transcript of all proceedings relating to the execution of any amendment or supplement to the Indenture; and

(9) all reports, notices and correspondence to be delivered under the terms of the Indenture.

(G) As long as the Series 2005A Bond Insurance Policy shall be in full force and effect, the City and the Trustee agree to comply with the following provisions:

(1) If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Trustee after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of and interest on the Series 2005A Bonds due on such Payment Date, the Trustee shall give notice to the Series 2005A Bond Insurer and to its designated agent (if any) (the "Insurer's Fiscal Agent") by telephone or teletype of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Series 2005A Bonds due on such Payment Date, the Trustee shall make a claim under the Series 2005A Bond Insurance Policy and give notice to the Series 2005A Bond Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Series 2005A Bonds and the amount required to pay principal of the Series 2005A Bonds, confirmed in writing to the Series 2005A Bond Insurer and the Insurer's Fiscal Agent by

12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Series 2005A Bond Insurance Policy.

(2) In the event the claim to be made is for a mandatory sinking fund redemption installment upon receipt of the moneys due, the Trustee shall authenticate and deliver to affected Owners of the Series 2005A Bonds who surrender their Series 2005A Bonds a new Series 2005A Bond or Series 2005A Bonds in an aggregate principal amount equal to the unredeemed portion of the Series 2005A Bond surrendered. The Trustee shall designate any portion of payment of principal on Series 2005A Bonds paid by the Series 2005A Bond Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Series 2005A Bonds registered to the then current Owner of such Series 2005A Bonds, whether DTC or its nominee or otherwise, and shall issue a replacement Series 2005A Bond to the Series 2005A Bond Insurer, registered in the name of Financial Security Assurance Inc., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Series 2005A Bond shall have no effect on the amount of principal or the interest payable by the City on any Series 2005A Bond or the subrogation rights of the Series 2005A Bond Insurer.

(3) The Trustee shall keep a complete and accurate record of all funds deposited by the Series 2005A Bond Insurer into the Policy Payments Account (referred to below) and the allocation of such funds to payment of interest on and principal paid in respect of any Series 2005A Bond. The Series 2005A Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

(4) Upon payment of a claim under the Series 2005A Bond Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of the Owners of the Series 2005A Bonds referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Series 2005A Bond Insurance Policy in trust on behalf of the Owners of the Series 2005A Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to the Owners of the Series 2005A Bonds in the same manner as principal and interest payments are to be made with respect to the Series 2005A Bonds under the sections hereof regarding payment of Series 2005A Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything to the contrary otherwise set forth in the Indenture, and to the extent permitted by law, in the event amounts paid under the Series 2005A Bond Insurance Policy are applied to claims for payment of principal of or interest on the Series 2005A Bonds, interest on such principal of and interest on such Series 2005A Bonds shall accrue and be payable from the date of such payment at the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank or its successor at its principal office in the City of New York, as its prime or base lending rate plus 3%, and (ii) the then applicable rate of interest on the Series 2005A

Bonds provided that in no event shall such rate exceed the maximum rate permissible under applicable usury or similar laws limiting interest rates.

(5) Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee.

(6) Any funds remaining in the Policy Payments Account following a Series 2005A Bond payment date shall promptly be remitted to the Series 2005A Bond Insurer.

(7) The Series 2005A Bond Insurer shall, to the extent it makes any payment of principal of or interest on the Series 2005A Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Series 2005A Bond Insurance Policy.

(8) The City shall pay or reimburse the Series 2005A Bond Insurer any and all changes, fees, costs and expenses which the Series 2005A Bond Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Indenture; (ii) the pursuit of any remedies under the Indenture or otherwise afforded by law or equity; (iii) any amendment, waiver or other action with respect to, or related to, the Indenture whether or not executed or completed, (iv) the violation by the City of any law, rule or regulation, or any judgment, order or decree applicable to it; or (v) any litigation or other dispute in connection with the Indenture or the transaction contemplated thereby, other than amounts resulting from the failure of the Series 2005A Bond Insurer to honor its obligations under the Series 2005A Bond Insurance Policy. The Series 2005A Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture.

(9) The Series 2005A Bond Insurer shall be entitled to pay principal or interest on the Series 2005A Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment (as such terms are defined in the Series 2005A Bond Insurance Policy) by the City and any amounts due on the Series 2005A Bonds as a result of the acceleration of the maturity thereof in accordance with the Indenture, whether or not the Series 2005A Bond Insurer has received a Notice of Nonpayment (as such term is defined in the Series 2005A Bond Insurance Policy) or a claim upon the Series 2005A Bond Insurance Policy.

(10) The notice address of the Series 2005A Bond Insurer is: Financial Security Assurance Inc., 350 Park Avenue, New York, New York 10022-6022, Attention: Managing Director – Surveillance; Re: Policy No. 204583-N; Telephone: (212) 826-0100; Telecopier: (212) 339-3556. In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of General Counsel and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

SECTION 12.14. Terms of Series 2005A Bonds Subject to the Indenture. Except as in this First Supplement expressly provided, every term and condition contained in the Indenture

shall apply to the First Supplement and to the Series 2005A Bonds with the same force and effect as if the same were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to the First Supplement.

The First Supplement and all the terms and provisions herein contained shall form part of the Indenture as fully and with the same effect as if all such terms and provisions had been set forth in the Indenture. The Indenture is hereby ratified and confirmed and shall continue in full force and effect in accordance with the terms and provisions thereof, as supplemented and amended hereby, subject to the next sentence.

SECTION 12.15. Effective Date of First Supplement. The First Supplement shall take effect upon its execution and delivery.

SECTION 12.16. Execution in Counterparts. The First Supplement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have executed the First Supplement by their officers thereunto duly authorized as of the day and year first written above.

CITY OF MODESTO, CALIFORNIA

By: Gregory M. Baird  
Deputy Director of Finance

(Seal)

ATTEST:

By: Jean Zahr  
City Clerk

U.S. BANK NATIONAL ASSOCIATION, as  
Trustee

By: \_\_\_\_\_  
Authorized Officer

IN WITNESS WHEREOF, the parties hereto have executed the First Supplement by their officers thereunto duly authorized as of the day and year first written above.

CITY OF MODESTO, CALIFORNIA

By: \_\_\_\_\_  
Deputy Director of Finance

(Seal)

ATTEST:

By: \_\_\_\_\_  
City Clerk

U.S. BANK NATIONAL ASSOCIATION, as  
Trustee

By: *Margaret P. Chornik*  
Authorized Officer

EXHIBIT A

(FORM OF SERIES 2005A BOND)

No. \_\_\_\_\_

\$ \_\_\_\_\_

CITY OF MODESTO, CALIFORNIA  
WASTEWATER REVENUE REFUNDING BONDS,  
SERIES 2005A

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
		April 13, 2005	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on November 1, 2005, and semiannually thereafter on May 1 and November 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of U.S. Bank National Association, as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Bonds (the "Bonds") of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture

provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a First Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the "First Supplement"), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the "Series 2005A Bonds") of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the First Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Bonds and the Parity Debt (as defined in the Indenture) hereafter issued by the City are payable from, and are secured by a pledge of and lien on, the Net Revenues and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues and certain other funds pledged under the Indenture. The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2005A Bonds maturing on or before November 1, 2015 are not subject to call or redemption prior to maturity. The Series 2005A Bonds maturing on or after November 1, 2016 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2015, at the a redemption price equal to 100% of the principal amount of Series 2005A Bonds called for redemption), plus accrued interest to the date fixed for redemption, without premium.

The Series 2005A Bonds shall also be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2005A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer or exchange a new fully registered Bond or Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture or otherwise.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Mayor of the City and countersigned by the City Clerk by their facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the \_\_\_\_ day of \_\_\_\_\_, 2005.

CITY OF MODESTO, CALIFORNIA

By: \_\_\_\_\_  
Mayor

(SEAL)

Attested:

By: \_\_\_\_\_  
City Clerk

[FORM OF CERTIFICATE OF AUTHENTICATION  
AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated:

U.S. BANK NATIONAL ASSOCIATION, as  
Trustee

By: \_\_\_\_\_  
Authorized Officer

## STATEMENT OF INSURANCE

Financial Security Assurance Inc. ("Financial Security"), New York, New York, has delivered its municipal bond insurance policy with respect to the scheduled payments due of principal of and interest on this Bond to U.S. Bank National Association, San Francisco, California (the "Trustee"), or its successor, as trustee for the Bonds. Said policy is on file and available for inspection at the corporate trust office of the Trustee and a copy thereof may be obtained from Financial Security or the Trustee.

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises.

\_\_\_\_\_  
NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by:

\_\_\_\_\_  
NOTE: Signature must be guaranteed by an eligible guarantor institution.

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SECOND SUPPLEMENTAL  
WASTEWATER REVENUE BOND INDENTURE

by and between the

CITY OF MODESTO, CALIFORNIA

and

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

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Dated as of April 1, 2005

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(Supplemental to the Wastewater Revenue  
Bond Indenture dated as of April 1, 2005)

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SECOND SUPPLEMENTAL  
WASTEWATER REVENUE BOND INDENTURE

**Table of Contents**

Page

ARTICLE XIII

THE 2005B BONDS

SECTION 13.01. Definitions.....	2
SECTION 13.02. Authorization; Terms of the Series 2005B Bonds. ....	4
SECTION 13.03. Redemption of Series 2005B Bonds. ....	5
SECTION 13.04. Selection of Series 2005B Bonds for Redemption.....	5
SECTION 13.05. Notice of Redemption of Series 2005B Bonds .....	6
SECTION 13.06. Partial Redemption of Series 2005B Bonds.....	6
SECTION 13.07. Effect of Redemption of Series 2005B Bonds .....	6
SECTION 13.08. Form of Series 2005B Bonds .....	6
SECTION 13.09. Issuance of Series 2005B Bonds .....	6
SECTION 13.10. Application of Proceeds of Series 2005B Bonds. ....	6
SECTION 13.11. Use of Depository .....	7
SECTION 13.12. Bond Insurance Provisions.....	8
SECTION 13.13. Terms of Series 2005B Bonds Subject to the Indenture .....	13
SECTION 13.14. Effective Date of Second Supplement .....	14
SECTION 13.15. Execution in Counterparts.....	14
EXHIBIT A - Form of Series 2005B Bonds.....	A-1

Second Supplemental Wastewater Revenue Bond Indenture  
(Supplemental to the Wastewater Revenue Bond Indenture  
dated as of April 1, 2005)  
Authorizing the Issuance of  
\$2,740,000 Aggregate Principal Amount of  
City of Modesto, California  
Wastewater Revenue Refunding Bonds, Series 2005B (Taxable)

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This SECOND SUPPLEMENTAL WASTEWATER REVENUE BOND INDENTURE, dated as of April 1, 2005 (the "Second Supplement"), by and between the CITY OF MODESTO, CALIFORNIA (the "City"), a municipal corporation and chartered city duly organized and existing under the Constitution and laws of the State of California, and U.S. BANK NATIONAL ASSOCIATION, as trustee (the "Trustee"),

W I T N E S S E T H :

WHEREAS, Section 200 of the Charter of the City of Modesto and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the "Bond Law") authorizes the City to issue revenue bonds to finance the acquisition, construction, improvement, furnishing, equipping, remodeling, repair, reconstruction or rehabilitation of the wastewater treatment facilities of the City (the "Enterprise") or for the purpose of refunding bonds issued for such purposes; and

WHEREAS, in accordance with the Bond Law and an Indenture of Trust, dated as of December 1, 1987 (the "Prior Indenture"), the City has previously issued its Wastewater Treatment Facility Refunding Revenue Bonds, Series 1987 (the "Series 1987 Bonds") in an aggregate principal amount of \$11,785,000 to provide funds to advance refund certain outstanding wastewater revenue bonds of the City; and

WHEREAS, in accordance with the Bond Law and the Prior Indenture, as amended and supplemented by a First Supplemental Indenture, dated as of September 1, 1993 (the "First Supplemental Indenture"), the City has previously issued its Wastewater Revenue Bonds, Series 1993 (the "Series 1993 Bonds") in an aggregate principal amount of \$8,555,000 to provide funds for the acquisition and construction of improvements to the Enterprise; and

WHEREAS, in accordance with the Bond Law and the Prior Indenture, as previously amended and supplemented, and as amended and supplemented by a Second Supplemental Indenture, dated as of August 1, 1996 (the "Second Supplemental Indenture"), the City has previously issued its Wastewater Treatment Facility Refunding Revenue Bonds, Series 1996 (the "Series 1996 Bonds") in an aggregate principal amount of \$8,695,000 to provide funds to current refund the 1987 Bonds; and

WHEREAS, in accordance with the Bond Law and the Prior Indenture, as previously amended and supplemented, and as amended and supplemented by a Third Supplemental Indenture, dated as of April 1, 1997 (the "Third Supplemental Indenture"), the City has previously issued its Wastewater Treatment Facility Revenue Bonds, Series 1997 (the "Series 1997 Bonds") in an aggregate principal amount of \$32,400,000 to finance the acquisition and construction of improvements to the Enterprise;

WHEREAS, the City has determined that it is desirable and necessary and in the best interest of the City to refund all of the outstanding Series 1993 Bonds, Series 1996 Bonds and Series 1997 Bonds and to enter into a Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the "Indenture"), between the City and the Trustee, providing for the issuance of wastewater revenue bonds hereafter thereunder (the "Bonds"); and

WHEREAS, the Indenture provides that the City may issue Bonds from time to time as authorized by a supplemental indenture; and

WHEREAS, this Second Supplement is supplemental to the Indenture; and

WHEREAS, the City has determined that it is necessary and required that the City enter into this Second Supplement in order to establish and declare, in conjunction with the Indenture, the terms and conditions upon which City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2005B (Taxable) (the "Series 2005B Bonds") shall be issued and secured and to secure the payment of the principal thereof and premium (if any) and interest thereon; and

WHEREAS, the City has determined that 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 the entering into of this Second Supplement 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 Second Supplement;

NOW, THEREFORE, the parties hereto agree, as follows:

### ARTICLE XIII

#### THE 2005B BONDS

SECTION 13.01. Definitions. The terms defined in this Section shall, for all purposes of this Second Supplement 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. Terms defined in the Indenture not otherwise defined herein shall have the meanings specified therein.

### 1996 Bonds Escrow Agreement

“1996 Bonds Escrow Agreement” means the Escrow Agreement, dated as of April 1, 2005, between the City and U.S. Bank National Association, as escrow agent, relating to the defeasance of the outstanding Series 1996 Bonds.

### First Supplement

“First Supplement” means the First Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005, between the City and the Trustee, pursuant to which the Series 2005A Bonds are issued.

### Prior Indenture

“Prior Indenture” means the Indenture of Trust, dated as of December 1, 1987, by and between the City and U.S. Bank National Association, as successor trustee, as amended and supplemented to the date hereof.

### Second Supplement

“Second Supplement” means this Second Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005, between the City and the Trustee.

### Securities Depository

“Securities Depository” shall have the meaning assigned to such term in Section 13.11(A) hereof.

### Series 1996 Bonds

“Series 1996 Bonds” means the City of Modesto, California Wastewater Treatment Facility Refunding Revenue Bonds, Series 1996 issued and outstanding under the Prior Indenture.

### Series 2005 Bonds

“Series 2005 Bonds” means collectively, the Series 2005A Bonds and the Series 2005B Bonds.

### Series 2005 Costs of Issuance Fund

“Series 2005 Costs of Issuance Fund” means the fund by that name established pursuant to Section 12.11 of the First Supplement.

### Series 2005A Bonds

“Series 2005A Bonds” means the City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2005A, issued simultaneously with the Series 2005B Bonds, pursuant to the First Supplement.

Series 2005B Bond Insurance Policy

“Series 2005B Bond Insurance Policy” means the insurance policy issued by the Series 2005B Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Series 2005B Bonds when due.

Series 2005B Bond Insurer

“Series 2005B Bond Insurer” means Financial Security Assurance, Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

Series 2005B Bonds

“Series 2005B Bonds” means the City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2005B (Taxable), as described in Section 13.02(A) hereof.

SECTION 13.02. Authorization; Terms of the Series 2005B Bonds.

(A) A second Series of Bonds to be issued under the Indenture is hereby created. Such Series shall be known as the “City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2005B (Taxable)” (herein referred to as the “Series 2005B Bonds”). The Series 2005B Bonds shall be issued in the aggregate initial principal amount of \$2,740,000 in accordance with the Bond Law and this Indenture for the purposes of (i) refunding the outstanding Series 1996 Bonds, (ii) funding a deposit to the Parity Reserve Fund, and (iii) paying the Costs of Issuance in connection with the issuance and delivery of the Series 2005B Bonds.

(B) The Series 2005B Bonds shall be issued in fully registered form and shall be initially registered in the name of “Cede & Co.,” as nominee of The Depository Trust Company. The Series 2005B Bonds shall be evidenced by one Series 2005B Bond maturing on each of the maturity dates as set forth in subsection 13.02(C) in a denomination corresponding to the total principal amount of the Series 2005B Bonds of such maturity. Each Series 2005B Bond may be assigned by the Trustee a distinctive number or letter and number, and a record of the same shall be maintained by the Trustee. Registered ownership of the Series 2005B Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 13.11.

(C) The Series 2005B Bonds shall be dated the date of delivery, shall be bonds which are Current Interest Indebtedness, shall be issued in denominations of \$5,000 or any integral multiple thereof, and shall bear interest from the date thereof at the following rates per annum and shall mature on November 1 in the following years in the following amounts:

<u>Maturity Date (November 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2005	\$ 550,000	3.60%
2006	1,075,000	4.14
2007	1,115,000	4.40

The Series 2005B Bonds are designated Serial Bonds.

Interest on the Series 2005B Bonds shall be payable commencing on November 1, 2005 and semiannually thereafter on May 1 and November 1 of each year in lawful money of the United States of America by check mailed by first-class mail on each interest payment date to the Owner thereof as of the close of business on the fifteenth (15th) day of the calendar month immediately preceding such interest payment date; provided, that upon the written request of an Owner of one million dollars (\$1,000,000) or more in aggregate principal amount of Series 2005B Bonds received by the Trustee prior to the applicable Record Date (which such request shall remain in effect until rescinded in writing by such Owner), interest shall be paid by wire transfer in immediately available funds. Interest on the Series 2005B Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. The principal of and premium, if any, on the Series 2005B Bonds are payable when due upon presentation thereof at the Corporate Trust Office of the Trustee, in lawful money of the United States of America.

So long as the Series 2005B Bonds are maintained in book-entry form, payments of principal, premium, if any, and interest shall be made by the Trustee to the Securities Depository by wire transfer.

The Trustee shall provide to Bondholders CUSIP number identification, with appropriate dollar amounts for each CUSIP number, on all redemption payments and interest payments, whether by check or by wire transfer.

**SECTION 13.03. Redemption of Series 2005B Bonds.**

(A) No Optional Redemption. The Series 2005B Bonds are not subject to optional call or redemption prior to maturity.

(B) Special Mandatory Redemption From Insurance or Condemnation Proceeds. The Series 2005B Bonds shall also be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to Sections 6.06 or 6.07 of the Indenture, at a Redemption Price equal to the principal amount of the Series 2005B Bonds plus interest accrued thereon to the date fixed for redemption, without premium. Notwithstanding the foregoing, in the event of a special mandatory redemption of less than all of the Outstanding Series 2005B Bonds pursuant to this Section 13.03(B), the designation by the City of the maturities of the Series 2005B Bonds from which such redemption will be made shall be subject to the prior written approval of the Series 2005B Bond Insurer.

**SECTION 13.04. Selection of Series 2005B Bonds for Redemption.** Whenever provision is made in this Second Supplement for the redemption of less than all of the Series 2005B Bonds of any maturity (and interest rate), the Trustee shall select the Series 2005B Bonds to be redeemed, from all Series 2005B Bonds of the respective maturity (and interest rate) not previously called for redemption, in authorized denominations, by lot in any manner which the Trustee in its sole discretion shall deem appropriate. The Trustee shall promptly notify the City in writing of the Series 2005B Bonds so selected for redemption.

SECTION 13.05. Notice of Redemption of Series 2005B Bonds. The City shall notify the Trustee at least forty-five (45) days prior to the redemption date for Series 2005B Bonds pursuant to Section 13.03(B). Notice of redemption of any Series 2005B Bonds shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (i) to the respective Owners of any Series 2005B Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee by first-class mail, (ii) to the Securities Depositories by facsimile and by first-class mail, and (iii) to the Information Services by first-class mail. Notice of redemption shall be given in the form and in accordance with the terms of the Indenture.

SECTION 13.06. Partial Redemption of Series 2005B Bonds. Upon surrender of any Series 2005B Bond redeemed in part only, the City shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the City, a new Series 2005B Bond of authorized denominations, and of the same maturity and interest rate, equal in aggregate principal amount to the unredeemed portion of the Series 2005B Bond surrendered.

SECTION 13.07. Effect of Redemption of Series 2005B Bonds. 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 Series 2005B Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2005B 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 date fixed for redemption, interest on the Series 2005B Bonds so called for redemption shall cease to accrue, said Series 2005B Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Series 2005B Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest.

All Series 2005B Bonds redeemed pursuant to the provisions of this Article shall be cancelled upon surrender thereof and destroyed.

SECTION 13.08. Form of Series 2005B Bonds. The Series 2005B Bonds and the certificate of authentication and registration to be executed thereon shall be in substantially the form set forth as Exhibit A hereto. The Series 2005B Bond designation letters and numbers, maturity dates, principal amounts, and interest rates and yields to maturity shall be inserted therein in conformity with Section 13.02.

SECTION 13.09. Issuance of Series 2005B Bonds. At any time after the execution and delivery of this Second Supplement, the City may execute and the Trustee shall authenticate and deliver the Series 2005B Bonds in the aggregate principal amount of \$2,740,000 upon the Order of the City.

SECTION 13.10. Application of Proceeds of Series 2005B Bonds.

(A) The proceeds of the sale of the Series 2005B Bonds in the amount of \$2,715,981.32 (computed as \$2,740,000.00 aggregate principal amount of the Series 2005B Bonds, less \$17,097.99 Underwriter's discount, less \$6,920.69 directly transferred, at the

request and direction of the City and on behalf of the Trustee, by the Underwriter to the Series 2005B Bond Insurer, said amount representing the bond insurance premium for the Series 2005B Bond Insurance Policy) shall be received by the Trustee on behalf of the City and held in trust and set aside as follows:

(i) The Trustee shall transfer to U.S. Bank National Association, as escrow agent under the 1996 Bonds Escrow Agreement, \$2,454,847.30, to be applied, together with certain other amounts deposited therein at the direction of the City, towards the defeasance of the Series 1996 Bonds pursuant to the 1996 Bonds Escrow Agreement.

(ii) The Trustee should deposit in the Parity Reserve Fund \$239,994.42, which shall be the amount necessary to cause the amount on deposit therein to be equal to the Reserve Fund Requirement upon the issuance of the Series 2005B Bonds, to be applied in accordance with Section 5.05 in the Indenture.

(iii) The Trustee shall deposit in the 2005 Costs of Issuance Fund \$21,139.60, to be applied, together with certain other amounts deposited therein or transferred thereto at the direction of the City, in accordance with Section 12.11 of the First Supplement.

SECTION 13.11. Use of Depository. Notwithstanding any provision of the Indenture or this Second Supplement to the contrary:

(A) The Series 2005B Bonds shall be issued in fully registered form, in authorized denominations and shall be initially registered in the name of "Cede & Co.", as nominee of The Depository Trust Company (the "Securities Depository"), and shall be evidenced by one Series 2005B Bond maturing on each of the maturity dates as set forth in subsection 13.02(C) in a denomination corresponding to the total principal amount of the Series 2005B Bonds of such maturity. Each Series 2005B Bond shall be assigned by the Trustee a distinctive number or letter or letter and number, and a record of the same shall be maintained by the Trustee.

Registered ownership of the Series 2005B Bonds, or any portions thereof, may not thereafter be transferred except:

(i) To any successor of The Depository Trust Company or its nominee, or to any substitute depository designated pursuant to clause (ii) of this subsection (A) (a "Substitute Depository"); provided that any successor of The Depository Trust Company or Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it;

(ii) To any Substitute Depository not objected to by the Trustee, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the City that The Depository Trust Company 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

(iii) To any person as provided below, upon (1) the resignation of The Depository Trust Company or its successor (or Substitute Depository or its successor) from its functions as depository; provided that no Substitute Depository which is not objected to by the Trustee can be obtained, or (2) a determination by the City that it is in the best interests of the City to remove The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its function as depository.

(B) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection 13.11(A), upon receipt of all Outstanding Series 2005B Bonds by the Trustee, together with a Certificate of the City to the Trustee, a single new Series 2005B Bond for each maturity shall be executed and delivered, 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 City. In the case of any transfer pursuant to clause (iii) of subsection 13.11(A) hereof, upon receipt of all Outstanding Series 2005B Bonds by the Trustee together with a Certificate of the City to the Trustee, new Series 2005B Bonds shall be executed and delivered in such denominations and registered in the names of such persons as are requested in such a Certificate of the City, subject to the limitations of Section 13.02 hereof; provided the Trustee shall not be required to deliver such new Series 2005B Bonds within a period less than 60 days from the date of receipt of such a Certificate of the City.

(C) In the case of partial redemption, cancellation or an advance refunding of any Series 2005B Bonds evidencing all or a portion of the principal maturing in a particular year, The Depository Trust Company shall make an appropriate notation on the Series 2005B Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee.

(D) The City and the Trustee shall be entitled to treat the person in whose name any Series 2005B Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the City; and the City and the Trustee shall have no responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any beneficial owners of the Series 2005B Bonds. Neither the City nor the Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party including The Depository Trust Company or its successor (or Substitute Depository or its successor), except to the Owner of any Series 2005B Bond.

(E) So long as all Outstanding Series 2005B Bonds are registered in the name of "Cede & Co." or its registered assign, the City and the Trustee shall cooperate with "Cede & Co.," as sole registered Owner, and its registered assigns in effecting payment of the principal of and redemption premium, if any, and interest on the Series 2005B 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 13.12. Bond Insurance Provisions. Notwithstanding any other provision of the Indenture of this Second Supplement to the contrary, so long as the Series 2005B Bond Insurance Policy is in full force and effect and the Series 2005B Bond Insurer is not in default in its payment of obligations thereunder, the following provisions shall be in effect:

(A) The prior written consent of the Series 2005B Bond Insurer shall be a condition precedent to the deposit of any letter of credit, surety bond or insurance policy into the Parity Reserve Fund pursuant to Section 5.05 of the Indenture for purposes of satisfying all or any part of the Reserve Fund Requirement.

(B) Pursuant to the provisions of Section 9.01(A)(2) of the Indenture, any modification, amendment or supplement to the Indenture pursuant to Section 9.01(A) of the Indenture shall require the consent of the Series 2005B Bond Insurer in lieu of consent of the Owners of the Series 2005B Bonds. Copies of any Supplemental Indenture sent to Moody's and Standard & Poor's pursuant to Section 9.01(A)(4) shall be sent at least 10 days prior to the effective date thereof.

(C) (1) The Series 2005B Bond Insurer shall be deemed to be the sole Owner of the Series 2005B Bonds insured by it for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the Series 2005B Bonds insured by it are entitled to take pursuant to Article VII (pertaining to defaults and remedies) of the Indenture and Article VIII (pertaining to the Trustee) of the Indenture. The maturity of the Series 2005B Bonds insured by the Series 2005B Bond Insurer shall not be accelerated without the consent of the Series 2005B Bond Insurer.

(2) In the event the maturity of the Series 2005B Bonds is accelerated, the Series 2005B Bond Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued on such principal to the date of acceleration (to the extent unpaid by the City) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Series 2005B Bond Insurer's obligations under the Series 2005B Bond Insurance Policy with respect to such Series 2005B Bonds shall be fully discharged.

(3) The rights granted to the Series 2005B Bond Insurer hereunder to request, consent to or direct any action are rights granted to the Series 2005B Bond Insurer in consideration of its issuance of the Series 2005B Bond Insurance Policy. Any exercise by the Series 2005B Bond Insurer of such rights is merely an exercise of the Series 2005B Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Owners of the Series 2005B Bonds nor does such action evidence any position of the Series 2005B Bond Insurer, positive or negative, as to whether consent of the Owners of the Series 2005B Bonds is required in addition to consent of the Series 2005B Bond Insurer.

(4) In determining whether any amendment, consent or other action to be taken, or any failure to act, under the Indenture would adversely affect the security for the Series 2005B Bonds or the rights of the Owners, the Trustee shall consider the effect of any such amendment, consent, action or inaction as if there were no Series 2005B Bond Insurance Policy.

(5) The allowable grace period for the City to cure a failure to observe or perform any covenant, condition, agreement or provision of the Indenture prior to such failure becoming an Event of Default pursuant to Section 7.01(b) of the Indenture shall not be extended beyond a sixty (60) day period without the prior written consent of the Series 2005B Bond Insurer. Notwithstanding any provision to the contrary that may be contained in any agreement

governing any Parity Debt, for purposes of Section 7.01(d) of the Indenture there shall be no grace period for the default by the City in the due and punctual payment of any Parity Debt.

(D) (1) To the extent that the Indenture confers upon or gives or grants to the Series 2005B Bond Insurer any right, remedy or claim under or by reason of the Indenture, the Series 2005B Bond Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder or hereunder.

(2) Except as permitted under the terms of the Indenture, no contract shall be entered into by the City nor any action taken by the City by which the rights of the Series 2005B Bond Insurer or security for or sources of payment of the Series 2005B Bonds may be impaired or prejudiced except upon obtaining the prior written consent of the Series 2005B Bond Insurer.

(E) (1) In connection with any defeasance of Series 2005B Bonds pursuant to Article X of the Indenture, in addition to the requirements of Article X of the Indenture, the City shall cause to be delivered (i) an escrow deposit agreement (which shall be acceptable in form and substance to the Series 2005B Bond Insurer), and (ii) an opinion of nationally recognized bond counsel (which shall be acceptable in form and substance to the Series 2005B Bond Insurer) to the effect that the Series 2005B Bonds being defeased are no longer "Outstanding" under the Indenture, addressed to the City, the Trustee and the Series 2005B Bond Insurer. The Series 2005B Bond Insurer shall be provided with final drafts of the above-referenced documentation not less than five Business Days prior to the funding of the escrow. Any Series 2005B Bonds being defeased shall be deemed "Outstanding" under the Indenture unless and until they are in fact paid and retired or the above criteria are met.

(2) Amounts paid by the Series 2005B Bond Insurer under the Series 2005B Bond Insurance Policy shall not be deemed paid for purposes of the Indenture and shall remain Outstanding and continue to be due and owing until paid by the City in accordance with the Indenture.

(3) The Indenture shall not be discharged unless all amounts due or to become due to the Series 2005B Bond Insurer have been paid in full or duly provided for.

(F) While the Series 2005B Bond Insurance Policy is in effect, the City or the Trustee, as appropriate, shall furnish to the Series 2005B Bond Insurer:

(1) annual audited financial statements of the City within 150 days after the end of the City's Fiscal Year (together with a certification of the City that it is not aware of any Event of Default or any event which the passage of time or the giving of notice would constitute an Event of Default under the Indenture), and the City's annual budget within 30 days after the approval thereof, together with such other information, data or reports as the Series 2005B Bond Insurer shall reasonably request from time to time;

(2) notice of any draw upon the Parity Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Reserve Fund Requirement and (ii) withdrawals in connection with a refunding of Series 2005B Bonds;

(3) notice of any Event of Default under the Indenture known to the Trustee or the City within five Business Days after knowledge thereof;

(4) prior notice of the advance refunding or redemption of any of the Series 2005B Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(5) notice of the resignation or removal of the Trustee and the appointment of, and acceptance of duties by, any successor thereto;

(6) notice of the commencement of any proceeding by or against the City commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(7) notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of or interest on the Series 2005B Bonds;

(8) a full original transcript of all proceedings relating to the execution of any amendment or supplement to the Indenture; and

(9) all reports, notices and correspondence to be delivered under the terms of the Indenture.

(G) As long as the Series 2005B Bond Insurance Policy shall be in full force and effect, the City and the Trustee agree to comply with the following provisions:

(1) If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Trustee after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of and interest on the Series 2005B Bonds due on such Payment Date, the Trustee shall give notice to the Series 2005B Bond Insurer and to its designated agent (if any) (the "Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Series 2005B Bonds due on such Payment Date, the Trustee shall make a claim under the Series 2005B Bond Insurance Policy and give notice to the Series 2005B Bond Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Series 2005B Bonds and the amount required to pay principal of the Series 2005B Bonds, confirmed in writing to the Series 2005B Bond Insurer and the Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Series 2005B Bond Insurance Policy.

(2) In the event the claim to be made is for a mandatory sinking fund redemption installment upon receipt of the moneys due, the Trustee shall authenticate and deliver to affected Owners of the Series 2005B Bonds who surrender their Series 2005B

Bonds a new Series 2005B Bond or Series 2005B Bonds in an aggregate principal amount equal to the unredeemed portion of the Series 2005B Bond surrendered. The Trustee shall designate any portion of payment of principal on Series 2005B Bonds paid by the Series 2005B Bond Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Series 2005B Bonds registered to the then current Owner of such Series 2005B Bonds, whether DTC or its nominee or otherwise, and shall issue a replacement Series 2005B Bond to the Series 2005B Bond Insurer, registered in the name of Financial Security Assurance Inc., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Series 2005B Bond shall have no effect on the amount of principal or the interest payable by the City on any Series 2005B Bond or the subrogation rights of the Series 2005B Bond Insurer.

(3) The Trustee shall keep a complete and accurate record of all funds deposited by the Series 2005B Bond Insurer into the Policy Payments Account (referred to below) and the allocation of such funds to payment of interest on and principal paid in respect of any Series 2005B Bond. The Series 2005B Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

(4) Upon payment of a claim under the Series 2005B Bond Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of the Owners of the Series 2005B Bonds referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Series 2005B Bond Insurance Policy in trust on behalf of the Owners of the Series 2005B Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to the Owners of the Series 2005B Bonds in the same manner as principal and interest payments are to be made with respect to the Series 2005B Bonds under the sections hereof regarding payment of Series 2005B Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything to the contrary otherwise set forth in the Indenture, and to the extent permitted by law, in the event amounts paid under the Series 2005B Bond Insurance Policy are applied to claims for payment of principal of or interest on the Series 2005B Bonds, interest on such principal of and interest on such Series 2005B Bonds shall accrue and be payable from the date of such payment at the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank or its successor at its principal office in the City of New York, as its prime or base lending rate plus 3%, and (ii) the then applicable rate of interest on the Series 2005B Bonds provided that in no event shall such rate exceed the maximum rate permissible under applicable usury or similar laws limiting interest rates.

(5) Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee.

(6) Any funds remaining in the Policy Payments Account following a Series 2005B Bond payment date shall promptly be remitted to the Series 2005B Bond Insurer.

(7) The Series 2005B Bond Insurer shall, to the extent it makes any payment of principal of or interest on the Series 2005B Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Series 2005B Bond Insurance Policy.

(8) The City shall pay or reimburse the Series 2005B Bond Insurer any and all changes, fees, costs and expenses which the Series 2005B Bond Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Indenture; (ii) the pursuit of any remedies under the Indenture or otherwise afforded by law or equity; (iii) any amendment, waiver or other action with respect to, or related to, the Indenture whether or not executed or completed, (iv) the violation by the City of any law, rule or regulation, or any judgment, order or decree applicable to it; or (v) any litigation or other dispute in connection with the Indenture or the transaction contemplated thereby, other than amounts resulting from the failure of the Series 2005B Bond Insurer to honor its obligations under the Series 2005B Bond Insurance Policy. The Series 2005B Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture.

(9) The Series 2005B Bond Insurer shall be entitled to pay principal or interest on the Series 2005B Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment (as such terms are defined in the Series 2005B Bond Insurance Policy) by the City and any amounts due on the Series 2005B Bonds as a result of the acceleration of the maturity thereof in accordance with the Indenture, whether or not the Series 2005B Bond Insurer has received a Notice of Nonpayment (as such term is defined in the Series 2005B Bond Insurance Policy) or a claim upon the Series 2005B Bond Insurance Policy.

(10) The notice address of the Series 2005B Bond Insurer is: Financial Security Assurance Inc., 350 Park Avenue, New York, New York 10022-6022, Attention: Managing Director – Surveillance; Re: Policy No. 204583-N; Telephone: (212) 826-0100; Telecopier: (212) 339-3556. In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of General Counsel and shall be marked to indicate “URGENT MATERIAL ENCLOSED.”

SECTION 13.13. Terms of Series 2005B Bonds Subject to the Indenture. Except as in this Second Supplement expressly provided, every term and condition contained in the Indenture shall apply to the Second Supplement and to the Series 2005B Bonds with the same force and effect as if the same were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to the Second Supplement.

The Second Supplement and all the terms and provisions herein contained shall form part of the Indenture as fully and with the same effect as if all such terms and provisions had been set forth in the Indenture. The Indenture is hereby ratified and confirmed and shall continue in full force and effect in accordance with the terms and provisions thereof, as supplemented and amended hereby, subject to the next sentence.

SECTION 13.14. Effective Date of Second Supplement. The Second Supplement shall take effect upon its execution and delivery.

SECTION 13.15. Execution in Counterparts. The Second Supplement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, the parties hereto have executed the Second Supplement by their officers thereunto duly authorized as of the day and year first written above.

CITY OF MODESTO, CALIFORNIA

By: Gregory M. Band  
Deputy Director of Finance

(Seal)

ATTEST:

By: Jean Fahr  
City Clerk

U.S. BANK NATIONAL ASSOCIATION, as  
Trustee

By: \_\_\_\_\_  
Authorized Officer

IN WITNESS WHEREOF, the parties hereto have executed the Second Supplement by their officers thereunto duly authorized as of the day and year first written above.

CITY OF MODESTO, CALIFORNIA

By: \_\_\_\_\_  
Deputy Director of Finance

(Seal)

ATTEST:

By: \_\_\_\_\_  
City Clerk

U.S. BANK NATIONAL ASSOCIATION, as  
Trustee

By: *Myra P. Chorna*  
Authorized Officer

EXHIBIT A

(FORM OF SERIES 2005B BOND)

No. \_\_\_\_\_

\$ \_\_\_\_\_

CITY OF MODESTO, CALIFORNIA  
WASTEWATER REVENUE REFUNDING BONDS,  
SERIES 2005B (TAXABLE)

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
		April 13, 2005	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on November 1, 2005, and semiannually thereafter on May 1 and November 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of U.S. Bank National Association, as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Bonds (the "Bonds") of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture

provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a Second Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the "Second Supplement"), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the "Series 2005B Bonds") of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the Second Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Bonds and the Parity Debt (as defined in the Indenture) hereafter issued by the City are payable from, and are secured by a pledge of and lien on, the Net Revenues and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues and certain other funds pledged under the Indenture. The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2005B Bonds are not subject to optional call or redemption prior to maturity.

The Series 2005B Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2005B Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer or exchange a new fully registered Bond or Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture or otherwise.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Mayor of the City and countersigned by the City Clerk by their facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the \_\_\_\_ day of \_\_\_\_\_, 2005.

CITY OF MODESTO, CALIFORNIA

By: \_\_\_\_\_  
Mayor

(SEAL)

Attested:

By: \_\_\_\_\_  
City Clerk

[FORM OF CERTIFICATE OF AUTHENTICATION  
AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated:

U.S. BANK NATIONAL ASSOCIATION, as  
Trustee

By: \_\_\_\_\_  
Authorized Officer

## STATEMENT OF INSURANCE

Financial Security Assurance Inc. ("Financial Security"), New York, New York, has delivered its municipal bond insurance policy with respect to the scheduled payments due of principal of and interest on this Bond to U.S. Bank National Association, San Francisco, California (the "Trustee"), or its successor, as trustee for the Bonds. Said policy is on file and available for inspection at the corporate trust office of the Trustee and a copy thereof may be obtained from Financial Security or the Trustee.

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises.

\_\_\_\_\_  
NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by:

\_\_\_\_\_  
NOTE: Signature must be guaranteed by an eligible guarantor institution.

THIRD SUPPLEMENTAL  
WASTEWATER REVENUE BOND INDENTURE

by and between the

CITY OF MODESTO, CALIFORNIA

and

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

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Dated as of December 1, 2006

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(Supplemental to the Wastewater Revenue  
Bond Indenture dated as of April 1, 2005)

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THIRD SUPPLEMENTAL  
WASTEWATER REVENUE BOND INDENTURE

**Table of Contents**

**Page**

ARTICLE XIV

THE 2006A BONDS

SECTION 14.01. Definitions.....	2
SECTION 14.02. Authorization; Terms of the Series 2006A Bonds. ....	3
SECTION 14.03. Redemption of Series 2006A Bonds.....	4
SECTION 14.04. Selection of Series 2006A Bonds for Redemption .....	5
SECTION 14.05. Notice of Redemption of Series 2006A Bonds.....	5
SECTION 14.06. Partial Redemption of Series 2006A Bonds .....	5
SECTION 14.07. Effect of Redemption of Series 2006A Bonds.....	5
SECTION 14.08. Series 2006A Sinking Account.....	6
SECTION 14.09. Form of Series 2006A Bonds.....	7
SECTION 14.10. Issuance of Series 2006A Bonds.....	7
SECTION 14.11. Application of Proceeds of Series 2006A Bonds.....	7
SECTION 14.12. Establishment and Application of the Series 2006A Wastewater Enterprise Project Fund.....	7
SECTION 14.13. Establishment and Application of Series 2006A Costs of Issuance Fund .....	8
SECTION 14.14. Use of Depository .....	8
SECTION 14.15. Bond Insurance Provisions.....	9
SECTION 14.16. Terms of Series 2006A Bonds Subject to the Indenture.....	15
SECTION 14.17. Effective Date of Third Supplement .....	15
SECTION 14.18. Execution in Counterparts.....	15
EXHIBIT A – Form of Series 2006A Bonds.....	A-1

Third Supplemental Wastewater Revenue Bond Indenture  
(Supplemental to the Wastewater Revenue Bond Indenture  
dated as of April 1, 2005)  
Authorizing the Issuance of  
\$16,535,000 Aggregate Principal Amount of  
City of Modesto, California  
Wastewater Revenue Bonds, Series 2006A

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This THIRD SUPPLEMENTAL WASTEWATER REVENUE BOND INDENTURE, dated as of December 1, 2006 (the "Third Supplement"), by and between the CITY OF MODESTO, CALIFORNIA (the "City"), a municipal corporation and chartered city duly organized and existing under the Constitution and laws of the State of California, and THE BANK OF NEW YORK TRUST COMPANY, N.A., as successor trustee (the "Trustee"),

W I T N E S S E T H:

WHEREAS, Section 200 of the Charter of the City of Modesto and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the "Bond Law") authorizes the City to issue revenue bonds to finance the acquisition, construction, improvement, furnishing, equipping, remodeling, repair, reconstruction or rehabilitation of the wastewater treatment facilities of the City (the "Enterprise"); and

WHEREAS, the City has entered into a Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the "Indenture"), between the City and U.S. Bank National Association (which has been succeeded by The Bank of New York Trust Company, N.A.), as Trustee, providing for the issuance of wastewater revenue bonds thereunder; and

WHEREAS, in accordance with the Bond Law and the Indenture, as supplemented by a First Supplemental Indenture, dated as of April 1, 2005 (the "First Supplemental Indenture"), and Second Supplemental Indenture, dated as of April 1, 2005 (the "Second Supplemental Indenture"), the City has previously issued its City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2005A, and its City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2005B (collectively, the "Series 2005 Bonds"); and

WHEREAS, the Indenture provides that the City may issue Bonds from time to time as authorized by a supplemental indenture; and

WHEREAS, this Third Supplement is supplemental to the Indenture; and

WHEREAS, in order to provide moneys to finance certain improvements to the Enterprise, the City has determined that it is necessary and required that the City enter into this Third Supplement in order to establish and declare, in conjunction with the Indenture, the terms

and conditions upon which City of Modesto, California Wastewater Revenue Bonds, Series 2006A (the "Series 2006A Bonds") shall be issued and secured and to secure the payment of the principal thereof and premium (if any) and interest thereon; and

WHEREAS, the City has determined that 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 the entering into of this Third Supplement 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 Third Supplement;

NOW, THEREFORE, the parties hereto agree, as follows:

#### ARTICLE XIV

#### THE 2006A BONDS

SECTION 14.01. Definitions. The terms defined in this Section shall, for all purposes of this Third Supplement 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. Terms defined in the Indenture not otherwise defined herein shall have the meanings specified therein.

##### Securities Depository

"Securities Depository" shall have the meaning assigned to such term in Section 14.14(A) hereof.

##### Series 2006A Bond Insurance Policy

"Series 2006A Bond Insurance Policy" means the insurance policy issued by the Series 2006A Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Series 2006A Bonds when due.

##### Series 2006A Bond Insurer

"Series 2006A Bond Insurer" means Financial Security Assurance, Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

##### Series 2006A Bonds

"Series 2006A Bonds" means the City of Modesto, California Wastewater Revenue Bonds, Series 2006A, as described in Section 14.02(A) hereof.

##### Series 2006A Costs of Issuance Fund

"Series 2006A Costs of Issuance Fund" means the fund by that name established pursuant to Section 14.13 hereof.

Series 2006A Wastewater Enterprise Project Fund

“Series 2006A Wastewater Enterprise Project Fund” means the fund by that name established pursuant to Section 14.12 hereof.

Third Supplement

“Third Supplement” means this Third Supplemental Wastewater Revenue Bond Indenture, dated as of December 1, 2006, between the City and the Trustee.

SECTION 14.02. Authorization; Terms of the Series 2006A Bonds.

(A) A third Series of Bonds to be issued under the Indenture is hereby created. Such Series shall be known as the “City of Modesto, California Wastewater Revenue Bonds, Series 2006A” (herein referred to as the “Series 2006A Bonds”). The Series 2006A Bonds shall be issued in the aggregate principal amount of \$16,535,000 in accordance with the Bond Law and this Indenture for the purposes of (i) financing the acquisition and construction of improvements to the Enterprise, (ii) funding a deposit to the Parity Reserve Fund and (iii) paying the Costs of Issuance in connection with the issuance and delivery of the Series 2006A Bonds.

(B) The Series 2006A Bonds shall be issued in fully registered form and shall be initially registered in the name of “Cede & Co.”, as nominee of The Depository Trust Company. The Series 2006A Bonds shall be evidenced by one Series 2006A Bond maturing on each of the maturity dates as set forth in subsection 14.02(C) in a denomination corresponding to the total principal amount of the Series 2006A Bonds of such maturity. Each Series 2006A Bond may be assigned by the Trustee a distinctive number or letter and number, and a record of the same shall be maintained by the Trustee. Registered ownership of the Series 2006A Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 14.14.

(C) The Series 2006A Bonds shall be dated the date of delivery, shall be bonds which are Current Interest Indebtedness, shall be issued in denominations of \$5,000 or any integral multiple thereof, and shall bear interest from the date thereof at the following rates per annum and shall mature on November 1 in the following years in the following amounts:

<u>Maturity Date (November 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2023	\$ 880,000	4.50%
2024	920,000	4.50
2025	960,000	4.20
2026	1,005,000	4.25
2031	5,710,000	4.25
2036	7,060,000	4.25

The Series 2006A Bonds maturing on November 1, 2023 through November 1, 2026, inclusive, are designated Serial Bonds. The Series 2006A Bonds maturing on November 1, 2031 and November 1, 2036 are designated as Term Bonds.

Interest on the Series 2006A Bonds shall be payable commencing on May 1, 2007 and semiannually thereafter on November 1 and May 1 of each year in lawful money of the United States of America by check mailed by first-class mail on each interest payment date to the Owner thereof as of the close of business on the fifteenth (15th) day of the calendar month immediately preceding such interest payment date; provided, that upon the written request of an Owner of one million dollars (\$1,000,000) or more in aggregate principal amount of Series 2006A Bonds received by the Trustee prior to the applicable Record Date (which such request shall remain in effect until rescinded in writing by such Owner), interest shall be paid by wire transfer in immediately available funds. Interest on the Series 2006A Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. The principal of and premium, if any, on the Series 2006A Bonds are payable when due upon presentation thereof at the Corporate Trust Office of the Trustee, in lawful money of the United States of America.

So long as the Series 2006A Bonds are maintained in book-entry form, payments of principal, premium, if any, and interest shall be made by the Trustee to the Securities Depository by wire transfer.

The Trustee shall provide to Bondholders CUSIP number identification, with appropriate dollar amounts for each CUSIP number, on all redemption payments and interest payments, whether by check or by wire transfer.

#### SECTION 14.03. Redemption of Series 2006A Bonds.

##### (A) Optional Redemption.

(i) The Series 2006A Bonds maturing on November 1, 2023 and November 1, 2024 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2011, at a Redemption Price equal to 100% of the principal amount of such Series 2006A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

(ii) The Series 2006A Bonds maturing on and after November 1, 2025 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2016, at a Redemption Price equal to 100% of the principal amount of such Series 2006A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

(B) Mandatory Sinking Fund Redemption. The Series 2006A Bonds maturing on November 1, 2031 and November 1, 2036 shall also be subject to mandatory redemption prior to their stated maturity, in part, by lot, from Mandatory Sinking Account Payments required by and as specified in Section 14.08, commencing on November 1, 2027 for the Series 2006A Bonds maturing on November 1, 2031, and commencing on November 1, 2032 for the Series 2006A

Bonds maturing on November 1, 2036, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

(C) Special Mandatory Redemption From Insurance or Condemnation Proceeds. The Series 2006A Bonds shall also be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to Sections 6.06 or 6.07 of the Indenture, at a Redemption Price equal to the principal amount of the Series 2006A Bonds plus interest accrued thereon to the date fixed for redemption, without premium. Notwithstanding the foregoing, in the event of a special mandatory redemption of less than all of the Outstanding Series 2006A Bonds pursuant to this Section 14.03(C), the designation by the City of the maturities of the Series 2006A Bonds from which such redemption will be made shall be subject to the prior written approval of the Series 2006A Bond Insurer.

SECTION 14.04. Selection of Series 2006A Bonds for Redemption. Whenever provision is made in this Third Supplement for the redemption of less than all of the Series 2006A Bonds of any maturity (and interest rate), the Trustee shall select the Series 2006A Bonds to be redeemed, from all Series 2006A Bonds of the respective maturity (and interest rate) not previously called for redemption, in authorized denominations, by lot in any manner which the Trustee in its sole discretion shall deem appropriate. The Trustee shall promptly notify the City in writing of the Series 2006A Bonds so selected for redemption.

SECTION 14.05. Notice of Redemption of Series 2006A Bonds. The City shall notify the Trustee at least forty-five (45) days prior to the redemption date for Series 2006A Bonds pursuant to Section 14.03(A) or (C). Notice of redemption of any Series 2006A Bonds shall be sent by the Trustee, by approved means, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (i) to the respective Owners of any Series 2006A Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee, (ii) to the Securities Depositories, and (iii) to the Information Services. Notice of redemption shall be given in the form and in accordance with the terms of the Indenture.

SECTION 14.06. Partial Redemption of Series 2006A Bonds. Upon surrender of any Series 2006A Bond redeemed in part only, the City shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the City, a new Series 2006A Bond of authorized denominations, and of the same maturity and interest rate, equal in aggregate principal amount to the unredeemed portion of the Series 2006A Bond surrendered.

SECTION 14.07. Effect of Redemption of Series 2006A Bonds. 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 Series 2006A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2006A 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 date fixed for redemption, interest on the Series 2006A Bonds so called for redemption shall cease to accrue, said Series 2006A Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Series 2006A

Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest.

All Series 2006A Bonds redeemed pursuant to the provisions of this Article shall be cancelled upon surrender thereof and destroyed. Any purchase of the Series 2006A Bonds in lieu of redemption shall require the prior written approval of the Series 2006A Bond Insurer if any Series 2006A Bond so purchased is not cancelled upon purchase.

SECTION 14.08. Series 2006A Sinking Account. An account is hereby established within the Principal Fund created by Section 5.01 of the Indenture to be designated the “Series 2006A Sinking Account.” On each Business Day prior to the following payment dates, the Trustee shall transfer from the Principal Fund to the Series 2006A Sinking Account an amount equal to the payment due on such date as set forth below:

Term Series 2006A Bonds Due November 1, 2031

<u>Mandatory Sinking Account Payment Dates (November 1)</u>	<u>Mandatory Sinking Account Payments</u>
2027	\$1,045,000
2028	1,095,000
2029	1,140,000
2030	1,190,000
2031†	1,240,000

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† Final Maturity.

Term Series 2006A Bonds Due November 1, 2036

<u>Mandatory Sinking Account Payment Dates (November 1)</u>	<u>Mandatory Sinking Account Payments</u>
2032	\$1,295,000
2033	1,350,000
2034	1,410,000
2035	1,470,000
2036†	1,535,000

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† Final Maturity.

Moneys in the Series 2006A Sinking Account shall be applied as provided in Section 5.01(B) and Section 5.03(B) of the Indenture.

SECTION 14.09. Form of Series 2006A Bonds. The Series 2006A Bonds and the certificate of authentication and registration to be executed thereon shall be in substantially the form set forth as Exhibit A hereto. The Series 2006A Bond designation letters and numbers, maturity dates, principal amounts, and interest rates and yields to maturity shall be inserted therein in conformity with Section 14.02.

SECTION 14.10. Issuance of Series 2006A Bonds. At any time after the execution and delivery of this Third Supplement, the City may execute and the Trustee shall authenticate and deliver the Series 2006A Bonds in the aggregate principal amount of \$16,535,000 upon the Order of the City.

SECTION 14.11. Application of Proceeds of Series 2006A Bonds. The proceeds of the sale of the Series 2006A Bonds in the amount of \$16,051,156.14 (computed as \$16,535,000.00 aggregate principal amount of the Series 2006A Bonds, less \$88,247.69 Underwriter's discount, less \$323,866.90 net original issue discount, less \$71,729.27 directly transferred, at the request and direction of the City and on behalf of the Trustee, by the Underwriter to the Series 2006A Bond Insurer, said amount representing the bond insurance premium for the Series 2006A Bond Insurance Policy) shall be received by the Trustee on behalf of the City and held in trust and set aside as follows:

(i) The Trustee shall transfer to the City for deposit in the Series 2006A Wastewater Enterprise Project Fund \$15,600,000.00, to be applied in accordance with Section 14.12.

(ii) The Trustee shall deposit in the Parity Reserve Fund \$225,608.83, which shall be the amount necessary to cause the amount on deposit therein to be equal to the Reserve Fund Requirement upon the issuance of the Series 2006A Bonds, to be applied in accordance with Section 5.05 in the Indenture.

(iii) The Trustee shall deposit in the Series 2006A Costs of Issuance Fund \$225,547.31, to be applied in accordance with Section 14.13 hereof.

SECTION 14.12. Establishment and Application of the Series 2006A Wastewater Enterprise Project Fund. The City shall establish, maintain and hold in trust a separate fund designated as the "Series 2006A Wastewater Enterprise Project Fund." The moneys in the Series 2006A Wastewater Enterprise Project Fund shall be used and withdrawn by the City to pay the costs of acquisition, construction, improvement, furnishing, equipping, remodeling, repair, reconstruction or rehabilitation of the wastewater treatment facilities of the City; or incidental of, or in connection with, the operation of the Enterprise. Moneys on deposit in the Series 2006A Wastewater Enterprise Project Fund shall be invested in Investment Securities. Interest, profit and other income received from the investment of moneys in the Series 2006A Wastewater Enterprise Project Fund shall be credited to such Fund except as otherwise provided herein. Interest, profit or other income derived from the investment of moneys may also be deposited in the Rebate Fund in an amount determined by the City to be required.

Unless the Series 2006A Bond Insurer otherwise directs, upon the occurrence and continuance of an Event of Default or an event which with notice or lapse of time would constitute an Event of Default under the Indenture, amounts on deposit in the Series 2006A Wastewater Enterprise Project Fund shall not be disbursed, but shall instead be applied to the payment of debt service or redemption price of the Series 2006A Bonds.

SECTION 14.13. Establishment and Application of Series 2006A Costs of Issuance Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Series 2006A Costs of Issuance Fund," which fund is hereby created and which fund the Trustee hereby agrees to maintain with the Trustee until June 1, 2007. The Trustee shall deposit to the Series 2006A Costs of Issuance Fund the amounts specified in Section 14.11 hereof. All money in the Series 2006A Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance of the Series 2006A Bonds upon receipt of a Requisition of the City filed with the Trustee, each of which shall be sequentially numbered and shall state 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 said fund. On June 1, 2007 or upon the earlier Request of the City, any remaining balance in the Series 2006A Costs of Issuance Fund shall be transferred to the City.

SECTION 14.14. Use of Depository. Notwithstanding any provision of the Indenture or this Third Supplement to the contrary:

(A) The Series 2006A Bonds shall be issued in fully registered form, in authorized denominations and shall be initially registered in the name of "Cede & Co.," as nominee of The Depository Trust Company (the "Securities Depository"), and shall be evidenced by one Series 2006A Bond maturing on each of the maturity dates as set forth in subsection 14.02(C) in a denomination corresponding to the total principal amount of the Series 2006A Bonds of such maturity. Each Series 2006A Bond shall be assigned by the Trustee a distinctive number or letter or letter and number, and a record of the same shall be maintained by the Trustee.

Registered ownership of the Series 2006A Bonds, or any portions thereof, may not thereafter be transferred except:

(i) To any successor of The Depository Trust Company or its nominee, or to any substitute depository designated pursuant to clause (ii) of this subsection (A) (a "Substitute Depository"); provided that any successor of The Depository Trust Company or Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it;

(ii) To any Substitute Depository not objected to by the Trustee, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the City that The Depository Trust Company 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

(iii) To any person as provided below, upon (1) the resignation of The Depository Trust Company or its successor (or Substitute Depository or its successor) from its functions as depository; provided that no Substitute Depository which is not objected to by the Trustee can be obtained, or (2) a determination by the City that it is in the best interests of the City to remove The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its function as depository.

(B) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection 14.14(A), upon receipt of all Outstanding Series 2006A Bonds by the Trustee, together with a Certificate of the City to the Trustee, a single new Series 2006A Bond for each maturity shall be executed and delivered, 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 City. In the case of any transfer pursuant to clause (iii) of subsection 14.14(A) hereof, upon receipt of all Outstanding Series 2006A Bonds by the Trustee together with a Certificate of the City to the Trustee, new Series 2006A Bonds shall be executed and delivered in such denominations and registered in the names of such persons as are requested in such a Certificate of the City, subject to the limitations of Section 14.02 hereof; provided the Trustee shall not be required to deliver such new Series 2006A Bonds within a period less than 60 days from the date of receipt of such a Certificate of the City.

(C) In the case of partial redemption, cancellation or an advance refunding of any Series 2006A Bonds evidencing all or a portion of the principal maturing in a particular year, The Depository Trust Company shall make an appropriate notation on the Series 2006A Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee.

(D) The City and the Trustee shall be entitled to treat the person in whose name any Series 2006A Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the City; and the City and the Trustee shall have no responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any beneficial owners of the Series 2006A Bonds. Neither the City nor the Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party including The Depository Trust Company or its successor (or Substitute Depository or its successor), except to the Owner of any Series 2006A Bond.

(E) So long as all Outstanding Series 2006A Bonds are registered in the name of "Cede & Co." or its registered assign, the City and the Trustee shall cooperate with "Cede & Co.," as sole registered Owner, and its registered assigns in effecting payment of the principal of and redemption premium, if any, and interest on the Series 2006A 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 14.15. Bond Insurance Provisions. Notwithstanding any other provision of the Indenture or this Third Supplement to the contrary, so long as the Series 2006A Bond Insurance Policy is in full force and effect and the Series 2006A Bond Insurer is not in default in its payment of obligations thereunder, the following provisions shall be in effect:

(A) The prior written consent of the Series 2006A Bond Insurer shall be a condition precedent to the deposit of any letter of credit, surety bond or insurance policy into the Parity Reserve Fund pursuant to Section 5.05 of the Indenture for purposes of satisfying all or any part of the Reserve Fund Requirement.

(B) Pursuant to the provisions of Section 9.01(A)(2) of the Indenture, any modification, amendment or supplement to the Indenture pursuant to Section 9.01(A) of the Indenture shall require the consent of the Series 2006A Bond Insurer in lieu of consent of the Owners of the Series 2006A Bonds.

(C) (1) The Series 2006A Bond Insurer shall be deemed to be the sole Owner of the Series 2006A Bonds insured by it for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the Series 2006A Bonds insured by it are entitled to take pursuant to Article VII (pertaining to defaults and remedies) of the Indenture and Article VIII (pertaining to the Trustee) of the Indenture. The maturity of the Series 2006A Bonds insured by the Series 2006A Bond Insurer shall not be accelerated without the consent of the Series 2006A Bond Insurer.

(2) In the event the maturity of the Series 2006A Bonds is accelerated, the Series 2006A Bond Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued on such principal to the date of acceleration (to the extent unpaid by the City) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Series 2006A Bond Insurer's obligations under the Series 2006A Bond Insurance Policy with respect to such Series 2006A Bonds shall be fully discharged.

(3) The rights granted to the Series 2006A Bond Insurer hereunder to request, consent to or direct any action are rights granted to the Series 2006A Bond Insurer in consideration of its issuance of the Series 2006A Bond Insurance Policy. Any exercise by the Series 2006A Bond Insurer of such rights is merely an exercise of the Series 2006A Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Owners of the Series 2006A Bonds nor does such action evidence any position of the Series 2006A Bond Insurer, positive or negative, as to whether consent of the Owners of the Series 2006A Bonds is required in addition to consent of the Series 2006A Bond Insurer.

(4) In determining whether any amendment, consent or other action to be taken, or any failure to act, under the Indenture would adversely affect the security for the Series 2006A Bonds or the rights of the Owners, the Trustee shall consider the effect of any such amendment, consent, action or inaction as if there were no Series 2006A Bond Insurance Policy.

(5) The allowable grace period for the City to cure a failure to observe or perform any covenant, condition, agreement or provision of the Indenture prior to such failure becoming an Event of Default pursuant to Section 7.01(b) of the Indenture shall not be extended beyond a sixty (60) day period without the prior written consent of the Series 2006A Bond Insurer. Notwithstanding any provision to the contrary that may be contained in any agreement governing any Parity Debt, for purposes of Section 7.01(d) of the Indenture there shall be no grace period for the default by the City in the due and punctual payment of any Parity Debt.

(D) (1) To the extent that the Indenture confers upon or gives or grants to the Series 2006A Bond Insurer any right, remedy or claim under or by reason of the Indenture, the Series 2006A Bond Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder or hereunder.

(2) Except as permitted under the terms of the Indenture, no contract shall be entered into by the City nor any action taken by the City by which the rights of the Series 2006A Bond Insurer or security for or sources of payment of the Series 2006A Bonds may be impaired or prejudiced except upon obtaining the prior written consent of the Series 2006A Bond Insurer.

(3) Each of the City and the Trustee agree to take such action (including as applicable, filing of UCC financing statements and continuations thereof) as is necessary from time to time to preserve the priority of the pledge of the Net Revenues under applicable law.

(E) (1) In connection with any defeasance of Series 2006A Bonds pursuant to Article X of the Indenture, in addition to the requirements of Article X of the Indenture, the City shall cause to be delivered (i) an escrow deposit agreement (which shall be acceptable in form and substance to the Series 2006A Bond Insurer), and (ii) an opinion of nationally recognized bond counsel (which shall be acceptable in form and substance to the Series 2006A Bond Insurer) to the effect that the Series 2006A Bonds being defeased are no longer “Outstanding” under the Indenture, addressed to the City, the Trustee and the Series 2006A Bond Insurer. The Series 2006A Bond Insurer shall be provided with final drafts of the above-referenced documentation not less than five Business Days prior to the funding of the escrow. Any Series 2006A Bonds being defeased shall be deemed “Outstanding” under the Indenture unless and until they are in fact paid and retired or the above criteria are met.

(2) Amounts paid by the Series 2006A Bond Insurer under the Series 2006A Bond Insurance Policy shall not be deemed paid for purposes of the Indenture and shall remain Outstanding and continue to be due and owing until paid by the City in accordance with the Indenture.

(3) The Indenture shall not be discharged unless all amounts due or to become due to the Series 2006A Bond Insurer have been paid in full or duly provided for.

(F) While the Series 2006A Bond Insurance Policy is in effect, the City or the Trustee, as appropriate, shall furnish to the Series 2006A Bond Insurer:

(1) annual audited financial statements of the City within the later of 180 days after the end of the City’s Fiscal Year or 30 days after acceptance or adoption of such audited financial statements by the City, whichever is later (together with a certification of the City that it is not aware of any Event of Default or any event which the passage of time or the giving of notice would constitute an Event of Default under the Indenture), and the City’s annual budget within 30 days after the approval thereof, together with such other information, data or reports as the Series 2006A Bond Insurer shall reasonably request from time to time;

(2) notice of any draw upon the Parity Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Reserve Fund Requirement and (ii) withdrawals in connection with a refunding of Series 2006A Bonds;

(3) notice of any Event of Default under the Indenture known to the Trustee or the City within five Business Days after knowledge thereof;

(4) prior notice of the advance refunding or redemption of any of the Series 2006A Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(5) notice of the resignation or removal of the Trustee and the appointment of, and acceptance of duties by, any successor thereto;

(6) notice of the commencement of any proceeding by or against the City commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(7) notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of or interest on the Series 2006A Bonds;

(8) a full original transcript of all proceedings relating to the execution of any amendment or supplement to the Indenture; and

(9) all reports, notices and correspondence to be delivered under the terms of the Indenture.

(G) As long as the Series 2006A Bond Insurance Policy shall be in full force and effect, the City and the Trustee agree to comply with the following provisions:

(1) If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Trustee after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of and interest on the Series 2006A Bonds due on such Payment Date, the Trustee shall give notice to the Series 2006A Bond Insurer and to its designated agent (if any) (the "Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Series 2006A Bonds due on such Payment Date, the Trustee shall make a claim under the Series 2006A Bond Insurance Policy and give notice to the Series 2006A Bond Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Series 2006A Bonds and the amount required to pay principal of the Series 2006A Bonds, confirmed in writing to the Series 2006A Bond Insurer and the Insurer's Fiscal Agent by

12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Series 2006A Bond Insurance Policy.

(2) The Trustee shall designate any portion of payment of principal on Series 2006A Bonds paid by the Series 2006A Bond Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Series 2006A Bonds registered to the then current Owner of such Series 2006A Bonds, whether DTC or its nominee or otherwise, and shall issue a replacement Series 2006A Bond to the Series 2006A Bond Insurer, registered in the name of Financial Security Assurance Inc., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Series 2006A Bond shall have no effect on the amount of principal or the interest payable by the City on any Series 2006A Bond or the subrogation rights of the Series 2006A Bond Insurer.

(3) The Trustee shall keep a complete and accurate record of all funds deposited by the Series 2006A Bond Insurer into the Policy Payments Account (referred to below) and the allocation of such funds to payment of interest on and principal paid in respect of any Series 2006A Bond. The Series 2006A Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

(4) Upon payment of a claim under the Series 2006A Bond Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of the Owners of the Series 2006A Bonds referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Series 2006A Bond Insurance Policy in trust on behalf of the Owners of the Series 2006A Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to the Owners of the Series 2006A Bonds in the same manner as principal and interest payments are to be made with respect to the Series 2006A Bonds under the sections hereof regarding payment of Series 2006A Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything to the contrary otherwise set forth in the Indenture, the City agrees to pay to the Series 2006A Bond Insurer (i) a sum equal to the total of all amounts paid by the Series 2006A Bond Insurer under the Series 2006A Bond Insurance Policy ("Insurer Advances"); and (ii) interest on such Insurer Advances from the date paid by the Series 2006A Bond Insurer until payment thereof in full, payable to the Series 2006A Bond Insurer at the Late Payment Rate per annum (collectively, "Insurer Reimbursement Amounts"). "Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank or its successor at its principal office in the City of New York, as its prime or base lending rate plus 3%, and (ii) the then applicable rate of interest on the Series 2006A Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of actual number of days elapsed over a year of 360 days. The City hereby covenants and agree

that the Insurer Reimbursement Amounts are secured by a lien on and pledge of the Net Revenues and payable from such Net Revenue on a parity with debt service due on the Series 2006A Bonds.

(5) Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee.

(6) Any funds remaining in the Policy Payments Account following a Series 2006A Bond payment date shall promptly be remitted to the Series 2006A Bond Insurer.

(7) The Series 2006A Bond Insurer shall, to the extent it makes any payment of principal of or interest on the Series 2006A Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Series 2006A Bond Insurance Policy.

(8) The City shall pay or reimburse the Series 2006A Bond Insurer any and all changes, fees, costs and expenses which the Series 2006A Bond Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Indenture; (ii) the pursuit of any remedies under the Indenture or otherwise afforded by law or equity; (iii) any amendment, waiver or other action with respect to, or related to, the Indenture whether or not executed or completed, (iv) the violation by the City of any law, rule or regulation, or any judgment, order or decree applicable to it; or (v) any litigation or other dispute in connection with the Indenture or the transaction contemplated thereby, other than amounts resulting from the failure of the Series 2006A Bond Insurer to honor its obligations under the Series 2006A Bond Insurance Policy. The Series 2006A Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture.

(9) The Series 2006A Bond Insurer shall be entitled to pay principal or interest on the Series 2006A Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment (as such terms are defined in the Series 2006A Bond Insurance Policy) by the City and any amounts due on the Series 2006A Bonds as a result of the acceleration of the maturity thereof in accordance with the Indenture, whether or not the Series 2006A Bond Insurer has received a Notice of Nonpayment (as such term is defined in the Series 2006A Bond Insurance Policy) or a claim upon the Series 2006A Bond Insurance Policy.

(10) The notice address of the Series 2006A Bond Insurer is: Financial Security Assurance Inc., 31 West 52<sup>nd</sup> Street, New York, New York 10019, Attention: Managing Director – Surveillance; Re: Policy No. 207694-N; Telephone: (212) 826-0100; Telecopier: (212) 339-3556. In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of General Counsel and shall be marked to indicate “URGENT MATERIAL ENCLOSED.”

SECTION 14.16. Terms of Series 2006A Bonds Subject to the Indenture. Except as in this Third Supplement expressly provided, every term and condition contained in the Indenture shall apply to the Third Supplement and to the Series 2006A Bonds with the same force and effect as if the same were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to the Third Supplement.

The Third Supplement and all the terms and provisions herein contained shall form part of the Indenture as fully and with the same effect as if all such terms and provisions had been set forth in the Indenture. The Indenture is hereby ratified and confirmed and shall continue in full force and effect in accordance with the terms and provisions thereof, as supplemented and amended hereby, subject to the next sentence.

SECTION 14.17. Effective Date of Third Supplement. The Third Supplement shall take effect upon its execution and delivery.

SECTION 14.18. Execution in Counterparts. The Third Supplement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

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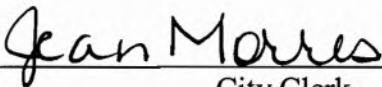
IN WITNESS WHEREOF, the parties hereto have executed the Third Supplement by their officers thereunto duly authorized as of the day and year first written above.

CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

(Seal)

ATTEST:

By:   
City Clerk

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

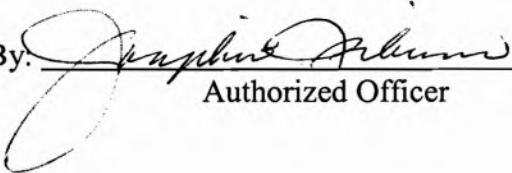
By:   
Authorized Officer

EXHIBIT A

(FORM OF SERIES 2006A BOND)

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.

No. \_\_\_\_\_

\$ \_\_\_\_\_

CITY OF MODESTO, CALIFORNIA  
WASTEWATER REVENUE BONDS,  
SERIES 2006

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, _____	%	_____, 2006	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2007, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Trust Company, N.A., as trustee

(together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Bonds (the "Bonds") of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a Third Supplemental Wastewater Revenue Bond Indenture, dated as of December 1, 2006 (the "Third Supplement"), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the "Series 2006A Bonds") of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the Third Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Bonds and the Parity Debt (as defined in the Indenture) hereafter issued by the City are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2006A Bonds maturing on November 1, 2023 and November 1, 2024 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2011, at a Redemption Price equal to 100% of the principal amount of such Series 2006A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2006A Bonds maturing on and after November 1, 2025 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2016, at a Redemption Price equal to 100% of the principal amount of such Series 2006A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2006A Bonds maturing on November 1, 2031 and November 1, 2036 shall also be subject to mandatory redemption prior to their stated maturity, in part, by lot, from Mandatory Sinking Account Payments required by and as specified in the Indenture, commencing on November 1, 2027 for the Series 2006A Bonds maturing on November 1, 2031, and commencing on November 1, 2032 for the Series 2006A Bonds maturing on November 1, 2036, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

The Series 2006A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2006A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer or exchange a new fully registered Bond or Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture or otherwise.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Mayor of the City and countersigned by the City Clerk by their facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the \_\_\_\_ day of \_\_\_\_\_, 2006.

CITY OF MODESTO, CALIFORNIA

By: \_\_\_\_\_  
Mayor

(SEAL)

Attested:

By: \_\_\_\_\_  
City Clerk

[FORM OF CERTIFICATE OF AUTHENTICATION  
AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated:

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

By: \_\_\_\_\_  
Authorized Officer

## STATEMENT OF INSURANCE

Financial Security Assurance Inc. (“Financial Security”), New York, New York, has delivered its municipal bond insurance policy with respect to the scheduled payments due of principal of and interest on this Bond to The Bank of New York Trust Company, N.A., San Francisco, California (the “Trustee”), or its successor, as trustee for the Bonds. Said policy is on file and available for inspection at the corporate trust office of the Trustee and a copy thereof may be obtained from Financial Security or the Trustee.

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises.

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NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by:

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

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FOURTH SUPPLEMENTAL  
WASTEWATER REVENUE BOND INDENTURE

by and between the

CITY OF MODESTO, CALIFORNIA

and

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

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Dated as of April 1, 2018

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(Supplemental to the Wastewater Revenue  
Bond Indenture dated as of April 1, 2005)

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FOURTH SUPPLEMENTAL  
WASTEWATER REVENUE BOND INDENTURE

**Table of Contents**

**Page**

ARTICLE XV

THE SERIES 2018A BONDS

SECTION 15.01	Definitions.....	3
SECTION 15.02	Amendments to Indenture.....	3
SECTION 15.03	Authorization; Terms of the Series 2018A Bonds.....	4
SECTION 15.04	Redemption of Series 2018A Bonds.....	5
SECTION 15.05	Selection of Series 2018A Bonds for Redemption .....	6
SECTION 15.06	Notice of Redemption of Series 2018A Bonds.....	6
SECTION 15.07	Partial Redemption of Series 2018A Bonds .....	6
SECTION 15.08	Effect of Redemption of Series 2018A Bonds.....	6
SECTION 15.09	Form of Series 2018A Bonds.....	7
SECTION 15.10	Issuance of Series 2018A Bonds.....	7
SECTION 15.11	Application of Proceeds of Series 2018A Bonds.....	7
SECTION 15.12	Establishment and Application of Series 2018A Costs of Issuance Fund .....	7
SECTION 15.13	Use of Depository .....	7
SECTION 15.14	Terms of Series 2018A Bonds Subject to the Indenture.....	9
SECTION 15.15	Effective Date of Fourth Supplement .....	9
SECTION 15.16	Execution in Counterparts.....	9
EXHIBIT A	– Form of Series 2018A Bonds.....	A-1

Fourth Supplemental Wastewater Revenue Bond Indenture  
(Supplemental to the Wastewater Revenue Bond Indenture  
dated as of April 1, 2005)  
Authorizing the Issuance of  
\$11,340,000 Aggregate Principal Amount of  
City of Modesto, California  
Wastewater Revenue Refunding Bonds, Series 2018A

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This FOURTH SUPPLEMENTAL WASTEWATER REVENUE BOND INDENTURE, dated as of April 1, 2018 (the “Fourth Supplement”), by and between the CITY OF MODESTO, CALIFORNIA (the “City”), a municipal corporation and chartered city duly organized and existing under the Constitution and laws of the State of California, and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as successor trustee (the “Trustee”),

WITNESSETH:

WHEREAS, Section 200 of the Charter of the City of Modesto and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the “Bond Law”) authorizes the City to issue revenue bonds to finance the acquisition, construction, improvement, furnishing, equipping, remodeling, repair, reconstruction or rehabilitation of the wastewater treatment facilities of the City (the “Enterprise”); and

WHEREAS, the City has entered into a Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the “Indenture”), between the City and U.S. Bank National Association (which has been succeeded by The Bank of New York Mellon Trust Company, N.A.), as Trustee (the “Trustee”), providing for the issuance of wastewater revenue bonds thereunder; and

WHEREAS, in accordance with the Bond Law and the Indenture, as supplemented by a First Supplemental Indenture, dated as of April 1, 2005 (the “First Supplemental Indenture”), and Second Supplemental Indenture, dated as of April 1, 2005 (the “Second Supplemental Indenture”), the City has previously issued its City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2005A (the “Series 2005A Bonds”), its City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2005B (Taxable) (the “Series 2005B Bonds”) and its City of Modesto, California Wastewater Revenue Bonds, Series 2006A (the “Series 2006A Bonds”); and

WHEREAS, the Series 2005B Bonds matured, were paid timely and are no longer outstanding; and

WHEREAS, the Indenture provides that the City may issue any indebtedness, installment sale obligation, lease obligation or other obligation of the City for borrowed money having an equal lien and charge upon the Net Revenues, therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding under the Indenture), from time to time in accordance with the terms of the Indenture; and

WHEREAS, the City previously incurred an obligation (the “2011 SWRCB Obligation”), pursuant to a Project Finance Agreement, dated as of August 26, 2011, as amended on May 11, 2012, by and between the State Water Resources Control Board, an administrative and regulatory agency of the State of California (the “SWRCB”), and the City, which 2011 SWRCB Obligation constitutes Parity Debt pursuant to Section 3.05(c) of the Indenture; and

WHEREAS, the City previously issued a bond (the “Series 2015 Bond”), pursuant to a Bond Purchase Agreement, dated as of October 30, 2015, among the City, Capital One Public Funding, LLC, and The Bank of New York Mellon Trust Company, N.A., as paying agent, which Series 2015 Bond constitutes Parity Debt pursuant to Section 3.05(c) of the Indenture, and which refunded all of the Series 2005A Bonds and the November 1, 2023 and 2024 maturities of the Series 2006 Bonds (the “Refunded 2006 Bonds”); and

WHEREAS, the City previously incurred an obligation (the “2016 SWRCB Obligation” and together with the 2011 SWRCB Obligation and the Series 2015 Bond, the “Prior Parity Debt”), pursuant to a Project Finance Agreement, dated as of June 8, 2016, by and between the SWRCB, and the City, which 2016 SWRCB Obligation constitutes Parity Debt pursuant to Section 3.05(c) of the Indenture; and

WHEREAS, the City now desires to refund all of the outstanding Prior Bonds, consisting of all the Series 2006A Bonds, other than the Refunded 2006 Bonds; and

WHEREAS, the Indenture provides that the City may issue Bonds from time to time as authorized by a Supplemental Indenture; and

WHEREAS, this Fourth Supplement is supplemental to the Indenture; and

WHEREAS, in order to provide moneys to finance certain improvements to the Enterprise, the City has determined that it is necessary and required that the City enter into this Fourth Supplement in order to establish and declare, in conjunction with the Indenture, the terms and conditions upon which City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the “Series 2018A Bonds”) shall be issued and secured and to secure the payment of the principal thereof and premium (if any) and interest thereon; and

WHEREAS, the City has determined that 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 the entering into of this Fourth Supplement 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 Fourth Supplement;

NOW, THEREFORE, the parties hereto agree, as follows:

## ARTICLE XV

### THE SERIES 2018A BONDS

SECTION 15.01 Definitions. The terms defined in this Section shall, for all purposes of this Fourth Supplement 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. Terms defined in the Indenture not otherwise defined herein shall have the meanings specified therein.

#### Fourth Supplement

“Fourth Supplement” means this Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018, between the City and the Trustee.

#### Redemption Date

“Redemption Date” means April 20, 2018.

#### Securities Depository

“Securities Depository” shall have the meaning assigned to such term in Section 15.13(A) hereof.

#### Series 2018A Bonds

“Series 2018A Bonds” means the City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A, as described in Section 15.03(A) hereof.

#### Series 2018A Costs of Issuance Fund

“Series 2018A Costs of Issuance Fund” means the fund by that name established pursuant to Section 15.12 hereof.

### SECTION 15.02 Amendments to Indenture.

(A) Definition of Reserve Fund Requirement. Upon issuance of the Series 2018A Bonds, the definition of Reserve Fund Requirement is hereby amended in its entirety to read as follows:

“Reserve Fund Requirement” means, as of any date of determination and excluding any Bonds or Parity Debt for which no reserve fund is to be maintained and any Parity Debt for which a separate reserve fund is to be maintained, the lesser of (a) the Maximum Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, or (b) one hundred twenty-five percent (125%) of the Average Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund; provided that in no event shall the deposit to the Parity Reserve Fund with respect to any Series of Bonds or Parity Debt to be secured by the Parity Reserve Fund be an amount greater than ten percent

(10%) of the initial offering price to the public of each Series of Bonds and any Parity Debt to be secured by the Parity Reserve Fund as determined under the Code, all as computed and determined by the City and specified in writing to the Trustee.

(B) Section 3.01(c). Upon issuance of the Series 2018A Bonds, Section 3.01(c) is hereby amended in its entirety to read as follows:

(c) there shall be deposited in the Parity Reserve Fund an amount of money so as to increase the amount on deposit therein to the Reserve Fund Requirement, provided that Parity Debt may be secured by a separate reserve fund or by no reserve fund; and

(C) Section 5.05(B). Upon issuance of the Series 2018A Bonds, the first sentence of Section 5.05(B) shall be amended in its entirety to read as follows:

The City may provide for all or any part of the Reserve Fund Requirement by delivering to the Trustee an irrevocable letter of credit issued by a financial institution having at the time of deposit unsecured debt obligations rated in one of the two highest Rating Categories of Moody's or Standard & Poor's, without regard to modifiers, securing an amount, together with moneys, Investment Securities or surety bonds or insurance policies (as described in clause (C) below) on deposit in the Parity Reserve Fund, equal to the Reserve Fund Requirement.

(D) Section 5.05(C). Upon issuance of the Series 2018A Bonds, the second sentence of Section 5.05(C) shall be amended in its entirety to read as follows:

Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations (or obligations secured by such insurance company's insurance policies) are rated at the time of deposit in one of the two highest Rating Categories of Moody's or Standard & Poor's, without regard to modifiers.

SECTION 15.03 Authorization; Terms of the Series 2018A Bonds.

(A) A third Series of Bonds to be issued under the Indenture is hereby created. Such Series shall be known as the "City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A" (herein referred to as the "Series 2018A Bonds"). The Series 2018A Bonds shall be issued in the aggregate principal amount of \$11,340,000 in accordance with the Bond Law and this Indenture for the purposes of (i) refinancing the acquisition and construction of improvements to the Enterprise and (ii) paying the Costs of Issuance in connection with the issuance and delivery of the Series 2018A Bonds.

(B) The Series 2018A Bonds shall be issued in fully registered form and shall be initially registered in the name of "Cede & Co.", as nominee of The Depository Trust Company. The Series 2018A Bonds shall be evidenced by one Series 2018A Bond maturing on each of the maturity dates as set forth in subsection 15.03(C) in a denomination corresponding to the total principal amount of the Series 2018A Bonds of such maturity. Each Series 2018A Bond may be assigned by the Trustee a distinctive number or letter and number, and a record of the same shall be maintained by the Trustee. Registered ownership of the Series 2018A Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 15.13.

(C) The Series 2018A Bonds shall be dated the date of delivery, shall be bonds which are Current Interest Indebtedness, shall be issued in denominations of \$5,000 or any integral multiple thereof, and shall bear interest from the date thereof at the following rates per annum and shall mature on November 1 in the following years in the following amounts:

Maturity Date (November 1)	Principal Amount	Interest Rate
2025	\$ 710,000	5.00%
2026	750,000	5.00
2027	780,000	5.00
2028	825,000	5.00
2029	865,000	5.00
2030	910,000	5.00
2031	955,000	5.00
2032	1,005,000	5.00
2033	1,055,000	5.00
2034	1,110,000	5.00
2035	1,160,000	4.00
2036	1,215,000	5.00

The Series 2018A Bonds are designated as Serial Bonds.

Interest on the Series 2018A Bonds shall be payable commencing on November 1, 2018 and semiannually thereafter on November 1 and May 1 of each year in lawful money of the United States of America by check mailed by first-class mail on each interest payment date to the Owner thereof as of the close of business on the fifteenth (15th) day of the calendar month immediately preceding such interest payment date; provided, that upon the written request of an Owner of one million dollars (\$1,000,000) or more in aggregate principal amount of Series 2018A Bonds received by the Trustee prior to the applicable Record Date (which such request shall remain in effect until rescinded in writing by such Owner), interest shall be paid by wire transfer in immediately available funds. Interest on the Series 2018A Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. The principal of and premium, if any, on the Series 2018A Bonds are payable when due upon presentation thereof at the Corporate Trust Office of the Trustee, in lawful money of the United States of America.

So long as the Series 2018A Bonds are maintained in book-entry form, payments of principal, premium, if any, and interest shall be made by the Trustee to the Securities Depository by wire transfer.

The Trustee shall provide to Bondholders CUSIP number identification, with appropriate dollar amounts for each CUSIP number, on all redemption payments and interest payments, whether by check or by wire transfer.

#### SECTION 15.04 Redemption of Series 2018A Bonds.

(A) Optional Redemption. The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the

City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

(B) Special Mandatory Redemption From Insurance or Condemnation Proceeds. The Series 2018A Bonds shall also be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to Sections 6.06 or 6.07 of the Indenture, at a Redemption Price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

SECTION 15.05 Selection of Series 2018A Bonds for Redemption. Whenever provision is made in this Fourth Supplement for the redemption of less than all of the Series 2018A Bonds of any maturity (and interest rate), the Trustee shall select the Series 2018A Bonds to be redeemed, from all Series 2018A Bonds of the respective maturity (and interest rate) not previously called for redemption, in authorized denominations, by lot in any manner which the Trustee in its sole discretion shall deem appropriate. The Trustee shall promptly notify the City in writing of the Series 2018A Bonds so selected for redemption.

SECTION 15.06 Notice of Redemption of Series 2018A Bonds. The City shall notify the Trustee at least forty-five (45) days prior to the redemption date for Series 2018A Bonds pursuant to Section 15.04(A) or (B). Notice of redemption of any Series 2018A Bonds shall be sent by the Trustee, by approved means, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (i) to the respective Owners of any Series 2018A Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee, (ii) to the Securities Depositories, and (iii) to the Information Services. Notice of redemption shall be given in the form and in accordance with the terms of the Indenture.

SECTION 15.07 Partial Redemption of Series 2018A Bonds. Upon surrender of any Series 2018A Bond redeemed in part only, the City shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the City, a new Series 2018A Bond of authorized denominations, and of the same maturity and interest rate, equal in aggregate principal amount to the unredeemed portion of the Series 2018A Bond surrendered.

SECTION 15.08 Effect of Redemption of Series 2018A Bonds. 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 Series 2018A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2018A 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 date fixed for redemption, interest on the Series 2018A Bonds so called for redemption shall cease to accrue, said Series 2018A Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Series 2018A Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest.

All Series 2018A Bonds redeemed pursuant to the provisions of this Article shall be cancelled upon surrender thereof and destroyed.

SECTION 15.09 Form of Series 2018A Bonds. The Series 2018A Bonds and the certificate of authentication and registration to be executed thereon shall be in substantially the form set forth as Exhibit A hereto. The Series 2018A Bond designation letters and numbers, maturity dates, principal amounts, and interest rates and yields to maturity shall be inserted therein in conformity with Section 15.03.

SECTION 15.10 Issuance of Series 2018A Bonds. At any time after the execution and delivery of this Fourth Supplement, the City may execute and the Trustee shall authenticate and deliver the Series 2018A Bonds in the aggregate principal amount of \$11,340,000 upon the Order of the City.

SECTION 15.11 Application of Proceeds of Series 2018A Bonds. The proceeds of the sale of the Series 2018A Bonds, in the amount of \$13,373,634.04 (computed as \$11,340,000.00 aggregate principal amount of the Series 2018A Bonds, less \$49,795.76 Underwriter's discount), plus \$2,083,429.80 original issue premium, shall be received by the Trustee on behalf of the City and held in trust and set aside as follows:

(i) The Trustee deposit in the Redemption Fund \$13,182,803.88, to be applied, together with \$1,533,075.75 from the Parity Reserve Fund and \$312,878.75 from the Interest Fund, to redeem all of the outstanding Series 2006A Bonds on the Redemption Date at the Redemption Price. Moneys in the Redemption Fund shall be held uninvested.

(ii) The Trustee shall deposit in the Series 2018A Costs of Issuance Fund \$190,830.16, to be applied in accordance with Section 15.12 hereof. Moneys in the Costs of Issuance Fund shall be held uninvested.

The Trustee may establish temporary funds or accounts to facilitate such transfers.

SECTION 15.12 Establishment and Application of Series 2018A Costs of Issuance Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Series 2018A Costs of Issuance Fund," which fund is hereby created and which fund the Trustee hereby agrees to maintain with the Trustee until October 19, 2018. The Trustee shall deposit to the Series 2018A Costs of Issuance Fund the amounts specified in Section 15.11 hereof. All money in the Series 2018A Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance of the Series 2018A Bonds upon receipt of a Requisition of the City filed with the Trustee, each of which shall be sequentially numbered and shall state 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 said fund. Each such Requisition of the City shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. On October 19, 2018 or upon the earlier Request of the City, any remaining balance in the Series 2018A Costs of Issuance Fund shall be transferred to the City.

SECTION 15.13 Use of Depository. Notwithstanding any provision of the Indenture or this Fourth Supplement to the contrary:

(A) The Series 2018A Bonds shall be issued in fully registered form, in authorized denominations and shall be initially registered in the name of “Cede & Co.”, as nominee of The Depository Trust Company (the “Securities Depository”), and shall be evidenced by one Series 2018A Bond maturing on each of the maturity dates as set forth in subsection 15.03(C) in a denomination corresponding to the total principal amount of the Series 2018A Bonds of such maturity. Each Series 2018A Bond shall be assigned by the Trustee a distinctive number or letter or letter and number, and a record of the same shall be maintained by the Trustee.

Registered ownership of the Series 2018A Bonds, or any portions thereof, may not thereafter be transferred except:

(i) To any successor of The Depository Trust Company or its nominee, or to any substitute depository designated pursuant to clause (ii) of this subsection (A) (a “Substitute Depository”); provided that any successor of The Depository Trust Company or Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it;

(ii) To any Substitute Depository not objected to by the Trustee, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the City that The Depository Trust Company 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

(iii) To any person as provided below, upon (1) the resignation of The Depository Trust Company or its successor (or Substitute Depository or its successor) from its functions as depository; provided that no Substitute Depository which is not objected to by the Trustee can be obtained, or (2) a determination by the City that it is in the best interests of the City to remove The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its function as depository.

(B) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection 15.13(A), upon receipt of all Outstanding Series 2018A Bonds by the Trustee, together with a Certificate of the City to the Trustee, a single new Series 2018A Bond for each maturity shall be executed and delivered, 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 City. In the case of any transfer pursuant to clause (iii) of subsection 15.13(A) hereof, upon receipt of all Outstanding Series 2018A Bonds by the Trustee together with a Certificate of the City to the Trustee, new Series 2018A Bonds shall be executed and delivered in such denominations and registered in the names of such persons as are requested in such a Certificate of the City, subject to the limitations of Section 15.03 hereof; provided the Trustee shall not be required to deliver such new Series 2018A Bonds within a period less than 60 days from the date of receipt of such a Certificate of the City.

(C) In the case of partial redemption, cancellation or an advance refunding of any Series 2018A Bonds evidencing all or a portion of the principal maturing in a particular year, The

Depository Trust Company shall make an appropriate notation on the Series 2018A Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee.

(D) The City and the Trustee shall be entitled to treat the person in whose name any Series 2018A Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the City; and the City and the Trustee shall have no responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any beneficial owners of the Series 2018A Bonds. Neither the City nor the Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party including The Depository Trust Company or its successor (or Substitute Depository or its successor), except to the Owner of any Series 2018A Bond.

(E) So long as all Outstanding Series 2018A Bonds are registered in the name of “Cede & Co.” or its registered assign, the City and the Trustee shall cooperate with “Cede & Co.,” as sole registered Owner, and its registered assigns in effecting payment of the principal of and redemption premium, if any, and interest on the Series 2018A 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 15.14 Terms of Series 2018A Bonds Subject to the Indenture. Except as in this Fourth Supplement expressly provided, every term and condition contained in the Indenture shall apply to the Fourth Supplement and to the Series 2018A Bonds with the same force and effect as if the same were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to the Fourth Supplement.

The Fourth Supplement and all the terms and provisions herein contained shall form part of the Indenture as fully and with the same effect as if all such terms and provisions had been set forth in the Indenture. The Indenture is hereby ratified and confirmed and shall continue in full force and effect in accordance with the terms and provisions thereof, as supplemented and amended hereby, subject to the next sentence.

SECTION 15.15 Effective Date of Fourth Supplement. The Fourth Supplement shall take effect upon its execution and delivery.

SECTION 15.16 Execution in Counterparts. The Fourth Supplement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed the Fourth Supplement by their officers thereunto duly authorized as of the day and year first written above.

CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

(Seal)

ATTEST:

By:   
City Clerk

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

By: \_\_\_\_\_  
Authorized Officer

IN WITNESS WHEREOF, the parties hereto have executed the Fourth Supplement by their officers thereunto duly authorized as of the day and year first written above.

CITY OF MODESTO, CALIFORNIA

By: \_\_\_\_\_  
Director of Finance

(Seal)

ATTEST:

By: \_\_\_\_\_  
City Clerk

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


By:  \_\_\_\_\_  
Authorized Officer

EXHIBIT A

(FORM OF SERIES 2018A BOND)

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.

No. \$ \_\_\_\_\_

CITY OF MODESTO, CALIFORNIA  
WASTEWATER REVENUE REFUNDING BONDS,  
SERIES 2018A

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 20__	%	April 19, 2018	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the “City”), for value received, hereby promises to pay (but only out of the Net Revenues of the City’s wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on November 1, 2018, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are

payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the “Trustee”), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (the “Bonds”) of the series and designation indicated on the face hereof. Said authorized issue of Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Bonds, and a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the “Fourth Supplement”), by and between the City and the Trustee, authorizing the issuance of a series of bonds (the “Series 2018A Bonds”) of which this Bond is one (said indenture as amended and supplemented, including as supplemented by the Fourth Supplement collectively, the “Indenture”). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City’s wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City’s wastewater Enterprise and certain other funds pledged under the Indenture. The Bonds are special, limited obligations of the City. The Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2018A Bonds maturing on or after November 1, 2029 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2028, at a Redemption Price equal to 100% of the principal amount of such Series 2018A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2018A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2018A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer or exchange a new fully registered Bond or Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture or otherwise.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Bond to be executed in its name and on its behalf by the Acting Director of Finance and the Interim City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Bond to be dated the 19th day of April, 2018.

CITY OF MODESTO, CALIFORNIA

By: \_\_\_\_\_  
Acting Director of Finance

By: \_\_\_\_\_  
Interim City Manager

(SEAL)

ATTEST:

By: \_\_\_\_\_  
City Clerk

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: April 19, 2018

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

By: \_\_\_\_\_  
Authorized Officer

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

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NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by:

---

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

FIFTH SUPPLEMENTAL  
WASTEWATER REVENUE BOND INDENTURE

by and between the

CITY OF MODESTO, CALIFORNIA

and

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

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Dated as of November 1, 2020

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(Supplemental to the Wastewater Revenue  
Bond Indenture dated as of April 1, 2005)

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FIFTH SUPPLEMENTAL  
WASTEWATER REVENUE BOND INDENTURE

**Table of Contents**

**Page**

ARTICLE XVI

THE SERIES 2020 BONDS

SECTION 16.01	Definitions.....	3
SECTION 16.02	Reserved.....	3
SECTION 16.03	Authorization; Terms of the Series 2020 Bonds.....	3
SECTION 16.04	Redemption of Series 2020 Bonds.....	5
SECTION 16.05	Selection of Series 2020 Bonds for Redemption .....	6
SECTION 16.06	Notice of Redemption of Series 2020 Bonds.....	6
SECTION 16.07	Partial Redemption of Series 2020 Bonds .....	6
SECTION 16.08	Effect of Redemption of Series 2020 Bonds.....	6
SECTION 16.09	Form of Series 2020 Bonds.....	7
SECTION 16.10	Issuance of Series 2020 Bonds .....	7
SECTION 16.11	Application of Proceeds of Series 2020 Bonds.....	7
SECTION 16.12	Establishment and Application of Series 2020 Costs of Issuance Fund.....	8
SECTION 16.13	Use of Depository .....	8
SECTION 16.14	Terms of Series 2020 Bonds Subject to the Indenture.....	10
SECTION 16.15	Effective Date of Fifth Supplement .....	10
SECTION 16.16	Execution in Counterparts; Electronic Delivery .....	10
EXHIBIT A	– Form of Series 2020A Bonds.....	A-1
EXHIBIT B	– Form of Series 2020B Bonds.....	B-1

Fifth Supplemental Wastewater Revenue Bond Indenture  
(Supplemental to the Wastewater Revenue Bond Indenture  
dated as of April 1, 2005)  
Authorizing the Issuance of  
\$68,840,000 Aggregate Principal Amount of  
City of Modesto, California  
Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable)  
and  
\$25,470,000 Aggregate Principal Amount of  
City of Modesto, California  
Wastewater Revenue Refunding Bonds, Series 2020B

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This FIFTH SUPPLEMENTAL WASTEWATER REVENUE BOND INDENTURE, dated as of November 1, 2020 (the “Fifth Supplement”), by and between the CITY OF MODESTO, CALIFORNIA (the “City”), a municipal corporation and chartered city duly organized and existing under the Constitution and laws of the State of California, and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as successor trustee (the “Trustee”),

W I T N E S S E T H :

WHEREAS, Section 200 of the Charter of the City of Modesto and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the “Bond Law”) authorizes the City to issue revenue bonds to finance the acquisition, construction, improvement, furnishing, equipping, remodeling, repair, reconstruction or rehabilitation of the wastewater treatment facilities of the City (the “Enterprise”); and

WHEREAS, the City has entered into a Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the “Master Indenture”), between the City and U.S. Bank National Association (which has been succeeded by The Bank of New York Mellon Trust Company, N.A.), as Trustee (the “Trustee”), providing for the issuance of wastewater revenue bonds thereunder; and

WHEREAS, in accordance with the Bond Law and the Master Indenture, as supplemented by a First Supplemental Indenture, dated as of April 1, 2005 (the “First Supplemental Indenture”), a Second Supplemental Indenture, dated as of April 1, 2005 (the “Second Supplemental Indenture”), a Third Supplemental Indenture, dated as of December 1, 2006 (the “Third Supplemental Indenture”) and a Fourth Supplemental Indenture, dated as of April 1, 2018 (the “Fourth Supplemental Indenture,” and together with the Master Indenture, the First Supplemental Indenture, the Second Supplemental Indenture and the Third Supplemental Indenture, the “Indenture”), each by and between the City and the Trustee, the City has previously issued its City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2005A (the “Series 2005A Bonds”), its City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2005B (Taxable) (“Series 2005B Bonds”) its City of Modesto, California Wastewater Revenue Bonds,

Series 2006A (the “Series 2006 Bonds”) and its City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A (Series 2018A Bonds”); and

WHEREAS, the Indenture provides that the City may issue any indebtedness, installment sale obligation, lease obligation or other obligation of the City for borrowed money having an equal lien and charge upon the Net Revenues, therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding under the Indenture), from time to time in accordance with the terms of the Indenture; and

WHEREAS, the City previously incurred an obligation (the “2011 State Loan”), pursuant to a Project Finance Agreement, dated as of August 26, 2011, as amended, by and between the State Water Resources Control Board, an administrative and regulatory agency of the State of California (the “SWRCB”), and the City, which 2011 State Loan constitutes Parity Debt pursuant to Section 3.05(c) of the Indenture; and

WHEREAS, the City previously issued a bond (the “Series 2015 Bond”), pursuant to a Bond Purchase Agreement, dated as of October 30, 2015, among the City, Capital One Public Funding, LLC, and The Bank of New York Mellon Trust Company, N.A., as paying agent, which Series 2015 Bond constitutes Parity Debt pursuant to Section 3.05(c) of the Indenture, and which refunded all of the Series 2005A Bonds and the November 1, 2023 and 2024 maturities of the Series 2006 Bonds; and

WHEREAS, the City previously incurred an obligation (the “2016 State Loan”), pursuant to a Project Finance Agreement, dated as of June 8, 2016, by and between the SWRCB and the City, which 2016 State Loan constitutes Parity Debt pursuant to Section 3.05(c) of the Indenture; and

WHEREAS, the City now desires to refund the 2011 State Loan; and

WHEREAS, the Indenture provides that the City may issue Bonds from time to time as authorized by a Supplemental Indenture; and

WHEREAS, this Fifth Supplement is supplemental to the Indenture; and

WHEREAS, in order to provide moneys to finance certain improvements to the Enterprise, the City has determined that it is necessary and required that the City enter into this Fifth Supplement in order to establish and declare, in conjunction with the Indenture, the terms and conditions upon which City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020 (the “Series 2020 Bonds”) shall be issued and secured and to secure the payment of the principal thereof and premium (if any) and interest thereon; and

WHEREAS, the City has determined that 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 the entering into of this Fifth Supplement 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 Fifth Supplement;

NOW, THEREFORE, the parties hereto agree, as follows:

## ARTICLE XVI

### THE SERIES 2020 BONDS

SECTION 16.01 Definitions. The terms defined in this Section shall, for all purposes of this Fifth Supplement 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. Terms defined in the Indenture not otherwise defined herein shall have the meanings specified therein.

#### Fifth Supplement

“Fifth Supplement” means this Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020, between the City and the Trustee.

#### Prepayment Date

“Prepayment Date” means November 10, 2020.

#### Securities Depository

“Securities Depository” shall have the meaning assigned to such term in Section 16.13(A) hereof.

#### Series 2020 Bonds

“Series 2020 Bonds” means the City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) Bonds and City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020B Bonds, as described in Section 16.03(A) hereof.

#### Series 2020 Costs of Issuance Fund

“Series 2020 Costs of Issuance Fund” means the fund by that name established pursuant to Section 16.12(b) hereof.

#### Series 2020 State Loan Prepayment Fund

“Series 2020 State Loan Prepayment Fund” means the fund by that name established pursuant to Section 16.12(a) hereof.

SECTION 16.02 Reserved.

SECTION 16.03 Authorization; Terms of the Series 2020 Bonds.

(A) Two Series of Bonds to be issued under the Indenture are hereby created. The “City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable)” (herein referred to as the “Series 2020A Bonds”) shall be issued in the aggregate principal amount of \$68,840,000 in accordance with the Bond Law and this Indenture. The “City

of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020B” (herein referred to as the “Series 2020B Bonds” and, together with the Series 2020A Bonds, the “Series 2020 Bonds”) shall be issued in the aggregate principal amount of \$25,470,000 in accordance with the Bond Law and this Indenture. The Series 2020 Bonds shall be issued for the purposes of (i) refinancing the acquisition and construction of improvements to the Enterprise and (ii) paying the Costs of Issuance in connection with the issuance and delivery of the Series 2020 Bonds.

(B) The Series 2020 Bonds shall be issued in fully registered form and shall be initially registered in the name of “Cede & Co.”, as nominee of The Depository Trust Company. The Series 2020 Bonds shall be evidenced by one Series 2020 Bond maturing on each of the maturity dates as set forth in subsection 15.03(C) in a denomination corresponding to the total principal amount of the Series 2020 Bonds of such maturity. Each Series 2020 Bond may be assigned by the Trustee a distinctive number or letter and number, and a record of the same shall be maintained by the Trustee. Registered ownership of the Series 2020 Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 16.13.

(C) The Series 2020A Bonds shall be dated the date of delivery, shall be bonds which are Current Interest Indebtedness, shall be issued in denominations of \$5,000 or any integral multiple thereof, and shall bear interest from the date thereof at the following rates per annum and shall mature on November 1 in the following years in the following amounts:

Maturity Date (November 1)	Principal Amount	Interest Rate
2021	\$ 5,390,000	0.379%
2022	5,415,000	0.449
2023	5,440,000	0.618
2024	5,480,000	0.835
2025	5,530,000	0.985
2026	5,125,000	1.202
2031	6,965,000	2.079
2032	7,120,000	2.229
2033	7,280,000	2.329
2034	7,455,000	2.429
2035	7,640,000	2.479

The Series 2020B Bonds shall be dated the date of delivery, shall be bonds which are Current Interest Indebtedness, shall be issued in denominations of \$5,000 or any integral multiple thereof, and shall bear interest from the date thereof at the following rates per annum and shall mature on November 1 in the following years in the following amounts:

Maturity Date (November 1)	Principal Amount	Interest Rate
2026	\$ 475,000	5.000%
2027	5,790,000	5.000
2028	6,085,000	5.000
2029	6,395,000	5.000

2030

6,725,000

5.000

Interest on the Series 2020 Bonds shall be payable commencing on May 1, 2021 and semiannually thereafter on November 1 and May 1 of each year in lawful money of the United States of America by check mailed by first-class mail on each interest payment date to the Owner thereof as of the close of business on the fifteenth (15th) day of the calendar month immediately preceding such interest payment date; provided, that upon the written request of an Owner of one million dollars (\$1,000,000) or more in aggregate principal amount of Series 2020 Bonds received by the Trustee prior to the applicable Record Date (which such request shall remain in effect until rescinded in writing by such Owner), interest shall be paid by wire transfer in immediately available funds. Interest on the Series 2020 Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. The principal of and premium, if any, on the Series 2020 Bonds are payable when due upon presentation thereof at the Corporate Trust Office of the Trustee, in lawful money of the United States of America.

So long as the Series 2020 Bonds are maintained in book-entry form, payments of principal, premium, if any, and interest shall be made by the Trustee to the Securities Depository by wire transfer.

The Trustee shall provide to Bondholders CUSIP number identification, with appropriate dollar amounts for each CUSIP number, on all redemption payments and interest payments, whether by check or by wire transfer.

SECTION 16.04      Redemption of Series 2020 Bonds.

(A)      Optional Redemption. The Series 2020A Bonds maturing on or after November 1, 2031 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2030, at a Redemption Price equal to 100% of the principal amount of such Series 2020A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

(B)      Special Mandatory Redemption From Insurance or Condemnation Proceeds. The Series 2020A Bonds and Series 2020B Bonds shall also be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to Sections 6.06 or 6.07 of the Indenture, at a Redemption Price equal to the principal amount of the Series 2020 Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

(C)      Make-Whole Optional Redemption of Series 2020A Bonds. From the date of issuance, the Series 2020A Bonds will be subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part prior to the Par Call Date, on any date, at a Redemption Price equal to the greater of: (i) one hundred percent (100%) of the principal amount of such Series 2020A Bonds to be redeemed; or (ii) the sum of the

present value of the remaining scheduled payments of principal and interest to the earlier of the Par Call Date or the maturity date of such Series 2020A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020A Bonds are to be redeemed, discounted to the date on which such Series 2020A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 30 basis points, plus, in each case, accrued interest on such Series 2020A Bonds to be redeemed to the redemption date.

(D) At the request of the City, the Redemption Price of the Series 2020A Bonds to be redeemed at the option of the City as described above will be determined by an independent accounting firm or municipal advisor retained by the City at the City's expense to calculate such Redemption Price. The City may conclusively rely on the determination of such Redemption Price by such independent accounting firm or municipal advisor and will not be liable for such reliance.

SECTION 16.05 Selection of Series 2020 Bonds for Redemption. Whenever provision is made in this Fifth Supplement for the redemption of less than all of the Series 2020 Bonds of any maturity (and interest rate), the Trustee shall select the Series 2020 Bonds to be redeemed, from all Series 2020 Bonds of the respective maturity (and interest rate) not previously called for redemption, in authorized denominations, by lot in any manner which the Trustee in its sole discretion shall deem appropriate. The Trustee shall promptly notify the City in writing of the Series 2020 Bonds so selected for redemption.

SECTION 16.06 Notice of Redemption of Series 2020 Bonds. The City shall notify the Trustee at least forty-five (45) days prior to the redemption date for Series 2020 Bonds pursuant to Section 16.04(A) or (B). Notice of redemption of any Series 2020 Bonds shall be sent by the Trustee, by approved means, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (i) to the respective Owners of any Series 2020 Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee, (ii) to the Securities Depositories, and (iii) to the Information Services. Notice of redemption shall be given in the form and in accordance with the terms of the Indenture.

SECTION 16.07 Partial Redemption of Series 2020 Bonds. Upon surrender of any Series 2020 Bond redeemed in part only, the City shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the City, a new Series 2020 Bond of authorized denominations, and of the same maturity and interest rate, equal in aggregate principal amount to the unredeemed portion of the Series 2020 Bond surrendered.

SECTION 16.08 Effect of Redemption of Series 2020 Bonds. 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 Series 2020 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2020 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 date fixed for redemption, interest on the Series 2020 Bonds so called for redemption shall cease to accrue, said Series 2020 Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Series 2020 Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest.

All Series 2020 Bonds redeemed pursuant to the provisions of this Article shall be cancelled upon surrender thereof and destroyed.

SECTION 16.09 Form of Series 2020 Bonds. The Series 2020A Bonds and the certificate of authentication and registration to be executed thereon shall be in substantially the form set forth as Exhibit A hereto. The Series 2020B Bonds and the certificate of authentication and registration to be executed thereon shall be in substantially the form set forth as Exhibit B hereto. The Series 2020 Bond designation letters and numbers, maturity dates, principal amounts, and interest rates and yields to maturity shall be inserted therein in conformity with Section 16.03.

SECTION 16.10 Issuance of Series 2020 Bonds. At any time after the execution and delivery of this Fifth Supplement, the City may execute and the Trustee shall authenticate and deliver the Series 2020A Bonds in the aggregate principal amount of \$68,840,000 upon the Order of the City. At any time after the execution and delivery of this Fifth Supplement, the City may execute and the Trustee shall authenticate and deliver the Series 2020B Bonds in the aggregate principal amount of \$25,470,000 upon the Order of the City.

SECTION 16.11 Application of Proceeds of Series 2020 Bonds and Monies Received from the City.

(a) The proceeds of the sale of the Series 2020A Bonds, in the amount of \$68,748,503.43 (computed as \$68,840,000 aggregate principal amount of the Series 2020A Bonds, less \$91,496.57 Underwriters' discount), shall be received by the Trustee on behalf of the City and disbursed or held in trust and set aside as follows:

(i) The Trustee shall deposit in the Series 2020 State Loan Prepayment Fund the amount of \$68,542,429.88, to be applied in accordance with Section 16.12(a) hereof. Moneys in the Series 2020 State Loan Prepayment Fund shall be held uninvested.

(ii) The Trustee shall deposit in the Series 2020 Costs of Issuance Fund \$206,073.55, to be applied in accordance with Section 16.12(b) hereof. Moneys in the Series 2020 Costs of Issuance Fund shall be held uninvested.

(b) The proceeds of the sale of the Series 2020B Bonds, in the amount of \$33,865,372.66 (computed as \$25,470,000 aggregate principal amount of the Series 2020B Bonds, less \$34,351.24 Underwriters' discount), plus \$8,429,723.90 original issue premium, shall be received by the Trustee on behalf of the City and disbursed or held in trust and set aside as follows:

(i) The Trustee shall deposit in the Series 2020 State Loan Prepayment Fund the amount of \$33,759,704.27 to be applied in accordance with Section 16.12(a) hereof. Moneys in the Series 2020 State Loan Prepayment Fund shall be held uninvested.

(ii) The Trustee shall deposit in the Series 2020 Costs of Issuance Fund \$105,668.39, to be applied in accordance with Section 16.12(b) hereof. Moneys in the Series 2020 Costs of Issuance Fund shall be held uninvested.

(c) The amount of \$7,125,881.18 shall be received by the Trustee from the City and the Trustee shall deposit such amount into the Series 2020 State Loan Prepayment Fund to be applied in accordance with Section 16.12(a) hereof.

The Trustee may establish temporary funds or accounts to facilitate such transfers.

SECTION 16.12 Establishment and Application of Series 2020 State Loan Prepayment Fund and Series 2020 Costs of Issuance Fund.

(a) The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Series 2020 State Loan Prepayment Fund,” which fund is hereby created. The Trustee shall deposit to the Series 2020 State Loan Prepayment Fund the amounts specified in Section 16.11 hereof. Funds in the Series 2020 State Loan Prepayment Fund in the amount of \$109,428,015.33 shall be transferred to the State Water Resources Control Board to prepay all of the outstanding 2011 State Loan on the Prepayment Date pursuant to written direction from the City. After such transfer is made, any amounts remaining in the Series 2020 State Loan Prepayment Fund shall be transferred to the Series 2020 Costs of Issuance Fund and the Series 2020 State Loan Prepayment Fund shall be closed.

(b) The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Series 2020 Costs of Issuance Fund,” which fund is hereby created and which fund the Trustee hereby agrees to maintain with the Trustee until April 1, 2021. The Trustee shall deposit to the Series 2020 Costs of Issuance Fund the amounts specified in Section 16.11 hereof. All money in the Series 2020 Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance of the Series 2020 Bonds upon receipt of a Requisition of the City filed with the Trustee, each of which shall be sequentially numbered and shall state 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 said fund. Each such Requisition of the City shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. On April 1, 2021 or upon the earlier Request of the City, any remaining balance in the Series 2020 Costs of Issuance Fund shall be transferred to the City and the Series 2020 Costs of Issuance Fund shall be closed.

SECTION 16.13 Use of Depository. Notwithstanding any provision of the Indenture or this Fifth Supplement to the contrary:

(A) The Series 2020 Bonds shall be issued in fully registered form, in authorized denominations and shall be initially registered in the name of “Cede & Co.,” as nominee of The Depository Trust Company (the “Securities Depository”), and shall be evidenced by one Series 2020 Bond maturing on each of the maturity dates as set forth in Section 16.03(C) in a denomination corresponding to the total principal amount of the Series 2020 Bonds of such maturity. Each Series 2020 Bond shall be assigned by the Trustee a distinctive number or letter or letter and number, and a record of the same shall be maintained by the Trustee.

Registered ownership of the Series 2020 Bonds, or any portions thereof, may not thereafter be transferred except:

(i) To any successor of The Depository Trust Company or its nominee, or to

any substitute depository designated pursuant to clause (ii) of this subsection (A) (a “Substitute Depository”); provided that any successor of The Depository Trust Company or Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it;

(ii) To any Substitute Depository not objected to by the Trustee, upon (1) the resignation of The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the City that The Depository Trust Company 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

(iii) To any person as provided below, upon (1) the resignation of The Depository Trust Company or its successor (or Substitute Depository or its successor) from its functions as depository; provided that no Substitute Depository which is not objected to by the Trustee can be obtained, or (2) a determination by the City that it is in the best interests of the City to remove The Depository Trust Company or its successor (or any Substitute Depository or its successor) from its function as depository.

(B) In the case of any transfer pursuant to clause (i) or clause (ii) of Section 16.13(A), upon receipt of all Outstanding Series 2020 Bonds by the Trustee, together with a Certificate of the City to the Trustee, a single new Series 2020 Bond for each maturity shall be executed and delivered, 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 City. In the case of any transfer pursuant to clause (iii) of Section 16.13(A) hereof, upon receipt of all Outstanding Series 2020 Bonds by the Trustee together with a Certificate of the City to the Trustee, new Series 2020 Bonds shall be executed and delivered in such denominations and registered in the names of such persons as are requested in such a Certificate of the City, subject to the limitations of Section 16.03 hereof; provided the Trustee shall not be required to deliver such new Series 2020 Bonds within a period less than 60 days from the date of receipt of such a Certificate of the City.

(C) In the case of partial redemption, cancellation or an advance refunding of any Series 2020 Bonds evidencing all or a portion of the principal maturing in a particular year, The Depository Trust Company shall make an appropriate notation on the Series 2020 Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee.

(D) The City and the Trustee shall be entitled to treat the person in whose name any Series 2020 Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the City; and the City and the Trustee shall have no responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any beneficial owners of the Series 2020 Bonds. Neither the City nor the Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party including The Depository Trust Company or its successor (or Substitute Depository or its successor), except to the Owner of any Series 2020 Bond.

(E) So long as all Outstanding Series 2020 Bonds are registered in the name of “Cede & Co.” or its registered assign, the City and the Trustee shall cooperate with “Cede & Co.,” as sole registered Owner, and its registered assigns in effecting payment of the principal of and redemption premium, if any, and interest on the Series 2020 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 16.14 Terms of Series 2020 Bonds Subject to the Indenture. Except as in this Fifth Supplement expressly provided, every term and condition contained in the Indenture shall apply to the Fifth Supplement and to the Series 2020 Bonds with the same force and effect as if the same were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to the Fifth Supplement.

The Fifth Supplement and all the terms and provisions herein contained shall form part of the Indenture as fully and with the same effect as if all such terms and provisions had been set forth in the Indenture. The Indenture is hereby ratified and confirmed and shall continue in full force and effect in accordance with the terms and provisions thereof, as supplemented and amended hereby, subject to the next sentence.

SECTION 16.15 Effective Date of Fifth Supplement. The Fifth Supplement shall take effect upon its execution and delivery.

SECTION 16.16 Execution in Counterparts; Electronic Delivery. This Fifth Supplement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document. This Fifth Supplement may be delivered by the delivery of signed signature pages by electronic means, facsimile transmissions, or by e-mail with a PDF copy attached, and any printed or copied versions of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page. Signatures of this Fifth Supplement made my electronic means shall be accompanied by an email, contemporaneous or otherwise, confirming the use of such means.

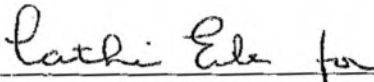
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IN WITNESS WHEREOF, the parties hereto have executed the Fifth Supplement by their officers thereunto duly authorized as of the day and year first written above.

CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

ATTEST:

By:  for  
Stephanie Lopez City Clerk

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

By: \_\_\_\_\_  
Authorized Officer

IN WITNESS WHEREOF, the parties hereto have executed the Fifth Supplement by their officers thereunto duly authorized as of the day and year first written above.

CITY OF MODESTO, CALIFORNIA

By: \_\_\_\_\_  
Director of Finance

ATTEST:

By: \_\_\_\_\_  
City Clerk

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

By:  \_\_\_\_\_  
Authorized Officer

EXHIBIT A

(FORM OF SERIES 2020A BOND)

Unless this Series 2020A 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 Series 2020A 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.

No. \$ \_\_\_\_\_

CITY OF MODESTO, CALIFORNIA  
WASTEWATER REVENUE REFUNDING BONDS,  
SERIES 2020A (Federally Taxable)

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 20__	%	November 10, 2020	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the “City”), for value received, hereby promises to pay (but only out of the Net Revenues of the City’s wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are

payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the “Trustee”), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A Bonds (the “Series 2020A Bonds”) dated as of November 10, 2020 (the “Dated Date”) of the series and designation indicated on the face hereof. Said authorized issue of Series 2020A Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020A Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020A Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the “Fifth Supplement”), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the “Series 2020 Bonds”) of which this Series 2020A Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the “Indenture”). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020A Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Series 2020A Bond, and to all the provisions thereof the registered owner of this Series 2020A Bond, by its acceptance hereof, consents and agrees. Additional Series 2020A Bonds may be issued, and indebtedness may be incurred, on a parity with the Series 2020A Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020A Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City’s wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020A Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City’s wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020A Bonds are special, limited obligations of the City. The Series 2020A Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020A Bonds. The issuance of the Series 2020A

Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020A Bonds maturing on or after November 1, 2031 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2030 at a Redemption Price equal to 100% of the principal amount of such Series 2020 Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2020A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

From the date of issuance, the Series 2020A Bonds will be subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part prior to the Par Call Date, on any date, at a Redemption Price equal to the greater of: (i) one hundred percent (100%) of the principal amount of such Series 2020A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the earlier of the Par Call Date or the maturity date of such Series 2020A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020A Bonds are to be redeemed, discounted to the date on which such Series 2020A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 30 basis points, plus, in each case, accrued interest on such Series 2020A Bonds to be redeemed to the redemption date.

This Series 2020A Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020A Bond. Upon such transfer or exchange a new fully registered Series 2020A Bond or Series 2020A Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020A Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020A Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020A Bond, and in the issuing of this Series 2020A Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020A Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020A Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020A Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020A Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020A Bond to be dated the Dated Date set forth above.

CITY OF MODESTO, CALIFORNIA

By: \_\_\_\_\_  
Director of Finance

By: \_\_\_\_\_  
City Manager

[Seal]

ATTEST:

By: \_\_\_\_\_  
City Clerk

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Series 2020A Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By: \_\_\_\_\_  
Authorized Officer

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020A Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

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NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by:

---

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

EXHIBIT B

(FORM OF SERIES 2020B BOND)

Unless this Series 2020B 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 Series 2020B 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.

No. \$ \_\_\_\_\_

CITY OF MODESTO, CALIFORNIA  
WASTEWATER REVENUE REFUNDING BONDS,  
SERIES 2020B

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 20__	%	November 10, 2020	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the “City”), for value received, hereby promises to pay (but only out of the Net Revenues of the City’s wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are

payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the “Trustee”), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020B (the “Series 2020B Bonds”) dated as of November 10, 2020 (the “Dated Date”) of the series and designation indicated on the face hereof. Said authorized issue of Series 2020B Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020B Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020B Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the “Fifth Supplement”), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the “Series 2020 Bonds”) of which this Series 2020B Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the “Indenture”). Reference is hereby made to the Indenture for a description of the terms under which the Series 2020B Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020B Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020B Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City’s wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020B Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City’s wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020B Bonds are special, limited obligations of the City. The Series 2020B Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020B Bonds. The issuance of the Series 2020B

Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020B Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020B Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Series 2020B Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020B Bond. Upon such transfer or exchange a new fully registered Series 2020B Bond or Series 2020B Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020B Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020B Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020B Bond, and in the issuing of this Series 2020B Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020B Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020B Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020B Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020B Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020B Bond to be dated the Dated Date set forth above.

CITY OF MODESTO, CALIFORNIA

By: \_\_\_\_\_  
Director of Finance

By: \_\_\_\_\_  
City Manager

[Seal]

ATTEST:

By: \_\_\_\_\_  
City Clerk

[FORM OF CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Series 2020B Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By: \_\_\_\_\_  
Authorized Officer

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020B Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

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NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by:

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

**PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 15, 2020**

**NEW ISSUE – BOOK-ENTRY ONLY**

**RATING: S&P “AA”  
See “RATINGS” herein**

*In the opinion of Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance with certain covenants in the documents pertaining to the Series 2020 Bonds and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Series 2020B Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Series 2020B Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, interest on the Series 2020A Bonds is included in gross income for federal income tax purposes. Bond Counsel is also of the opinion that, under existing law, interest on the Series 2020 Bonds is exempt from personal income taxes of the State of California. See “TAX MATTERS” herein.*

**\$66,285,000\***

**\$27,510,000\***

**CITY OF MODESTO, CALIFORNIA**

**CITY OF MODESTO, CALIFORNIA**

**WASTEWATER REVENUE REFUNDING BONDS,  
SERIES 2020A (Federally Taxable)**

**WASTEWATER REVENUE REFUNDING BONDS,  
SERIES 2020B**

**Dated: Date of Delivery**

**Due: November 1, as shown on the inside front cover hereof**

The Wastewater Revenue Refunding Bonds are issued in two series (each, a “Series”): \$66,285,000\* Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the “Series 2020A Bonds” or the “Taxable Bonds”) and \$27,510,000\* Wastewater Revenue Refunding Bonds, Series 2020B (the “Series 2020B Bonds” or the “Tax-Exempt Bonds” and, together with the Series 2020A Bonds, the “Series 2020 Bonds”) by the City of Modesto (the “City”) to provide funds to (i) refund all of the City’s outstanding 2011 State Loan (as defined herein) and (ii) pay the costs of issuance of the Series 2020 Bonds, as more fully described herein. The Series 2020 Bonds are being issued pursuant to Chapter 6 of Title VIII of the Modesto Municipal Code and a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, as supplemented and amended, by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”).

Interest on the Series 2020 Bonds is payable on May 1 and November 1 of each year, commencing on May 1, 2021. Principal of the Series 2020 Bonds is payable on the dates set forth on the inside front cover hereof.

The Series 2020 Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Series 2020 Bonds. Individual purchases of interests in the Series 2020 Bonds will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of such interests will not receive certificates representing their interests in the Series 2020 Bonds. Principal of, redemption premium, if any, and interest on the Series 2020 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 Series 2020 Bonds, as described herein.

**The Series 2020 Bonds are subject to optional redemption and special mandatory redemption prior to their respective maturities as described herein.**

**No deposit into the Parity Reserve Fund will be made upon the issuance of the Series 2020 Bonds and the Series 2020 Bonds will not be secured by the Parity Reserve Fund.**

THE SERIES 2020 BONDS AND THE INTEREST THEREON ARE PAYABLE SOLELY FROM THE NET REVENUES DERIVED BY THE CITY FROM THE OPERATION OF THE CITY’S WASTEWATER ENTERPRISE. THE PRINCIPAL OF AND INTEREST ON THE SERIES 2020 BONDS, AND ANY PREMIUMS UPON THE REDEMPTION OF ANY THEREOF, ARE NOT A DEBT OF THE CITY, OR A LEGAL OR EQUITABLE PLEDGE, CHARGE, LIEN OR ENCUMBRANCE UPON ANY PROPERTY OF THE CITY OR UPON ANY OF ITS INCOME, RECEIPTS OR REVENUES EXCEPT THE NET REVENUES AND OTHER FUNDS PLEDGED TO THE PAYMENT THEREOF AS PROVIDED IN THE INDENTURE.

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 Series 2020 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.

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**Maturity Schedule  
(See inside cover)**

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The Series 2020 Bonds will be offered when, as and if issued and received by the Underwriters, subject to the approval of validity by Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP; for the City by the City Attorney and by Norton Rose Fulbright US LLP, Disclosure Counsel and for the Trustee by the Law Offices of Samuel D. Waldman. It is anticipated that the Series 2020 Bonds will be available for delivery in book-entry form to DTC in New York, New York on or about November \_\_, 2020.

**BofA Securities**

**Citigroup**

**J.P. Morgan**

Dated: October \_\_, 2020

\* Preliminary, subject to change

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a 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.

**MATURITY SCHEDULE\***

**\$66,285,000\* Series 2020A (Federally Taxable) Serial Bonds**

<i>Maturity Date (November 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP† (Base Number 607802)</i>
2021	\$			
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				

**\$27,510,000\* Series 2020B Serial Bonds**

<i>Maturity Date (November 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP‡ (Base Number 607802)</i>
2021	\$			
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				

\* Preliminary, subject to change

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, managed on behalf of the American Bankers Association by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the Agency and are included solely for the convenience of the beneficial owners of the applicable Series 2020 Bonds. Neither the City nor the Underwriter is responsible for the selection or uses of the CUSIP number, and no representation is made as to its correctness on the Series 2020 Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2020 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance and other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2020 Bonds.

<sup>C</sup> Priced to first optional call date of November 1, \_\_\_\_.

**CITY OF MODESTO, CALIFORNIA**

1010 10th Street  
P.O. Box 642  
Modesto, California 95353  
(209) 577-5369

**CITY COUNCIL**

Ted Brandvold, Mayor  
Kristi Ah You, Vice Mayor  
Tony Madrigal  
Mani Grewal  
Bill Zoslocki  
Jenny Kenoyer  
Douglas Ridenour

**CITY OFFICIALS**

Joseph Lopez, City Manager  
Jose M. Sanchez, City Attorney  
DeAnna Christensen, Director of Finance  
William Wong, Director of Utilities

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**SPECIAL SERVICES**

**Bond and Disclosure Counsel**

Norton Rose Fulbright US LLP  
San Francisco, California

**Trustee**

The Bank of New York Mellon Trust Company, N.A.  
San Francisco, California

**Municipal Advisor**

PFM Financial Advisors LLC  
San Francisco, California

All the information which the City of Modesto intends to present investors regarding the City and the Series 2020 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 Series 2020 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 City 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 City or the Underwriters. 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 Series 2020 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 Series 2020 Bonds.

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 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.

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The Underwriters have provided the following sentence for inclusion in this Official Statement:

*The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.*

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The issuance and sale of the Series 2020 Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)2 and 3(a)12, respectively, for the issuance and sale of municipal securities.

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***CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT***

Certain statements included 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 connections to and revenues and expenses of the Enterprise.

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. Statements 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. While the City has agreed to provide certain on-going financial and operating data (see “CONTINUING DISCLOSURE” and Appendix E 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.

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## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
Purpose.....	1
Authority for Issuance.....	1
The City.....	1
The Wastewater Enterprise .....	2
COVID-19 Pandemic .....	2
Security and Sources of Payment for the Series 2020 Bonds.....	3
Parity Debt .....	3
Rate Covenant .....	3
Continuing Disclosure.....	4
Other Matters.....	4
PLAN OF REFUNDING.....	4
ESTIMATED SOURCES AND USES OF FUNDS .....	5
THE SERIES 2020 BONDS.....	5
General Description.....	5
Redemption .....	6
Selection of Series 2020 Bonds for Redemption.....	7
Notice of Redemption .....	7
Effect of Redemption .....	7
SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS.....	7
Net Revenue Pledge; Parity Debt.....	7
Flow of Funds.....	8
Parity Reserve Fund .....	9
Rate Covenant .....	10
Additional Bonds and Parity Debt.....	10
Outstanding Parity Debt .....	11
Debt Service Requirements .....	12
WASTEWATER SYSTEM.....	14
Introduction .....	14
Service Area .....	14
History.....	14
System Description .....	14
Permitting Issues .....	16
Master Plan Update, Capital Improvement Plan and Future Capital Needs.....	17
Management .....	21
Employees .....	21
Retirement Programs.....	22
Insurance .....	27
Wastewater System Users .....	28
PCE Litigation.....	29
WASTEWATER SYSTEM FINANCES .....	29
Rate Setting and Budget Process.....	29
Proposition 218 Process .....	29
Rates.....	30
Financial Information.....	33
Historical Debt Service Coverage .....	35
Projected Debt Service Coverage.....	36

TABLE OF CONTENTS  
(continued)

	<u>Page</u>
RISK FACTORS .....	38
General .....	38
Earthquakes, Floods and Other Natural Disasters .....	38
System Demand/Concentrated Customers .....	38
COVID-19 Related Matters.....	39
System Expenses .....	39
Rate Process .....	40
Permits and Regulation .....	40
Limitations on Remedies and Bankruptcy.....	40
Cybersecurity .....	42
Limited Obligations.....	42
CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES .....	42
Tax Limitations – Proposition 13 .....	42
Spending Limitations .....	43
Proposition 62 .....	43
Proposition 218 .....	43
Proposition 26 .....	45
Other Initiatives.....	46
TAX MATTERS (TAXABLE BONDS - SERIES 2020A) .....	46
TAX MATTERS (TAX-EXEMPT BONDS – SERIES 2020B).....	49
ABSENCE OF LITIGATION .....	51
FINANCIAL STATEMENTS.....	51
RATINGS.....	52
UNDERWRITING .....	52
MUNICIPAL ADVISOR .....	52
LEGAL PROCEEDINGS.....	53
CONTINUING DISCLOSURE.....	53
MISCELLANEOUS.....	53
APPENDIX A – CERTAIN INFORMATION REGARDING THE CITY OF MODESTO .....	A-1
APPENDIX B – CITY OF MODESTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FY 2018-19.....	B-1
APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE .....	C-1
APPENDIX D – PROPOSED FORM OF OPINION OF BOND COUNSEL .....	D-1
APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT.....	E-1
APPENDIX F – BOOK-ENTRY ONLY SYSTEM .....	F-1

**\$66,285,000\***  
**CITY OF MODESTO, CALIFORNIA**  
**WASTEWATER REVENUE REFUNDING**  
**BONDS,**  
**SERIES 2020A (Federally Taxable)**

**\$27,510,000\***  
**CITY OF MODESTO, CALIFORNIA**  
**WASTEWATER REVENUE REFUNDING**  
**BONDS,**  
**SERIES 2020B**

## INTRODUCTION

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 Series 2020 Bonds to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. See Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions.”

### Purpose

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 City of Modesto (the “City”) of its \$66,285,000\* Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the “Series 2020A Bonds” or the “Taxable Bonds”) and \$27,510,000\* Wastewater Revenue Refunding Bonds, Series 2020B (the “Series 2020B Bonds” or the “Tax-Exempt Bonds” and, together with the Series 2020A Bonds, the “Series 2020 Bonds”). Descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each such document for complete details of all terms and conditions thereof.

The Series 2020 Bonds are being issued by the City to provide funds to (i) refund all of the City’s outstanding revolving fund loan from the State of California issued in 2011 in the initial principal amount of \$127,157,943.06 (the “2011 State Loan”) and (ii) pay the costs of issuance of the Series 2020 Bonds, as more fully described herein. See “ESTIMATED SOURCES AND USES OF FUNDS.”

### Authority for Issuance

The Series 2020 Bonds are being issued pursuant to (a) the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the “Bond Law”), which was enacted by the City Council on October 2, 1984, pursuant to its authority under the Charter of the City of Modesto, and the constitution and laws of the State of California and (b) a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and The Bank of New York Trust Company, N.A., as successor trustee (the “Trustee”), as amended and supplemented (as amended and supplemented, the “Indenture”), including as supplemented by a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of October 1, 2020, by and between the City and the Trustee, providing for the issuance of the Series 2020 Bonds.

### The City

The City, which has a population of approximately 222,335 as of January 1, 2020, is the county seat of Stanislaus County and was incorporated in 1884. It covers approximately 37.4 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 the City and County of San Francisco. See Appendix A – “CERTAIN INFORMATION REGARDING THE CITY OF MODESTO.” See also “—COVID-19 Pandemic” below.

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\* Preliminary, subject to change

## **The Wastewater Enterprise**

The City's wastewater facilities are comprised of the wastewater collection system and the treatment and disposal facilities located at its water quality control facilities. The City's wastewater collection and treatment system (the "Enterprise") services the entire City and additionally accepts some sewage flow from parts of the City of Ceres and some unincorporated communities in the County of Stanislaus, including Empire. The service outside the City is described in various individual contracts with the individual agencies. The current population of the area served by the Enterprise is approximately 200,000, but the City estimates that it could grow to approximately 270,900 by 2035.

## **COVID-19 Pandemic**

The outbreak of the novel coronavirus ("COVID-19") has affected travel, commerce and financial markets globally, and is widely expected to negatively impact national, state and local economies including the economy of the State of California and the City.

The degree of any such impact to the operations and finances of the City and the Enterprise is extremely difficult to predict due to uncertainties related to the dynamic nature of the COVID-19 outbreak and accompanying economic consequences, including uncertainties relating to its (i) duration, (ii) severity and (iii) ultimate geographic spread, as well as with regard to what actions may be taken by governmental authorities to contain or mitigate its impact. Nonetheless, there can be no assurances that the spread of COVID-19 will not materially adversely impact the financial condition of the City and/or the Enterprise. For a further discussion on COVID-19, see "RISK FACTORS—COVID-19 Related Matters." Any financial information, including projections, forecasts and budgets presented herein do not yet account for the potential effects of COVID-19, unless specifically referenced.

In response to the COVID-19 pandemic, beginning in March 2020, the State of California, the County of Stanislaus and the City have issued a variety of orders limiting public gatherings and imposing various restrictions on travel and the ability of businesses to operate. While some of the orders and restrictions were eased in May and early June, certain of these orders and restrictions have since been intensified due to a rising number of COVID-19 cases locally and statewide. The City is not currently able to predict the scope or duration of such orders and restrictions but both more restrictive measures and measures of a longer duration are expected to negatively impact the operations and finances of the City and could negatively impact the operations and finances of the Enterprise.

The impact of COVID-19 on projected income and expenses for the Enterprise are currently not significant. In March 2020, the Enterprise instituted a program which allowed eligible small businesses in the City to defer their utility payments for up to 90 days. The program application submission expired on May 14, 2020 and at the end of the 90-day period for each business that took advantage of the deferral program, the full amount of the deferred payments will be due. For the Enterprise, the City has estimated that the amount deferred was approximately \$150,000 per month or 5-7% of average monthly Net Revenues. However, receivable delinquencies have increased from approximately \$130,000 in March 2020 (0.5% of fiscal year 2019-20 Net Revenues) to approximately \$213,000 in July 2020 (0.8% of fiscal year 2019-20 Net Revenues). The Series 2020 Bonds are payable, as to both principal and interest and any premium upon redemption thereof, exclusively from Net Revenues of the Enterprise and from the other funds pledged under the Indenture. The City is not directly or indirectly or contingently obligated to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for the payment of the Series 2020 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS—Net Revenue Pledge; Parity Debt."

Financial impacts to the City associated with the COVID-19 pandemic have been significant and include revenue losses within major categories and increased expenses related to the City's response. Revenue losses are expected to include an approximately 13% reduction in sales taxes for the last quarter of Fiscal Year 2019-20, in addition to reduced utility user taxes (8% decline, actuals vs. budget), transportation taxes (gas tax) (14% decline, actuals vs. budget), transient occupancy taxes (hotels) (15% decline, actuals vs. budget), business license/mill tax (4% decline, actuals vs. budget) and construction revenues (21% decline, actuals vs. budget). The overall General Fund loss in revenues is approximately 6% based on a comparison of projected actuals vs. budget for fiscal year-end 2019-20. Losses will also be realized from fees, especially for recreation and other fee-based programs as facilities are closed and classes/programs/camps are not allowed. Expenses related to the emergency are being tracked for potential reimbursement from Federal and State emergency programs. The City will receive \$7.5 million in federal Coronavirus Aid, Relief and Economic Security ("CARES") Act funds from the State and Stanislaus County. Those funds will be used to reimburse the City for the expenditures that have been tracked related to the COVID-19 pandemic in fiscal

years 2019-20 and 2020-21. While the impacts on the finances of the City due to the COVID-19 pandemic continue to evolve, staff currently projects that the City is facing at least a \$9 million-dollar loss in budgeted revenues for Fiscal Year 2019-20, and future losses are uncertain. In response, City staff has implemented expense reductions for Fiscal Year 2019-20 and has already provided the City Council proposed reductions of approximately \$19.5 million for Fiscal Year 2020-21. These reductions include the elimination of part-time and full-time staff (54 positions eliminated of a total 1,260 General Fund positions), unpaid furloughs for sworn and non-sworn full-time staff to realize a 4.6% reduction in salaries, a hiring freeze, a freeze on non-essential spending, deferred capital projects, and cancelling programs and events. In anticipation of ongoing economic impacts due to COVID- 19, the City is currently crafting a vacant position allocation policy and a quarterly budget update to assist the City Council with the evaluation of additional budget reduction strategies that will be implemented over the next 6 to 18 months. If the City were to file a petition under Chapter 9 (“Chapter 9”) of the Bankruptcy Code (Title 11, United States Code), the Series 2020 Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture. See “RISK FACTORS—Limitations on Remedies and Bankruptcy.”

### **Security and Sources of Payment for the Series 2020 Bonds**

The payment of the principal of, redemption premium, if any, and interest on the Series 2020 Bonds is secured equally and ratably, along with the payment of any additional Bonds and “Parity Debt” (defined in the Indenture as any indebtedness, installment sale obligation, lease obligation or other obligation of the City for borrowed money having an equal lien and charge upon the Net Revenues, therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding) issued under the Indenture, by a first lien on and pledge of the “Net Revenues” (defined under the Indenture to mean, with respect to any period, the amount of the Gross Revenues received during such period less the amount of Operating Expenses becoming payable during such period) derived from the operation of the facilities comprising the Enterprise and the moneys and securities held by the Trustee in the funds under the Indenture. Moneys held by the Trustee under the Indenture secure the Bonds and any Parity Debt. Following the issuance of the Series 2020 Bonds and the redemption of the 2011 State Loan, the City’s outstanding Parity Debt (the “Existing Parity Debt”) will consist of: (i) the City of Modesto, California, Wastewater Revenue Refunding Bond, Series 2015 (the “Series 2015 Bond”), in the initial principal amount of \$19,429,912.56, issued to Capital One Public Funding, LLC, (ii) a revolving fund loan from the State of California, issued in 2016 (the “2016 State Loan”), in the initial principal amount of \$41,862,028 and (iii) the City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A in the initial principal amount of \$11,340,000 (the “Series 2018A Bonds”). The pledge of Net Revenues to the Series 2015 Bond, the 2016 State Loan, the Series 2018A Bonds and the Series 2020 Bonds is on a parity with the pledge of Net Revenues for the benefit of the owners of any additional Bonds or Parity Debt to be issued pursuant to the Indenture. The Series 2020 Bonds and any other Series of bonds to be issued under the Indenture are sometimes collectively referred to herein as the “Bonds.” As of the date of issuance of the Series 2020 Bonds, the Series 2018A Bonds and the Series 2020 Bonds will be the only Bonds issued and outstanding under the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS—Net Revenue Pledge; Parity Debt.”

### **Parity Debt**

The Series 2020 Bonds are being issued on a parity with the Existing Parity Debt. The City may at any time issue or incur Parity Debt payable from the Net Revenues and other funds as provided in the Indenture and secured by a lien and charge on a parity with the lien and charge securing the Bonds and the Existing Parity Debt, subject to the conditions set forth in the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS—Additional Bonds and Parity Debt.” **No deposit into the Parity Reserve Fund will be made upon the issuance of the Series 2020 Bonds and the Series 2020 Bonds will not be secured by the Parity Reserve Fund.**

### **Rate Covenant**

The City covenants under the Indenture that so long as any of the Series 2020 Bonds are outstanding, the City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise which are sufficient to yield Net Revenues in each Fiscal Year equal to at least 1.25 times the Debt Service on the Bonds and Parity Debt becoming due and payable during such Fiscal Year. See Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” However, the City’s ability to increase such rates, fees and charges is subject to the limitations imposed by Proposition 218. See “CONSTITUTIONAL AND STATUTORY

LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Proposition 218—*Article XIII C* and —*Article XIII D*.”

### **Continuing Disclosure**

The City has covenanted for the benefit of the owners and beneficial owners of the Series 2020 Bonds to provide certain financial information and operating data relating to the City by not later than the 31<sup>st</sup> of March following the end of the City’s Fiscal Year (presently June 30), commencing with the report for the Fiscal Year 2019-20, which report shall be due March 31, 2021, and to provide notices of occurrence of certain enumerated events, if material. See “CONTINUING DISCLOSURE” herein and Appendix E – “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, 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 since the date hereof.

All references to and summaries of provisions of the Indenture are qualified in their entirety by reference to the full Indenture, copies of which are available for inspection at the offices of the City in Modesto, California or at the corporate trust office of the Trustee in San Francisco, California.

## **PLAN OF REFUNDING**

The Series 2020 Bonds are being issued by the City to provide funds to refund all of the 2011 State Loan. On the date of delivery of the Series 2020 Bonds, the City will deposit a portion of the proceeds of the Series 2020 Bonds, along with certain funds of the City budgeted and on hand for the December 1, 2020 payment on the 2011 State Loan, with the Trustee to be used to prepay the 2011 State Loan. Pursuant to the City’s instructions to the Trustee, on or about October 1, 2020, such amounts held by the Trustee will be used to prepay the 2011 State Loan at a price equal to the outstanding principal amount of 2011 State Loan, plus interest accrued thereon to the prepayment date.

The 2011 State Loan bears interest at an effective rate of 2.6%, including mandatory service charges that are paid in lieu of interest, and is outstanding in the principal amount of \$106,812,879.98 with originally planned amortization payments as follows:

<u>Principal Payment Date</u>	<u>Principal Amount</u>	<u>Total Payment<sup>(1)</sup></u>
12/1/2020	\$ 5,468,429.39	\$8,245,564.27
12/1/2021	5,610,608.55	8,245,564.27
12/1/2022	5,756,484.38	8,245,564.27
12/1/2023	5,906,152.97	8,245,564.27
12/1/2024	6,059,712.94	8,245,564.27
12/1/2025	6,217,265.48	8,245,564.27
12/1/2026	6,378,914.39	8,245,564.27
12/1/2027	6,544,766.16	8,245,564.27
12/1/2028	6,714,930.08	8,245,564.27
12/1/2029	6,889,518.26	8,245,564.27
12/1/2030	7,068,645.74	8,245,564.27
12/1/2031	7,252,430.52	8,245,564.27
12/1/2032	7,440,993.72	8,245,564.27
12/1/2033	7,634,459.56	8,245,564.27
12/1/2034	7,832,955.50	8,245,564.27
12/1/2035 <sup>(M)</sup>	8,036,612.34	8,245,564.26

<sup>(1)</sup> Includes interest charge and service charge in lieu of interest.

<sup>(M)</sup> Maturity.

### ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds with respect to the Series 2020 Bonds.

<u>Sources of Funds</u>	<u>Series 2020A Bonds</u>	<u>Series 2020B Bonds</u>	<u>Total</u>
Principal Amount			\$
[Plus/Less: Original Issue Premium/Discount]			
Available Funds <sup>(1)</sup>			
Total Sources			\$
<u>Uses of Funds</u>			
Prepayment of 2011 State Loan			\$
Underwriters' Discount			
Series 2020 Costs of Issuance <sup>(2)</sup>			
Total Uses			\$

<sup>(1)</sup> Consisting of debt service funds on hand.

<sup>(2)</sup> Includes legal and advisory fees, printing costs, rating agency fee and other miscellaneous expenses.

### THE SERIES 2020 BONDS

#### General Description

The Series 2020 Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Series 2020 Bonds. Individual purchases of ownership interests in the Series 2020 Bonds will be made in book-

entry form only in denominations of \$5,000 or any integral multiple thereof. See Appendix F – “BOOK-ENTRY ONLY SYSTEM.”

The Series 2020 Bonds will be dated their date of initial delivery, and will bear interest at the rates and mature in the amounts and on the dates set forth on the inside front cover page of this Official Statement. Interest on the Series 2020 Bonds is payable on May 1 and November 1 of each year, commencing May 1, 2021, calculated on the basis of a 360-day year comprised of twelve 30-day months. Principal of, redemption premium, if any, and interest on the Series 2020 Bonds are payable by the Trustee to DTC, which is obligated in turn to remit such principal and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Series 2020 Bonds.

## **Redemption**

***Optional Redemption of Series 2020A and Series 2020B Bonds.*** The Series 2020A Bonds and Series 2020B Bonds maturing on or after November 1, \_\_\_\_, shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 20\_\_, (the “Par Call Date”) at a Redemption Price equal to 100% of the principal amount of such Series 2020 Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

***Special Mandatory Redemption of Series 2020A and Series 2020B Bonds From Insurance or Condemnation Proceeds.*** The Series 2020A Bonds and Series 2020B Bonds are subject to redemption as a whole or in part on any date, among such Series and maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a Redemption Price equal to the principal amount of such Series 2020 Bonds called for redemption plus interest accrued thereon to the date fixed for redemption, without premium.

***Make-Whole Optional Redemption of Series 2020A Bonds.*** From the date of issuance, the Series 2020A Bonds will be subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part prior to the Par Call Date, on any date, at a Redemption Price equal to the greater of: (i) one hundred percent (100%) of the principal amount of such Series 2020A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the earlier of the Par Call Date or the maturity date of such Series 2020A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020A Bonds are to be redeemed, discounted to the date on which such Series 2020A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus \_\_ basis points, plus, in each case, accrued interest on such Series 2020A Bonds to be redeemed to the redemption date.

The term “Treasury Rate” as such term is used in the foregoing paragraph, means, with respect to any redemption date for a particular Series 2020A Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) (the “Statistical Release”) that has become publicly available at least two business days prior to the redemption date (excluding inflation for indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2020A Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

***Calculation of Make-Whole Optional Redemption Price.*** At the request of the City, the Redemption Price of the Series 2020A Bonds to be redeemed at the option of the City as described above will be determined by an independent accounting firm or municipal advisor retained by the City at the City’s expense to calculate such Redemption Price. The City may conclusively rely on the determination of such Redemption Price by such independent accounting firm or municipal advisor and will not be liable for such reliance.

## **Selection of Series 2020 Bonds for Redemption**

Pursuant to the Indenture, when less than all of the Series 2020 Bonds of any Series, maturity (and interest rate) is being redeemed, the Trustee selects the Series 2020 Bonds to be redeemed, from all Series 2020 Bonds of the respective Series, maturity (and interest rate) not previously called for redemption, in authorized denominations, by lot in any manner which the Trustee in its sole discretion deems appropriate

## **Notice of Redemption**

Notice of redemption of any Series 2020 Bonds shall be sent by the Trustee, by approved means, not less than 30 nor more than 60 days prior to the redemption date, (i) to the respective Owners of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee, (ii) to the Securities Depositories, and (iii) to the Information Services, which consists of the Municipal Securities Rulemaking Board (“MSRB”) through the Electronic Municipal Market Access System referred to as “EMMA,” at [www.emma.msrb.org](http://www.emma.msrb.org), or in accordance with then current guidelines of the Securities Exchange Commission. Failure by the Trustee to give notice to any one or more of the MSRB or the Securities Depositories or failure of any Owner to receive notice or any defect in any such notice shall not affect the sufficiency of the proceedings for redemption.

## **Effect of Redemption**

Notice of redemption having been duly given as described above, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series 2020 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2020 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 date fixed for redemption, interest on the Series 2020 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 the Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest.

## **SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS**

### **Net Revenue Pledge; Parity Debt**

The Series 2020 Bonds are revenue obligations of the City and are payable, as to both principal and interest and any premium upon redemption thereof, exclusively from Net Revenues and from the other funds pledged under the Indenture. All Net Revenues are pledged to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds, including the Series 2020 Bonds, and any Parity Debt, including the Series 2015 Bond, the 2016 State Loan and the Series 2018A Bonds, in accordance with their terms, 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. The pledge of Net Revenues to the Series 2020 Bonds and the Existing Parity Debt is on parity with the pledge of Net Revenues for the benefit of the owners of any additional Bonds or Parity Debt to be issued pursuant to the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS—Additional Bonds and Parity Debt.” The Net Revenues are irrevocably pledged to the punctual payment of the principal of and redemption premium, if any, and interest on the Outstanding Bonds, including the Series 2020 Bonds.

“Gross Revenues” are defined under the Indenture to mean all gross income and revenue received by the City from the ownership and operation of the Enterprise, including (a) all fees and charges received by the City for the services of the Enterprise, (b) all other income and revenue howsoever derived by the City from the ownership and operation of the Enterprise or arising from the Enterprise, and (c) all sums deposited, or required under the Indenture to be deposited, in the Sewer Enterprise Fund: but excluding (x) the proceeds of any *ad valorem* property taxes received by the City to pay debt service on any outstanding obligations of the City, (y) any contributed capital (other than connection fees), and (z) any moneys received as a result of litigation arising out of perchloroethylene (PCE) contamination that are to be expended on capital costs of the Enterprise. See “WASTEWATER SYSTEM—PCE Litigation” herein.

“Operating Expenses” are defined under the Indenture to mean the reasonable and necessary costs of maintaining and operating the Enterprise, calculated on the basis of generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs, but excluding (a) depreciation, replacement and obsolescence charges or reserves therefor or other bookkeeping entries of a similar nature, and (b) interest on the Bonds and any Parity Debt.

The Series 2020 Bonds are special, limited obligations of the City. The Series 2020 Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020 Bonds. The issuance of the Series 2020 Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Indenture provides that all funds and accounts created pursuant to the Indenture constitute trust funds in favor of the Owners of the Outstanding Bonds, until so applied for the purpose set forth in the Indenture.

#### **Flow of Funds**

The City has covenanted that all Gross Revenues, when and as received, will be received, deposited and held by the City in the Sewer Enterprise Fund and will be accounted for through and held in trust in the Sewer Enterprise Fund, and the City has no beneficial right or interest in any of such moneys except only as provided in the Indenture. The City has covenanted and agreed to maintain the Sewer Enterprise Fund at all times so long as any Bonds are Outstanding under the Indenture. All Gross Revenues and Net Revenues, whether held by the City or deposited with the Trustee, all as provided in the Indenture, are disbursed, allocated, and applied solely to the uses and purposes described below.

All amounts in the Sewer Enterprise Fund required to pay Operating Expenses of the Enterprise will be applied for such purpose from time to time by the City. So long as any Bonds are Outstanding, the City will transfer the remaining moneys in the Sewer Enterprise Fund to the Trustee as required for deposit into the following respective funds (each of which the Trustee established, maintains and holds in trust for the benefit of the Owners of the Bonds) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Net Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to outstanding Parity Debt as provided in the proceedings for such Parity Debt (which will be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Debt):

Interest Fund. The City will transfer to the Trustee and the Trustee will set aside in the Interest Fund on or before the third Business Day prior to each interest payment date therefor an amount equal to the interest becoming due and payable on the Outstanding Bonds (excluding interest for which there are moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source to pay such interest).

Principal Fund; Sinking Accounts. The City will transfer to the Trustee and the Trustee shall set aside in the Principal Fund on or before the third Business Day prior to each principal or mandatory sinking fund payment date therefor an amount equal to (a) the amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds, plus (b) the mandatory sinking fund payments to be paid into the respective Sinking Accounts for the Term Bonds; provided that if the City certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from excess amounts on deposit in the Parity Reserve Fund or other bond reserve fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid mandatory sinking fund

payments shall be made without priority of any payment into any one such Sinking Account over any other such payment.

Parity Reserve Fund. Upon the occurrence of any deficiency in the Parity Reserve Fund established pursuant to the Indenture, the City will transfer to the Trustee and the Trustee shall set aside in the Parity Reserve Fund an amount equal to the aggregate amount of each unreplenished prior withdrawal from the Parity Reserve Fund until there is on deposit in the Parity Reserve Fund an amount equal to the Reserve Fund Requirement. See “Parity Reserve Fund” below.

Any Net Revenues remaining in the Sewer Enterprise Fund after the foregoing transfers described above, except as otherwise provided in a Supplemental Indenture, will be held free and clear of the Indenture by the City and it may use and apply such Net Revenues for any lawful purpose of the City, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

If on any principal payment date, interest payment date or mandatory sinking fund redemption date the amounts on deposit in the Interest Fund and Principal Fund, including the Sinking Accounts therein, are insufficient to make such payments, the Trustee shall immediately notify the City, by telephone or facsimile, of such deficiency and direct that the City transfer the amount of such deficiency to the Trustee on such payment date. The City has covenanted and agreed to transfer to the Trustee from any Net Revenues in its possession the amount of such deficiency on the principal, interest or mandatory redemption date referenced in such notice.

#### **Parity 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 “Parity Reserve Fund.” **No deposit into the Parity Reserve Fund will be made upon the issuance of the Series 2020 Bonds and the Series 2020 Bonds will not be secured by the Parity Reserve Fund. As of the date of delivery of the Series 2020 Bonds, the Reserve Fund Requirement will be \$0.** See “—Outstanding Parity Debt” for a description of Parity Debt for which a separate reserve fund has been established. Amounts on deposit in the Parity Reserve Fund are pledged to the payment of any Bonds secured thereby (not including the Series 2020 Bonds) and any Parity Debt to be secured by the Parity Reserve Fund and must be applied only for such purposes as permitted in the Indenture. The Trustee is also required to deposit in the Parity Reserve Fund, upon the direction of the City, such other amounts transferred to the Trustee by the City pursuant to the Indenture. No deposit need be made in the Parity Reserve Fund so long as there shall be on deposit therein a sum equal to at least the amount required by the Indenture to be on deposit therein. Whenever the amount on deposit in the Parity Reserve Fund is less than the Reserve Fund Requirement; and such amount shall be increased to the Reserve Fund Requirement as provided for in the Indenture not later than twelve months thereafter. The Trustee must transfer in moneys on deposit in the Parity Reserve Fund (including all amounts that may be obtained from letters of credit and surety bonds and insurance policies, as provided below, on deposit in the Parity Reserve Fund) to the Principal Fund and Interest Fund to pay principal of and interest on the Bonds on any interest payment date in the event amounts on deposit therein are insufficient for such purposes.

The Trustee will also, from such amounts on deposit in the Parity Reserve Fund, transfer or cause to be transferred to any applicable debt service fund for any Parity Debt to be secured by the Parity Reserve Fund, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without discrimination or preference, that sum or sums, if any, equal to the amount required to be deposited therein pursuant to the documents under which any such Parity Debt to be secured by the Parity Reserve Fund is issued or incurred. Amounts on deposit in the Parity Reserve Fund in excess of the Reserve Fund Requirement will, at the written Request of the City, be withdrawn from the Parity Reserve Fund and transferred to the City.

In lieu of a cash deposit, the City may satisfy the Reserve Fund Requirement by depositing to the Parity Reserve Fund a letter of credit, surety bond, or insurance policy as provided in the Indenture.

“Reserve Fund Requirement” means, as of any date of determination and excluding any Bonds or Parity Debt for which no reserve fund is to be maintained and any Parity Debt for which a separate reserve fund is to be maintained,

the lesser of (a) the Maximum Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, or (b) one hundred twenty-five percent (125%) of the Average Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund; provided that in no event shall the deposit to the Parity Reserve Fund with respect to any Series of Bonds or Parity Debt to be secured by the Parity Reserve Fund be an amount greater than ten percent (10%) of the initial offering price to the public of such Series of Bonds or Parity Debt to be secured by the Parity Reserve Fund as determined under the Code, all as computed and determined by the City and specified in writing to the Trustee. See Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

### **Rate Covenant**

The rates for use of the Enterprise are set by the City Council and are not subject to review by any state or local governmental agency. The City has covenanted that it will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which (together with other funds accumulated from Gross Revenues and which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year) are at least sufficient to pay all Operating Expenses estimated to become due and payable in such Fiscal Year, Debt Service on the Bonds and any Parity Debt becoming due and payable during such Fiscal Year, all other payments required by the Indenture and any Parity Debt instruments and all payments required to meet any obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or Net Revenues. In addition, the City has covenanted that it will fix, prescribe, revise and collect rates, fees and charges so as to yield Net Revenues during such Fiscal Year equal to at least 1.25 times the Debt Service coming due and payable in such Fiscal Year on the Bonds and any Parity Debt. For a further description of the City’s rate covenant, see Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Covenants—Rates and Charges.” The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but such fees and charges shall not be reduced so as to be insufficient to provide adequate Gross Revenues for such purposes. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIC and XIID of the California Constitution.”

### **Additional Bonds and Parity Debt**

The City may at any time issue additional Series of Bonds or Parity Debt payable from the Net Revenues and other funds and secured by a lien and charge on a parity with the lien and charge securing the Outstanding Bonds on a parity with the Series 2020 Bonds and the Existing Parity Debt, subject to the following conditions precedent, among others: (a) no Event of Default has occurred and is continuing; (b) there is deposited in the Parity Reserve Fund an amount of money so as to increase the amount on deposit therein to the Reserve Fund Requirement, provided that Parity Debt may be secured by a separate reserve fund or by no reserve fund; and (c) the Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent 12-month period selected by the City ending not more than 60 days prior to the adoption of the Supplemental Indenture pursuant to which such Series of Bonds are issued or the instrument pursuant to which such Parity Debt is issued, as shown by the books of the City, plus, at the option of the City, any or all of the items designated in (i) and (ii) below, but excluding connection charges, shall at least equal 125% of the Maximum Annual Debt Service on all Bonds and Parity Debt to be Outstanding immediately subsequent to the issuance of such Series of Bonds or Parity Debt. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring additional Series of Bonds or Parity Debt under the Indenture are the following:

(i) An allowance for Net Revenues from any additions to or improvements or extensions, of the Enterprise to be made with the proceeds of such additional Series of Bonds or Parity Debt, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of such Fiscal Year or such 12-month period, were not in service, all in an amount equal to 95% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown by a certificate of the City filed with the Trustee.

(ii) An allowance for earnings arising from any increase in the charges made for service from the Enterprise which has become effective prior to the incurring of such additional Series of Bonds or Parity Debt but which, during all or any part of such Fiscal Year or such 12-month period, was not in effect, in an

amount equal to 95% of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such 12-month period, all as shown by a certificate of the City filed with the Trustee.

In the event additional assets or revenues are included within the definition of “Net Revenues” by a Supplemental Indenture, such additional assets or revenues shall be included in the calculations described above, as appropriate, as if such additional assets or revenues had always been included in Net Revenues.

“Maximum Annual Debt Service” is defined under the Indenture as the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Debt in the Fiscal Year in which the calculation is made or any successive Fiscal Year using the principles and assumptions set forth under the definition of Debt Service.

“Debt Service” is defined under the Indenture to mean, during any period of computation, the amount of principal and interest becoming due and payable on all Bonds and Parity Debt for such period, determined by totaling the following amounts: (a) the Bond Obligation of all Outstanding Serial Bonds and all Parity Debt coming due and payable by their terms in such period; (b) the minimum Bond Obligation of all Outstanding Term Bonds and all Parity Debt scheduled to be redeemed by operation of mandatory sinking fund deposits in such period, together with any premium thereon; and (c) the interest which would be due during such period on the aggregate principal amount of Bonds and Parity Debt which would be Outstanding in such period if the Bonds or Parity Debt are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds or Parity Debt no longer Outstanding; provided that for purposes of determining compliance with the test for the issuance of additional Bonds or Parity Debt and the rate covenant and the amount of the Reserve Fund Requirement, certain provisions shall be applied as described in Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions.”

Nothing in the Indenture prohibits or impairs the authority of the City to issue (i) Bonds at any time to refund outstanding Bonds or Parity Debt, provided, however, that the Maximum Annual Debt Service with respect to any such refunding Bonds does not exceed 1.10 times the Maximum Annual Debt Service with respect to the Bonds or Parity Debt being refunded; or (ii) bonds or other obligations which are unsecured or which are secured by a lien on Net Revenues which is subordinate to the lien established under the Indenture, upon such terms and in such principal amount as the City may determine.

### **Outstanding Parity Debt**

Following delivery of the Series 2020 Bonds, which will refund the 2011 State Loan, the Existing Parity Debt will consist of the Series 2015 Bond, the 2016 State Loan and the Series 2018A Bonds. The pledge of Net Revenues to the Series 2015 Bond, the 2016 State Loan, the 2018A Bonds and the Series 2020 Bonds is on a parity with the pledge of Net Revenues for the benefit of the owners of any additional Bonds or Parity Debt to be issued pursuant to the Indenture. As of the date of issuance of the Series 2020 Bonds, the Series 2018A Bonds and the Series 2020 Bonds will be the only Bonds issued and outstanding under the Indenture.

The Series 2015 Bond was issued by the City to Capital One Public Funding, LLC in the initial principal amount of \$19,429,912.56, and is outstanding in the principal amount of \$9,704,958.84 as of September 1, 2020. Under the terms of the related bond purchase agreement, the City makes semi-annual payments of interest on each May 1 and November 1 and annual payments of principal on each November 1 until maturity in 2024. The Series 2015 Bond bears interest at a fixed rate of 2.42% per annum. The purchase agreement for the Series 2015 Bond contains standard covenants and representations, for which a failure by the City to observe or perform will constitute an event of default, and provides for a cross default in an Event of Default under the Indenture. The Series 2015 Bond is not secured by any reserve fund.

The 2016 State Loan is a revolving fund loan from the State of California, which was drawn down in the amount of \$29,747,007.59. Under the terms of the installment sale agreement and grant, the City makes approximately equal annual payments of principal and interest each December 31 until maturity in 2047. The 2016 State Loan bears interest at a fixed rate of 1.0% per annum. The 2016 State Loan is also secured by a reserve fund, held by the City and funded with cash, equal to one year’s annual debt service on the 2016 State Loan. This reserve fund is not security for the Series 2020 Bonds.

The Series 2018A Bonds were issued by the City on April 19, 2018 in the original aggregate principal amount of \$11,340,000 and are outstanding in the principal amount of \$11,340,000 as of October 1, 2020. The Series 2018A Bonds mature in varying amounts starting November 1, 2025 until final maturity on November 1, 2036 at interest rates ranging from 4.0% to 5.0%.

### Debt Service Requirements

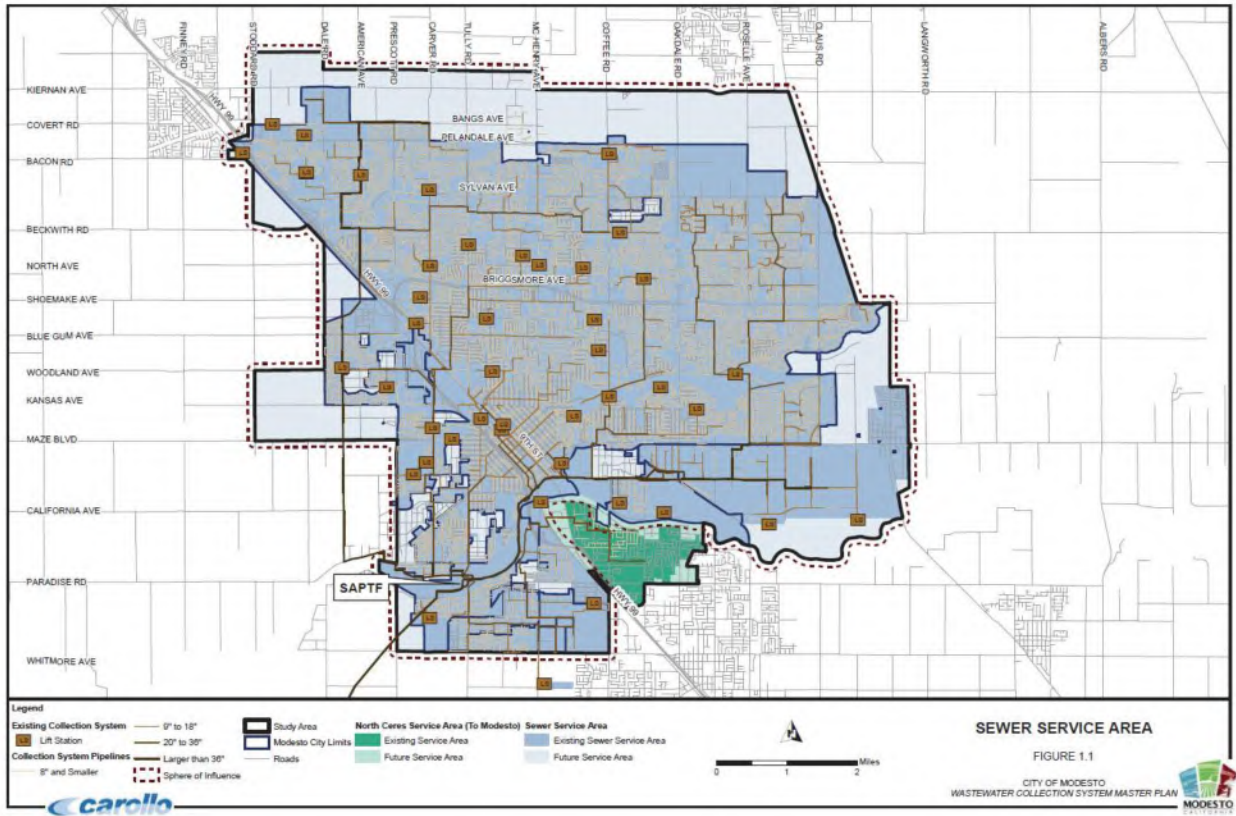
The debt service requirements of the Existing Parity Debt and the Series 2020 Bonds are shown in the following table on a fiscal year basis, assuming no optional or special mandatory redemption of the Series 2020 Bonds or prepayment of the Existing Parity Debt prior to maturity thereof.

<i><b>Fiscal Year Ending June 30</b></i>	<i><b>Existing Parity Debt Total<sup>(1)</sup></b></i>	<i><b>Series 2020A Principal</b></i>	<i><b>Series 2020A Interest</b></i>	<i><b>Series 2020B Principal</b></i>	<i><b>Series 2020B Interest</b></i>	<i><b>Total Debt Service</b></i>
2021	\$4,488,875.70					\$
2022	4,492,163.20					
2023	4,491,919.45					
2024	2,616,691.77					
2025	2,616,191.77					
2026	2,399,811.64					
2027	2,403,311.64					
2028	2,395,061.64					
2029	2,399,936.64					
2030	2,397,686.64					
2031	2,398,311.64					
2032	2,396,686.64					
2033	2,397,686.64					
2034	2,396,186.64					
2035	2,397,061.64					
2036	2,396,111.64					
2037	2,397,536.64					
2038	1,152,161.64					
2039	1,152,161.64					
2040	1,152,161.64					
2041	1,152,161.64					
2042	1,152,161.64					
2043	1,152,161.64					
2044	1,152,161.64					
2045	1,152,161.64					
2046	1,152,161.64					
2047	1,152,161.64					
2048	1,216,054.72					
<b>Total</b>	<b>\$60,218,902.71</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

<sup>(1)</sup> Existing Parity Debt includes (i) the Series 2015 Bond, of which \$9,704,958.84 remains outstanding as of September 1, 2020 and which bears interest at a 2.42% per annum; (ii) the 2016 State Loan, of which \$28,064,829.59 remains outstanding as of September 1, 2020, and which bears interest at a fixed rate of 1.00% per annum; and (iii) the Series 2018A Bonds of which \$11,340,000 remains outstanding as of October 1, 2020 and which bear interest at rates ranging from 4.0% to 5.0%.

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# SERVICE AREA MAP



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## WASTEWATER SYSTEM

### Introduction

The City manages, operates, and maintains four utilities. Two of these are wastewater related—water quality control facilities (the “WQC”) and the wastewater collection system (the “WWC”). The Enterprise consists of the treatment and disposal facilities located at the WQC and the piping, pump stations and related appurtenances of the WWC.

### Service Area

The Enterprise services the current City limits, a portion of north Ceres, the unincorporated community of Empire, and isolated unincorporated Stanislaus County land within the City’s Sphere of Influence (“SOI”). Wastewater from north Ceres and unincorporated areas is treated by the City under sewer service agreements with such jurisdictions. Consistent with the City’s updated Urban Area General Plan, the service area includes the City’s SOI boundary, Empire, and north Ceres. The City provides wastewater (sewer) service to a population of over 200,000 within the City limits and to about 900 customers within the now-dissolved Empire Sanitary District. The City collects wastewater from north Ceres but does not bill the customers directly. Ceres bills the customers and the City directly charges Ceres as a single customer.

Population and land use projections prepared for the 2016 Wastewater Master Plan (“WWMP”) indicate that the areas extending to the SOI boundaries will only be partially developed by the end of 2035. Full build-out of the SOI is not expected until the year 2057. By 2035, the number of municipal customers is projected to increase at an average annual growth rate of 1.3 percent to a total service population of 270,900.

In addition to municipal customers, the City serves the industrial customers in the Beard Industrial Park. The industrial customers include seasonal canneries and year-round food processors. The canneries’ wastewater during canning season (July through September) is segregated in a different pipeline from the domestic customers. The canneries pay a different rate than municipal customers. While the wastewater load produced by the canneries is significant, the cannery process water is directly land-applied at the Jennings Ranch (described below) instead of undergoing the wastewater treatment process.

### History

Prior to 1910, wastes from the City were discharged without treatment into the Tuolumne River. From 1910 through the late 1940s, the City’s wastewater system was comprised of a sewage processing tank with ponds. In 1946, plans were made to take industrial waste into the treatment plant. The City, with a population at that time of 20,000, was faced with constructing a treatment facility to accept wastes equivalent to a contributing population of 400,000 persons during the three-month canning season. Sewer service charges were first collected in the late 1940s, and connection charges were first imposed in 1967. The City continues to be home to a number of food processors, and summer food processing sewer discharges are now equivalent to a contributing population of more than 1,000,000 persons.

### System Description

**General.** The current wastewater system (the “System”) of the Enterprise consists of a collection system with over 70 miles of trunk sewers (greater than 15”) and approximately 620 miles of sanitary sewers. There are 42 wastewater lift stations. Another 32 miles of sewers that are privately owned or are associated with north Ceres are connected to the City’s collection system. Aside from localized septic systems, all wastewater generated within the service area of the Enterprise receives treatment at the City’s wastewater treatment facilities. Trunk sewers, sanitary sewers and lift stations have been built as development occurs and are rehabilitated or replaced as needed. Overall, the age of pipes and lift stations in the System range from new to 50-60 years old. A program for rehabilitating and replacing sewer pipes and lift stations is included as part of the capital improvement plan. See “—Master Plan Update, Capital Improvement Plan and Future Capital Needs.”

The City's treatment facilities treat over 7.3 billion gallons of wastewater annually. The average daily domestic flow into the City's treatment system is currently about 20 million gallons per day (mgd).

Modesto's treatment facilities consist of two treatment plants that operate in series, connected by two 6.5 mile-long outfall pipelines. The Sutter Primary Treatment Facility ("Sutter Facility") is located at the south end of Sutter Avenue adjacent to the Tuolumne River. The Sutter Facility has been built and upgraded in phases beginning in the 1960's. The Sutter Facility provides primary treatment and solids handling. At the Sutter Facility, settleable and floatable organic and inorganic constituents are removed from the wastewater, through screening, grit removal and primary clarification. Solids from the primary clarifiers are then processed through the anaerobic digesters. In addition, the Sutter Facility is subject to flooding from high river levels in the adjacent Tuolumne River. See "RISK FACTORS—Earthquakes, Floods and Other Natural Disasters." Most of the primary treatment and solids handling facilities at the Sutter Facility are aging and nearing their useful life. The City plans to relocate most of the primary treatment equipment at the Sutter Facility to the Jennings Facility in the future. See "—Master Plan Update, Capital Improvement Plan and Future Capital Needs."

Primary effluent from the Sutter Facility is pumped through the two 6.5-mile-long outfall pipelines to the Jennings Treatment Facility ("Jennings Facility"), located next to the San Joaquin River on Jennings Road near West Zeering Road for additional treatment. The Jennings Facility was originally constructed beginning in the late 1960's and has since been upgraded including as described in the following paragraph. The Jennings Facility includes secondary treatment, tertiary treatment, and a 2,526-acre ranch (the "Jennings Ranch"). The secondary treatment facilities at the Jennings Facility primarily consist of three fixed-film reactor towers, 334 acres of oxidation ponds, and 126 acres of recirculation channels. Secondary effluent from the Jennings Facility is used for irrigation of the City's ranch land, stored in reservoirs, or discharged to the San Joaquin River during the months of October through May. The 2008 National Pollutant Discharge Elimination System permit (the "2008 NPDES Permit") allowed for this seasonal discharge into the San Joaquin River. However, the 2008 NPDES Permit, including prior extensions thereto, expired in May 2018 and discharge requirements are now subject to the 2016 National Pollutant Discharge Elimination System permit (the "2016 NPDES Permit") as part of the North Valley Regional Recycled Water Program ("NVRWP"). The 2016 NPDES Permit allows discharge into the Delta Mendota Canal ("DMC"), subject to discharge limits on various constituents. The 2016 NPDES Permit expires in March 2021. See also "—Permitting Issues" below.

Prior to the expiration of the 2008 NPDES Permit, the City began upgrading its wastewater treatment facilities to provide biological nutrient removal ("BNR") and tertiary treatment, which produces highly treated water that is suitable for year-round discharge to the San Joaquin River. The 2.3 mgd Phase 1 Tertiary Treatment Facility was built in 2010, and the 12.6 mgd Phase 2 BNR/Tertiary Treatment Facilities was completed in 2015. Both facilities are located at the Jennings Facility and consist of fine screens, biological nutrient removal aeration basins, membrane bio-reactor basins, and ultraviolet disinfection. Because the tertiary water is also suitable for recycling, the City completed the construction of a new recycled water pump station, pipelines and appurtenances for the NVRWP, which is currently delivering up to 14.9 mgd of the City's recycled water to the Del Puerto Water District. This \$50 million project was funded by the 2016 State Loan and a \$15 million State grant under Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act of 2014 ("Proposition 1"). The Del Puerto Water District reimburses the City for: (1) all 2016 State Loan debt service, (2) one-half of the debt service cost savings resulting from the Proposition 1 grant, (3) costs to operate and maintain the recycled water delivery facilities, and (4) pays \$30 per acre-foot for the recycled water. The Del Puerto Water District revenues are included in the projections provided in the table under the heading, "WASTEWATER SYSTEM FINANCES—Projected Debt Service Coverage." Sales to the Del Puerto Water District commenced in February 2018.

During the three-month canning season, between early July through late September, segregated cannery process water is separately piped to the Sutter Facility for preliminary treatment and then pumped directly to the Jennings Facility, where it is blended with secondary effluent from the storage ponds and used for irrigation at the Jennings Ranch.

The Enterprise currently generates approximately 5.0 mgd of secondary treated effluent. It uses low-capital-intensive irrigation as its primary discharge method. Approximately 3.6 billion gallons of both secondary and tertiary

treated wastewater is discharged to the City-owned Jennings Ranch annually. The Jennings Ranch is managed in a public/private partnership in which the lessee uses the reclaimed water to grow fodder crops

Sixty-four commercial and industrial facilities are currently permitted under the City’s mandatory pre-treatment program. Periodic monitoring is performed to ensure compliance with local and federal limits and to confirm that high quality effluent is available for irrigation, discharge to the San Joaquin River, and to minimize impacts to the treatment facilities.

**Permitting Issues**

The Central Valley Regional Water Quality Control Board (the “RWQCB”) regulates water quality in the Central Valley under the authority of the Federal Clean Water Act and California’s Porter-Cologne Water Control Act. The RWQCB issues wastewater discharge permits through the National Pollutant Discharge Elimination System (“NPDES”). Wastewater treatment plants are required under the State and federal law to meet various requirements for the operation, treatment, monitoring and disposal/discharge of wastewater.

The City currently discharges its recycled water into the DMC under the requirements of the 2016 NPDES Permit. In addition, the City received an updated river discharge permit in (Permit No. CA0079103, Order R5-2017-0064, the “2017 NPDES Permit”). The 2017 NPDES Permit expires in July 2022. The City expects its recent wastewater treatment upgrades previously described to meet the 2017 NPDES Permit requirements. The NVRWWP recycling plant (described above) is currently permitted to discharge 14.9 mgd average daily discharge flow into the DMC and may be expanded to 19.1 mgd average daily discharge flow to the San Joaquin River upon completion of the future tertiary treatment plant upgrades. With the NVRWWP recycling plant, the City established water rights to its tertiary treated (recycled) water and relocated its primary discharge from the San Joaquin River to the DMC. However, the 2017 NPDES Permit still allows the City to discharge into the San Joaquin River, under certain conditions, whenever discharge into the DMC is not allowed due to nonoperation while undergoing repairs or temporary outages. However, since the NVRWWP started, there has not been any discharge into the San Joaquin River.

Land discharge is regulated by a separate Waste Discharge Requirement permit (the “1999 WDR Permit”). About 2.0 billion gallons of wastewater are disposed of each year through evaporation and percolation from the treatment system and from application to pastureland. Approximately 3.6 billion gallons per year of treated secondary effluent, plus 1 billion gallons of cannery waste, are discharged to land. Land discharge limitations onto the Jennings Ranch are based on biochemical oxygen demand (“BOD”) loading for the combined secondary-treated and cannery process water and are set forth in the table below.

**TABLE 1  
BOD Loading**

**Secondary Effluent Only**

BOD 30-day Maximum Loading Rate	50 lbs/day
BOD Daily Maximum	300 lbs/day

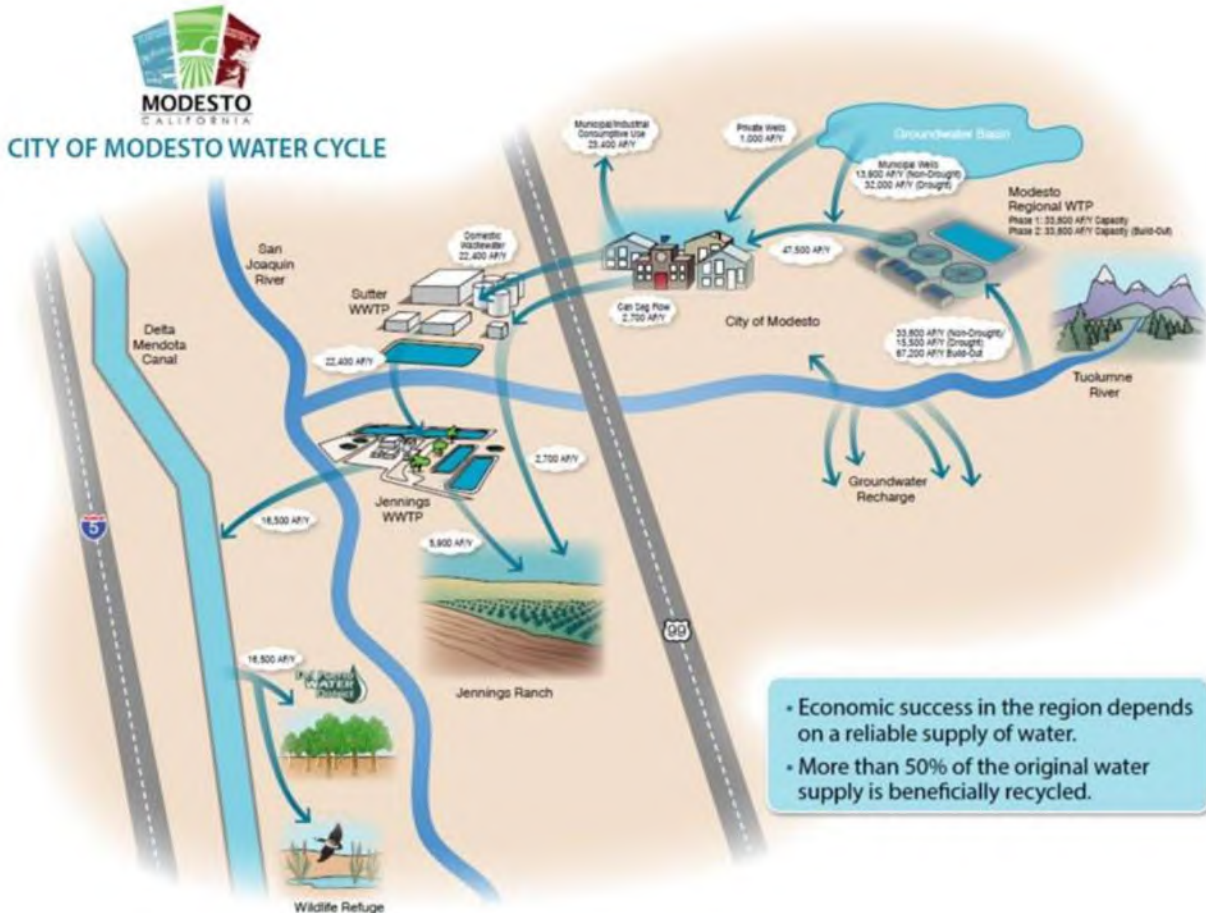
**Combined Cannery and Secondary Effluent  
(During Canning Season Only)**

BOD 7-Day Average	400 lbs/day
BOD 30-Day Average	150 lbs/day
BOD Seasonal Average	100 lbs/day

Other reporting requirements include effluent groundwater monitoring and pond monitoring. In addition, the City must ensure that biosolids and other organic residuals are applied in accordance with agronomic rates. This means that the number of tons per hectare or acre is determined based on the amount of nutrients in the biosolids/residuals

and the amount of nutrients needed by the crop being grown which includes salinity. The City closely monitors these requirements and has been in full compliance.

Below is a map of the City's water and wastewater facilities showing the water cycle.



### Master Plan Update, Capital Improvement Plan and Future Capital Needs

In 1991, the City recognized that the Enterprise had reached the capacity provided by its last expansion in 1984, which had been funded by a federal Clean Water Grant. The City commenced a wastewater planning process to determine the most cost-effective approach for implementing the next increment of capacity. Based on considerable input from customers, regulators and the community at large, the City developed the 1995 Wastewater Master Plan (the "1995 Wastewater Master Plan"). As part of its annual budget process, the City prepares a rolling ten-year capital improvement program for the Sewer Enterprise Fund in accordance with the 1995 Wastewater Master Plan and incorporating current needs which were unknown in 1995. The 1995 Wastewater Master Plan outlined capital improvements to be undertaken over the ensuing 20 to 40 years. These capital improvements generally fall into two categories: 1) treatment plant improvements and 2) collection system improvements.

The City updates its Wastewater Master Plan approximately every 5-10 years. The City's Wastewater Master Plan was updated in 2007 and supplemented in 2008, and most recently updated in 2016. The 2007 Wastewater Master Plan ("2007 Wastewater Master Plan") contained several parts: a condition assessment of the existing wastewater treatment facilities, a summary of regulatory requirements, a list of recommended improvements, and a description of the Capital Improvement Plan ("CIP"). Soon after the 2007 Wastewater Master Plan was adopted, City population growth and corresponding influent wastewater flows dropped with the slowing economy, and the Central Valley Regional Water Quality Control Board ("Regional Board") adopted significantly more restrictive discharge

limits. As a result, a 2008 Wastewater Treatment Master Plan Supplement (“2008 Supplement”) was prepared to address these changes and revise the CIP for wastewater treatment. Significant system improvements were constructed in accordance with the 2007 Wastewater Master Plan and the 2008 Supplement, including upgrades to the wastewater treatment processes from secondary to tertiary treatment with the Phase 1 and 2 BNR/Tertiary Treatment Plant projects, repair and replacement of deficient pipeline infrastructure with the Emerald Trunk Primary Outfall Rehabilitation projects and recovering pipeline and treatment plant capacity with the Storm Drain Cross Connection Removal at Garrison Park Storm Drain project.

Each wastewater master plan derives its name not from the year of adoption, but from the year in which the initial studies and report are completed. Initial studies and the report for the 2016 Wastewater Master Plan (“2016 Wastewater Master Plan”) began in 2016. The 2016 Wastewater Master Plan was adopted following completion of the environmental impact report required by the California Environmental Quality Act in January 2020. The 2016 Wastewater Master Plan addresses current deficiencies and identifies improvements that will help the City adapt to changing conditions. Major topics that are addressed in the 2016 Wastewater Master Plan include:

- Lower population projections and wastewater flows.
- Changes in the City’s Planning Area and General Plan land use.
- Updating the hydraulic model.
- Approach for maximizing production and off-site delivery of recycled water with the Biological Nutrient Removal (“BNR”)/Tertiary Treatment Facilities.
- Construction of new primary treatment and solids handling facilities at the Jennings Facility to replace the aging facilities at the Sutter Facility.
- Reliability improvements at the Sutter Plant headworks (screening and grit removal).
- Reduction of domestic wastewater loadings on the existing secondary treatment system resulting from the operation of the BNR/tertiary facilities.
- Improved reliability and expanded capacity for the cannery process water flows.
- Potential regulatory requirements and compliance strategies related to the land application of treated municipal effluent, cannery process water, and biosolids.

In 2016, a cost of service study (the “2016 City of Modesto Sewer Rate and Fee Study”) was conducted in order to match projected rate increases to the needed capital improvements for the existing rate base and for new development. The majority of funding for capital wastewater projects is allocated for critical capacity projects and deferred maintenance projects. After conducting a Proposition 218 hearing in April 2016, the City Council adopted a new 5-year sewer rate increase, from Fiscal Year 2016-17 through Fiscal Year 2020-21, and new capacity fees in 2016, reflecting the results and recommendations of the 2016 City of Modesto Sewer Rate and Fee Study. These annual rate increases are capped at approximately 6% per year. The City reviews the rates annually and may revise rates to be lower if excess funds are available. On September 22, 2020, the City Council approved a rate increase of 4.01% to be effective January 1, 2021. See “WASTEWATER SYSTEM FINANCES—Rates.”

Set forth below is a table setting forth projected sources and uses of funds for the Wastewater Master Plan through Fiscal Year 2025-26, based, in part, on the 2016 Wastewater Master Plan. City management believes that the capital improvements shown in the table below will maintain the System in compliance with all applicable legal requirements and prudent industry standards. The City continuously re-prioritizes its CIP based on affordability (customer rates), System needs, minimum debt service coverage policy of 1.50x, and a minimum fund balance policy of, after the prepayment of the 2011 State Loan, 25% of operating expenses plus one-year of 2016 State Loan debt service. While the 2011 State Loan was still outstanding this minimum fund balance also included one year of 2011

State Loan debt service. *The projections may be affected by various factors and there can be no assurance that they will be achieved and any variation from projected sources and uses of funds may be material.*

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**TABLE 2  
CITY OF MODESTO  
Wastewater System  
Capital Improvement Program Projects**

<b>Project Detail</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>	<b>FY 2022-23</b>	<b>FY 2023-24</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>
Project Expenditures Included In Pay As You Go (not in Wastewater Master Plan)	\$11,587,200	\$12,482,000	\$6,269,000	\$630,000	\$0	\$0
Project Expenditures Included In Pay As You Go (Included in Wastewater Master Plan) Priority Projects	\$10,350,000	\$8,250,000	\$15,500,000	\$15,600,000	\$15,360,000	\$7,240,000
Collection System - Capacity	\$100,000	\$169,680	\$1,159,870	\$2,506,084	\$3,092,597	\$4,668,490
Collection System -Rehab	\$2,595,000	\$2,350,461	\$2,593,093	\$3,000,000	\$3,000,000	\$4,000,000
Collection System - Reliability	\$0	\$0	\$0	\$0	\$0	\$0
Collection System - New Services	\$5,339,150	\$0	\$283,140	\$3,537,631	\$3,954,658	\$1,050,000
Existing Collections	\$1,051,000	\$50,000	\$0	\$0	\$0	\$0
Existing Wastewater Treatment	\$9,190,000	\$2,555,000	\$2,545,000	\$0	\$0	\$0
Cannery Segregation <sup>(1)</sup>	\$0	\$153,383	\$0	\$5,657,126	\$5,016,046	\$12,000,000
Reprioritized Wastewater Treatment	\$69,000	\$2,226,824	\$4,650,000	\$4,000,000	\$3,000,000	\$5,000,000
Renewal and Replacement Expenditures	\$1,245,468	\$1,245,468	\$2,875,468	\$2,875,468	\$2,875,468	\$1,245,468
<b>Total Capital Improvement Program</b>	<b>\$41,526,818</b>	<b>\$29,482,816</b>	<b>\$35,875,571</b>	<b>\$37,806,309</b>	<b>\$36,298,769</b>	<b>\$35,203,958</b>
- Grants	\$0	\$0	\$0	\$0	\$0	\$0
- Canneries	\$0	\$153,383	\$0	\$5,657,126	\$5,016,046	\$12,000,000
- Bonds/Parity Debt <sup>(2)</sup>	\$0	\$20,000,000	\$20,000,000	\$0	\$0	\$0
- Internally Generated Funds (Wastewater Funds) <sup>(3)</sup>	\$41,526,818	\$9,329,433	\$15,875,571	\$32,149,183	\$31,282,723	\$23,203,958
<b>Total Sources of Funding</b>	<b>\$41,526,818</b>	<b>\$29,482,816</b>	<b>\$35,875,571</b>	<b>\$37,806,309</b>	<b>\$36,298,769</b>	<b>\$35,203,958</b>

<sup>(1)</sup> Cannery Segregation is funded by the canneries.

<sup>(2)</sup> The City plans to issue approximately \$40 million in new money bonds in late 2021

<sup>(3)</sup> Assumes rate increases per annum as indicated in Table 19. See "Table 19 -- CITY OF MODESTO WASTEWATER ENTERPRISE

PROJECTED DEBT SERVICE COVERAGE" below. Rate increases for Fiscal Year ending June 30, 2020 have been implemented. On September 22, 2020, the City Council approved a rate increase of 4.01% for Fiscal Year ending June 30, 2021 which goes into effect on January 1, 2021. Rate increases for Fiscal Years ending June 30, 2022 through June 30, 2026 have not yet had a Proposition 218 hearing or been approved by the City Council.

Source: City of Modesto Department of Finance.

## Management

The Enterprise is operated under the management and control of the City Council. Currently, day-to-day management is provided by William Wong, Director of Utilities; Ben Koehler, Acting Water Quality Control Plant Manager; Robert Englent, Wastewater Collection Manager; Thomas Sinclair, Environmental Regulatory Compliance Manager; Monte Hamilton, Wastewater Maintenance Superintendent under the general supervision of Scotty Douglass, Deputy City Manager and Joseph Lopez, City Manager.

Brief resumes of the senior staff of the Enterprise are presented below:

**William Wong – Utilities Director.** Will Wong has a B.S. in Civil Engineering from University of California at Davis and is a California-licensed Civil Engineer. He has over 26 years of experience working on water and wastewater infrastructure projects, and has been with the City for over 19 years. He is currently the City of Modesto’s Utilities Director, overseeing the Department’s Wastewater Operations and Maintenance, Water Operations and Maintenance, and Engineering Services Divisions.

**Ben Koehler – Acting Wastewater Treatment Plant Manager, Chief Plant Operator.** Ben Koehler has over 8 years of experience in the wastewater industry. He has been with the City of Modesto for approximately 7 years. For the past 1.5 years, he has managed the Sutter Primary and Jennings Secondary, Tertiary treatment facilities. He is currently the Acting Wastewater Plant Manager whose responsibility is to oversee the entire operation of the City wastewater treatment facilities. He actively coordinates with the Utilities Engineering staff to ensure the City has the plans and equipment to meet compliance with current regulatory requirements.

**Robert Englent – Wastewater Collection System Manager.** Robert Englent has been in the wastewater industry for 26 years, holds a California Water Environment Association (“CWEA”) wastewater collections Grade IV certification and a California General Engineering Contractors license (inactive). Robert’s experience includes management of wastewater collection systems, asset management, computerized maintenance management systems, planning/scheduling, purchasing, and warehouse management. Robert is currently the Wastewater Collection System Manager for the City, overseeing all aspects of operation, maintenance, repair, and replacement of the wastewater and storm water collections systems.

**Thomas W. Sinclair – Environmental Regulatory Compliance Manager.** Thomas W. Sinclair has a B.S. in Geology and Oceanography from San Jose State University, San Jose, California. He has over 39 years of multi-disciplinary experience in environmental, safety, and regulatory compliance. Thomas’s experience includes ISO 14001 certification, laboratory management, hazardous material and waste management, U.S. DOT compliance, groundwater remediation, storm water, and wastewater treatment. He is currently the Environmental Regulatory Compliance Manager of Modesto Utilities Department overseeing safety and regulatory compliance.

**Monte Hamilton- Plant Maintenance Superintendent.** Monte Hamilton has over 26 years of experience in the water and wastewater industry and over 36 years in mechanical repair experience ranging from power plant mechanic through operations and maintenance of water and wastewater plant, holding a variety of licenses and certifications such as: Water treatment, distribution, Grade IV Mechanical Technologist and Collection System Maintenance Grade IV.

The City is conducting an internal process to develop a succession plan for senior management, which includes formal training and lines of succession.

## Employees

The Utilities Director has primary responsibility for the management of the wastewater treatment facilities and wastewater collection system, as well as for the water system and storm drains. As of July 13, 2020, the Enterprise has allocated 138 full-time employees. Employees are represented by the Modesto City Employees Association and Modesto Confidential and Management Association whose current Memorandum of Understanding expires in 2023. The City has never experienced a labor strike.

## Retirement Programs

**Pension Plans.** The City’s permanent employees, including Enterprise employees, are covered by the California Public Employees Retirement System (“CalPERS”) through agent multiple-employer defined benefit plans administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov). The foregoing internet address is included for reference only, and the information on the internet site is not incorporated by reference herein.

The City’s defined benefit pension plans, the Miscellaneous Plan and the City’s Safety Plan, provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members (who must be public employees) and beneficiaries. Benefit provisions and all other requirements of the plans are established by State statute, including the Public Employees’ Pension Reform Act of 2013 which primarily affects new pension plan members enrolled after 2012, and City resolutions. No employees assigned to the Enterprise participate in the City’s Safety Plan.

Set forth below is a table summarizing the funding status of the City’s Miscellaneous Plan for the four Fiscal Years ended June 30, 2019:

**TABLE 3  
CITY OF MODESTO  
Funding Status  
Fiscal Years 2015-16 through 2018-19**

<i>Fiscal Year</i>	<i>Accrued Liability</i>	<i>Market Value of Assets (MVA)</i>	<i>Unfunded Liability</i>	<i>Funded Ratio</i>	<i>Annual Covered Payroll</i>
2015-16	421,909,284	304,402,635	117,506,649	72.1%	45,374,121
2016-17	443,855,982	326,849,221	117,006,761	73.6%	48,479,267
2017-18	474,834,279	342,310,119	132,524,160	72.1%	49,545,472
2018-19	490,376,850	352,917,082	137,459,768	72.0%	50,717,747

*Source: CalPERS, Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2019.*

The CalPERS Board of Administration has adjusted and may in the future further adjust certain assumptions used in the CalPERS actuarial valuations, which adjustments may increase the City’s required contributions to CalPERS in future years. One of the most significant factors used in determining the liability and the funding requirements is the rate of return that investments will yield prior to making payments, known as the discount rate. CalPERS has approved an incremental reduction in the discount rate to be used in its actuarial valuation from 7.5% to 7.0% over the three Fiscal Years 2017-18 to 2019-20, which is expected to result in an increase in the unfunded liability and the contributions required to meet those obligations. In February 2018, CalPERS revised its amortization policy to reduce the amortization period for gains and losses from a 30-year period to a 20-year period for new gains/losses established on or after June 30, 2019 which will begin to affect contribution rates in Fiscal Year 2020-21. See “Table 6—CITY OF MODESTO Required and Projected Future Employer Contribution Miscellaneous Plan Fiscal Years 2020-21 through 2025-26” below. The City has taken into account future increases in the CalPERS contribution rates in its forecasts of salary and benefit projections shown in the table under the heading, “WASTEWATER SYSTEM FINANCES—Projected Debt Service Coverage.”

Effective for the Fiscal Year ended June 30, 2015, the City adopted Governmental Accounting Standards Board (“GASB”) Statement No. 68, affecting the reporting of pension liabilities for accounting purposes. Under GASB Statement No. 68, the City is required to report the Net Pension Liability (i.e., the difference between the Total Pension Liability and the Pension Plan’s Net Position or market value of assets) in its financial statements.

In accordance with applicable State law, the contribution rate for all public employers is determined annually by the actuary and is effective on the July 1 following notice of a change in rate. Funding contribution amounts are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate applied to annual payroll is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the actuarially determined amounts, net of contributions by employees, necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. The cost of the Miscellaneous Plan is funded through bi-weekly contributions from employees and from employer contributions by the City.

The employer contribution rates are established, and may be amended, by CalPERS. Set forth below is a table showing the City’s required employer and employee contribution rates for the Miscellaneous Plan (as a percentage of annual covered payroll) for the four Fiscal Years ended June 30, 2020. The City does not pick up any payments on behalf of its employees.

**TABLE 4**  
**CITY OF MODESTO**  
**Historical Employer and Employee Contribution Rates**  
**Fiscal Years 2016-17 through 2019-20**

<i>Fiscal Year</i>	<i>Employee Contribution Rate as Percentage of Annual Covered Payroll</i>	<i>Employer Contribution Rate as Percentage of Annual Covered Payroll</i>
2016-17	6.933%	7.406%
2017-18	6.846%	7.079%
2018-19	6.802%	7.43%
2019-20	6.755%	7.922%

*Source: CalPERS, Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2019.*

The Enterprise is allocated its portion of the City’s required contribution for the Miscellaneous Plan. This allocation is based on eligible employee wages. Set forth below is a table showing the City’s required contributions to its CalPERS Miscellaneous Plan for the four Fiscal Years ended June 30, 2017 through 2020 and the amount in each year allocated to the Enterprise:

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**TABLE 5  
CITY OF MODESTO  
WASTEWATER SYSTEM  
Historical Employer and Employee Contribution Rates  
for the City and Enterprise Allocation  
Fiscal Years 2016-17 through 2019-20**

<i>Fiscal Year</i>	<i>City Required Contribution</i>	<i>Amount Allocated to the Enterprise</i>
2016-17	\$7,623,800	\$1,313,072
2017-18	8,640,500	1,652,652
2018-19	10,238,250	1,715,695
2019-20	12,154,118	2,014,420

Sources: CalPERS, *Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2019*; City of Modesto Finance Department.

The City has made all actuarially required payments to CalPERS for its Pension Plans on a timely basis.

CalPERS provided the City with the following projected contributions from Fiscal Year ended June 30, 2021 through June 30, 2026:

**TABLE 6  
CITY OF MODESTO  
Required and Projected Future Employer Contributions  
Miscellaneous Plan  
Fiscal Years 2020-21 through 2025-26**

<i>Fiscal Year</i>	<i>Total Contributions<sup>(1)</sup></i>	<i>Allocated to Enterprise</i>
2020-21	\$13,621,872	\$2,372,930
2021-22	15,021,047	2,616,666
2022-23	16,171,786	2,817,125
2023-24	16,908,027	2,945,378
2024-25	17,732,439	3,088,991
2025-26	18,220,081	3,173,938

<sup>(1)</sup> Total contribution consists of the normal cost plus the UAL payment. Figures are for the City as a whole for its Miscellaneous Plan only.

Source: CalPERS, *Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2019*.

Approximately 17.42% of these contributions are expected to be allocable to the Wastewater Enterprise as indicated in the table above and these amounts are included in the line item “Total Operating Expenditures, Net of Depreciation” shown in the projected debt service coverage table. See “Projected Debt Service Coverage” below.

Future increases in required CalPERS contributions will impact the City’s reserve levels and require future action to either reduce expenses through service reductions or increase revenues through tax or service rate increases. The City’s ability to increase taxes is subject to Constitutional limitations. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Proposition 218—Article XIIC and —Article XIID.” The City cannot provide any assurances that the City’s required contributions to CalPERS in future years will not significantly increase (or otherwise vary) from any past or current projected levels of contributions. As noted above, as of June 30, 2019, the unfunded liability of the City’s Miscellaneous Plan was

\$137,459,768. Stock markets in the U.S. and globally saw significant declines attributed to COVID-19 concerns and given the continuing uncertainty regarding the length and scope of the pandemic, similar future declines are possible which could result in a significant increase in the City’s unfunded pension liability and future pension costs.

**Retiree Health Benefits.** In addition to the defined benefit pension plan described above, the City also maintains its own program providing “other post-employment benefits” (“OPEB”) to eligible retirees, including health care and disability coverage and death benefits. All full-time employees hired before January 1, 2011, except firefighters who receive a cash payout, are eligible to convert accumulated grandfathered sick leave upon retirement to a Retirement Health Savings account. Such converted amounts are included in the total OPEB liability below. All employees hired on or after January 1, 2011 will not be eligible to participate in the sick leave conversion. Any sick leave accumulated after January 1, 2011 cannot be converted to a Retirement Health Savings account and has no cash value at retirement.

The City has no obligation to pay the health insurance allowance for new retirees. At June 30, 2019, 312 retirees or surviving spouses met the various eligibility requirements and were receiving medical benefits or contributions to their Retirement Health Savings account; 137 retirees are receiving dental benefits. Based on eligibility status, these retirees or surviving spouses may participate in any health plan made available to active City employees. The City has several plans with different contribution levels and benefit provisions. City contributions vary up to 100% of annual premium cost, depending on the employee’s Medicare eligibility, year of hire, year of retirement, age and employee group.

The City’s contributions toward the cost of its OPEB program are generally funded on a pay-as-you-go basis. The City’s OPEB liability for the Fiscal Years ended June 30 of 2018 and 2019 are set forth below:

**TABLE 7**  
**CITY OF MODESTO**  
**Schedule of Changes in the OPEB Liability and Related Ratios**  
**Fiscal Years 2017-18 through 2018-2019**

<i>Measurement Period</i>	<b>FY 2017-2018</b>	<b>FY 2018-2019</b>
	June 30, 2017	June 30, 2018
<b>Total OPEB liability</b>		
Service cost	\$ 935,427	\$ 963,490
Interest	892,669	1,038,035
Differences between expected and actual experience	-	(468,009)
Changes of assumptions	(1,600,635)	(1,306,633)
Benefit payments	(2,430,468)	(2,733,246)
Net change in total OPEB liability	(2,203,007)	(2,506,363)
Total OPEB liability - beginning	31,601,528	29,398,521
Total OPEB liability - ending (a)	<u>\$ 29,398,521</u>	<u>\$ 26,892,158</u>
Covered-employee payroll	\$ 55,637,076	\$ 49,647,245
Total OPEB liability as a Percentage of Covered-Employee Payroll	52.84%	54.17%

*Source: Bartel Actuarial Study of the City of Modesto, as of June 30, 2019.*

The following table provides a schedule of contributions for the City's OPEB liability that is based on the most recent actuarial valuation as of January 1, 2019.

**TABLE 8**  
**CITY OF MODESTO**  
**Schedule of OPEB Contributions**  
**Fiscal Year 2016-2017 through 2019-2020**

Fiscal Year	2016-2017	2017-2018	2018-2019	2019-2020
Actuarially Determined Contribution (ADC)	\$ 2,527,076	\$ 2,430,468	\$ 2,733,246	\$ 2,377,048
Contributions in Relation to the ADC	(2,527,076)	(2,430,468)	(2,733,246)	(2,377,048)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered-Employee Payroll	\$ 49,552,706	\$ 55,637,076	\$ 57,903,435	\$ 49,647,245
Contributions as a Percentage of Covered-Employee Payroll	5.10%	4.37%	4.72%	4.79%

*Source: City of Modesto, Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2019.*

Beginning in the Fiscal Year ended June 30, 2018, the City adopted Governmental Accounting Standards Board ("GASB") Statement No. 75, affecting the reporting of OPEB liabilities for accounting purposes. GASB No. 75 requires the OPEB liability of the City to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

Additional information regarding the City's retirement plans and OPEB, including information regarding the assumptions used to determine the pension and OPEB liabilities and the funding requirements therefor, can be found in Notes III(F) and III(G) and the Required Supplementary Information to the City's audited financial statements included in the City's comprehensive annual financial report for the Fiscal Year ended June 30, 2019, attached hereto as Appendix B.

The Enterprise is allocated its portion of the City's required contribution for OPEB. This allocation is based on eligible employee wages. Set forth below is a table showing the City's required and actual contributions to its OPEB Plan for the three Fiscal Years ended June 30, 2017 through 2019. Approximately 7.74% of the actual contributions in each year were allocated to the Enterprise.

**TABLE 9**  
**CITY OF MODESTO**  
**Other Post-Employment Benefits (OPEB)**  
**Historical Employer and Employee**  
**Contribution Rates for the City**  
**Fiscal Years 2016-17 through 2018-19**

<i>Fiscal Year</i>	<i>City Required Contribution</i>	<i>Actual Contribution</i>	<i>Actual Amount Allocated to the Enterprise</i>
2016-17	\$ 2,527,076	\$ 2,527,076	\$178,274
2017-18	2,430,468	2,430,468	201,281
2018-19	2,733,246	2,733,246	215,962

*Source: City of Modesto, Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2019*

The City projects the following OPEB contributions for calendar years 2020 through 2025:

**TABLE 10**  
**CITY OF MODESTO**  
**Projected Future Employer OPEB Contributions**  
**Calendar Years 2020 through 2025**

<i>Calendar Year</i>	<i>Total Contribution</i>	<i>Allocable to the Enterprise</i>
2020	\$2,806,762	\$217,243
2021	2,989,202	231,364
2022	3,183,500	246,403
2023	3,390,427	262,419
2024	3,610,805	279,476
2025	3,845,507	297,642

*Source: City of Modesto Department of Finance.*

Approximately 7.74% of these contributions are expected to be allocable to the Enterprise as noted in the table above and such amounts are included in “Total Operating Expenditures, Net of Depreciation” shown in the projected debt service coverage table. See “WASTEWATER SYSTEM FINANCES—Projected Debt Service Coverage” below.

Future increases in OPEB contributions will impact the City’s reserve levels and require future action to either reduce expenses through service reductions or increase revenues through tax or service rate increases. The City’s ability to increase taxes is subject to Constitutional limitations. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Proposition 218—*Article XIIC* and —*Article XIID*.” The City cannot provide any assurances that the City’s required contributions OPEB in future years will not significantly increase (or otherwise vary) from any past or current projected levels of contributions.

**Insurance**

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/occurrence as follows: workers’ compensation \$750,000; liability \$1,000,000. 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 risk pool. This pool covers City claims between \$1 million and \$5 million. Commercial insurance covers claims over \$5,000,000 in two excess layers of \$10,000,000 each and five additional layers of \$5,000,000 each for total coverage of \$50,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past five Fiscal Years.

The City currently maintains insurance against damage to the Enterprise. Coverage thereunder is covered by a commercial property insurance policy with a blanket limit of \$581,599,541 but damage resulting from earthquakes is not covered.

## Wastewater System Users

The Enterprise's customer base consists primarily of residential accounts although a portion of revenues comes from industrial customers. The breakdown of accounts by category and percentage of total operating revenues are as follows for Fiscal Year 2019-20:

**TABLE 11  
CITY OF MODESTO  
WASTEWATER SYSTEM  
Customer Base by Type of Account  
Fiscal Year 2019-20**

<i>Category</i>	<i>Number of Accounts</i>	<i>Percentage of Total Accounts</i>	<i>Percentage of Total Operating Revenues</i>
Residential	58,668	94.68%	45.56%
Commercial	3,250	5.24	9.61
Industrial	49	0.08	27.39
Total	61,967	100.00%	82.56%

Source: City of Modesto Finance Department.

The 10 largest users of the Enterprise accounted for approximately 22.10% of total service charge revenue in Fiscal Year 2019-20, nine of which are included in the industrial category in the prior table. The largest users, in terms of amounts billed to each during the past Fiscal Year, are listed below:

**TABLE 12  
CITY OF MODESTO  
WASTEWATER SYSTEM  
Ten Largest Users of Sewer Facilities  
As of June 30, 2020**

<i>Users</i>	<i>Sewer Fee Operating Revenue</i>	<i>% of Sewer Fee Operating Revenue</i>
1) E & J Gallo Winery	\$ 2,083,065	3.87%
2) Stanislaus Food Products	2,024,129	3.76
3) Foster Farms	1,800,976	3.35
4) City of Ceres	1,480,133	2.75
5) Del Monte Foods	1,312,819	2.44
6) Frito-Lay, Inc.	1,075,067	1.99
7) Nestle Food Company	673,661	1.25
8) Rizo Lopez Foods	617,532	1.14
9) Sunopta	489,225	0.91
10) Seven Up Bottling	348,433	0.64
Total (Top Ten Customers)	\$ 11,905,040	22.10%
Total (All Customers)	\$ 53,759,934	

Source: City of Modesto Finance Department.

The Del Puerto Water District makes payments to the Enterprise for recycled water in the amount of \$30 per acre foot. See "WASTEWATER SYSTEM—System Description—General" above. In addition, the Del Puerto Water District will pay or reimburse the City for: (1) all 2016 State Loan debt service, (2) one-half of the debt service cost savings resulting from the Proposition 1 grant and (3) costs to operate and maintain the recycled water delivery

facilities. In Fiscal Year 2019-20 these payments were \$2,570,000 and are expected to increase in Fiscal Year 2020-21 to approximately \$2,943,000 per year. The Del Puerto Water District revenues are included in the projections provided in the table under the heading, “WASTEWATER SYSTEM FINANCES—Projected Debt Service Coverage.”

### **PCE Litigation**

The City of Modesto Redevelopment Agency brought an action in 1998 against numerous defendants, alleging causes of action for strict liability, negligence, negligence per se, continuing trespass, private and public nuisance, private and public nuisance per se, response costs and declaratory relief under the Carpenter-Presley-Tanner Hazardous Substance Account Act (Health & Safety Code Section 25300 *et seq.*), ultrahazardous activity, and cost recovery under the Polanco Redevelopment Act (Health & Safety Code Section 33459 *et seq.*) (San Francisco County Superior Court Case No. 999345). Because the City had to provide certain related cleanup efforts, simultaneously with the filing of that action, the City, along with the City of Modesto Sewer District No. 1, brought another action against a nearly identical group of defendants seeking damages for solvent contamination under many of the same legal theories; but this action did not include a Polanco Redevelopment Act cause of action (San Francisco County Superior Court Case No. 999643). The defendants included chlorinated solvent manufacturers, distributors of solvents and dry cleaning equipment, chlorinated solvent equipment manufacturers, and dry cleaning retailers.

The complaints alleged that two cleaning solvents, perchloroethylene (“PERC” or “PCE”) and trichloroethylene, cause risks to health and the environment, that dry cleaners customarily dumped solvent wastewater into the public sewer systems, and that dry cleaners experienced a habitual problem of chlorinated solvents leaking into the environment. According to the complaints, the defendants who manufactured and supplied solvents and equipment instructed dry cleaners that chlorinated solvents could be discharged into sewers and/or failed to issue recalls or warnings regarding the equipment and solvents.

The plaintiffs, including the City, tried five “bellwether” suits before a jury from February to June of 2006, and won a verdict for compensatory damages of \$3.1 million and a verdict for punitive damages of \$175 million, later lowered to \$12 million. The remainder of the case was then tried to a second jury and the Court. The second trial resulted in a jury verdict of \$18,320,000. This verdict was vacated by the trial court based upon the statute of limitations, and all parties appealed. The Court of Appeal issued an opinion reversing the trial court on several issues in early 2018 and remanded the case for further proceedings. The parties are now engaged in simultaneous trial preparation and settlement discussions. The litigation remains active, but previous settlements and insurance payments will continue to off-set the City’s costs of litigation for the foreseeable future. It is not anticipated that the cost/settlement ratio will change dramatically in the 15 months following the issuance of the Series 2020 Bonds, which is as far as the City believes reasonable forecasting may be done on the cost issue.

## **WASTEWATER SYSTEM FINANCES**

### **Rate Setting and Budget Process**

The City reviews its budgetary progress on a quarterly basis. In accordance with California law, the City Council may, from time to time and at its discretion, fix, alter, change, amend or revise any user fees, connection charges and all other fees related to the Enterprise. Proposition 218, passed by the California electorate in 1996 potentially affects the City’s ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition under Proposition 218. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Proposition 218—*Article XIIC* and —*Article XIID*.”

### **Proposition 218 Process**

In November 1996, citizens of the State of California passed a Constitutional amendment known as Proposition 218. This amendment changed the process for increasing property-related fees within the state. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Proposition 218—*Article XIIC* and —*Article XIID*” herein. For the City, sewer rates are treated as a

property-related fee and, pursuant to Proposition 218, require a protest hearing by the property owners prior to instituting a rate increase. Under the protest hearing process, property owners within the service area are mailed a rate increase notice and protest form detailing the proposed rate increase. To oppose the rate increase, the property owner must return the protest form to the City. To support the rate increase, there is no action required on the part of the property owner. If a significant number of protests are returned to the City no later than the end of the protest hearing, the City may not approve the proposed rate increase. If the protest fails with 50% or less, then the City can approve a rate increase not to exceed the rate increase detailed in the protest form. The rate increases for the services of the Enterprise which took effect on January 1, 2020 remain in place until the next rate increase goes into effect. On September 22, 2020, the City Council approved a rate increase of 4.01% for Fiscal Year 2020-21 which is effective January 1, 2021. These rate increases were all approved following the procedures required by Proposition 218. The City expects to undertake its next rate review process in the next year covering wastewater rates for Fiscal Year 2021-22 through 2026-27.

**Rates**

The Enterprise collects its sewer service charges on the City’s monthly utility bill, which includes water, sewer, storm drain and garbage. If charges are not paid, the City begins the process of initiating a lien on the user’s property and may discontinue sewer service to the user. Historically, less than 1% of billed amounts for sewer service charges has been written off as bad debt. In March 2020, the Enterprise instituted a program which allowed small businesses in the City to defer their utility payments for up to 90 days. This program expired on July 31, 2020 and did not have a significant impact on payments to the Enterprise. However, receivable delinquencies have increased from approximately 0.5% of Net Revenues to approximately 0.8% of Net Revenues since the beginning of the COVID-19 pandemic. See “INTRODUCTION—COVID-19 Pandemic.”

For the average single-family residence, the current monthly sewer charge is \$40.17 as of July 1, 2020. A schedule of commercial sewer rates is set forth below as of July 1, 2020:

**TABLE 13  
CITY OF MODESTO  
Schedule of Commercial Sewer Rates**

<i>Commercial Group</i>	<i>Monthly Account Charge</i>	<i>Additional Charge Per 100 cubic feet (ccf) of Waste</i>
Group 1 <sup>(1)</sup>	\$4.50	\$3.55
Group 2 <sup>(2)</sup>	4.50	4.70
Group 3 <sup>(3)</sup>	4.50	5.85
Group 4 <sup>(4)</sup>	4.50	7.23

(1) No food, just toilets or working facilities.

(2) Commercial laundromats, service stations, hotels without food.

(3) Industrial laundromats, hotels with food.

(4) Restaurants, bakeries, auto steam, markets.

Source: *City of Modesto.*

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A schedule of industrial sewer rates is set forth below as of July 1, 2020:

**TABLE 14**  
**CITY OF MODESTO**  
**Schedule of Industrial Sewer Rates**

Flow Per Million Gallons	\$3,212
Excess Biochemical Oxygen Demand (BOD) Per 1,000 Pounds	238
Excess Suspended Solids (SS) Per 1000 Pounds	471

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*Source: City of Modesto.*

Residential, commercial and industrial rates have increased during the past five years. Below are the residential rate increases for the last five years, as well as approved increases through 2020-21. As part of its annual budget process, the City may lower rates if its excess revenues allow the City to maintain its covenants and compliance with its coverage and reserve policies while imposing such lower rates. Currently, the City does not anticipate rates to be lowered as part of the next budget process.

**TABLE 15**  
**CITY OF MODESTO**  
**Schedule of Residential Sewer Rate Increases**

<i>Fiscal Year</i>	<i>Residential Rate Percent Increase</i>
2014-15	1.97%
2015-16	2.96
2016-17	5.76
2017-18	5.98
2018-19	5.78
2019-20	6.12
2020-21	4.01

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*Source: City of Modesto.*

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**Comparative Monthly Wastewater Service Charges.** The City’s residential charges as of July 1, 2020 are set forth in the table below with a comparison to other Central Valley cities.

**TABLE 16  
CITY OF MODESTO  
WASTEWATER SYSTEM  
Monthly Sewer Charge Comparison  
Residential Service  
As of July 1, 2020**

<u>City</u>	<u>Monthly Residential Charge</u>
Tracy	34.00
<b>Modesto</b>	<b>40.17</b>
Waterford	44.01
Turlock	44.16
Stockton	46.75

*Source: City of Modesto.*

**Connection Fees.** The Enterprise imposes connection fees on a one-time basis to new users of the sewer system and to users that significantly expand their usage. The fees have three components:

- Connection charge: \$2,643 per Equivalent Dwelling Unit for residential. Commercial and industrial property are charged based on type of business.
- Sub-trunk sewer charge: Approximately \$645/acre
- Connection (lateral) charge: \$33 per linear foot of lot frontage adjacent to the sewer line

Connection fees are treated as contributed capital and are used only for capital projects, not for operations.

The most recent cost of service study and a connection fee study made recommendations for new rate structures for the next five years to fund the capital improvement program. Such new rate structures were adopted in April 2016.

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**Comparative Connection Fees.** The current Connection Fees and a comparison of the City’s Connection Fees to those of other Central Valley and Northern California cities are set forth in the table below.

**TABLE 17  
CITY OF MODESTO  
WASTEWATER SYSTEM  
Wastewater Connection Fees Comparison  
As of July 1, 2019**

<i>City</i>	<i>Connection Fee</i>
Fresno <sup>(1)</sup>	\$2,241
Stockton	2,264
<b>Modesto</b>	<b>2,643</b>
Turlock	2,820
Lodi <sup>(2)</sup>	3,071
Tracy	6,727

<sup>(1)</sup> Connection fees are based on the size of the lot & location.

<sup>(2)</sup> Connection fees are based on the size of the water meter.

Source: City of Modesto.

### Financial Information

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into seven generic funds within three broad fund types, and a fourth category of accounting entities, the account groups, as follows:

Governmental Funds	General Fund Special Revenue Funds Capital Project Funds
Proprietary Funds	Debt Service Funds Enterprise Funds Internal Service Funds
Fiduciary Funds	Private Purpose Trust Fund Agency Funds

Enterprise funds are used to account for operations that are financed in a manner similar to private business enterprises in that the costs of providing goods and services to the general public on a continuing basis are financed or recovered primarily through user charges. The City accounts for the operations of the sewer, storm drain, and water systems, airport, golf, community center, parking, compost, and bus service systems on this basis. Enterprise funds are accounted for using the accrual basis of accounting. Unbilled utility services receivables are recorded at year-end. Property and equipment owned by enterprise funds are stated at historical cost where available and at estimated cost when original cost is not available. Depreciation is charged to operations using the straight-line method over the estimated useful lives of the assets, which are 30 years for buildings, 20 years for improvements, 10 years for furnishings and equipment and 75 years for pipelines.

See Appendix B – “CITY OF MODESTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FY 2018-19” for the City’s comprehensive annual financial report. The financial information in Appendix B does not account for the potential effects of COVID-19. For further information concerning the potential effects of COVID-19 on the City and the Enterprise, see “INTRODUCTION—COVID-19 Pandemic” above.

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## Historical Debt Service Coverage

The following table shows debt service coverage for the Sewer Enterprise Fund for the Fiscal Years ended June 30, 2015 through June 30, 2019.

**TABLE 18**  
**CITY OF MODESTO SEWER ENTERPRISE**  
**HISTORICAL DEBT SERVICE COVERAGE**  
**Fiscal Years Ended June 30, 2015 through June 30, 2019**  
**(In Thousands of Dollars)**

Fiscal Year Ending June 30	2015	2016	2017	2018	2019
<b>GROSS REVENUES:</b>					
<b>Operating Revenue</b>					
Service Charges	\$43,408,271	\$44,796,050	\$46,042,925	\$47,778,973	\$54,172,626
Del Puerto Water District (Debt Service)	--	--	--	\$640,592	\$1,010,549
Del Puerto Water District (DS Cost Savings)	--	--	--	\$104,303	\$64,189
Del Puerto Water District (O&M)	--	--	--	\$261,891	\$423,010
Del Puerto Water District (DPWD Water Sales)	--	--	--	\$74,371	\$322,983
Interest Income	453,271	579,520	609,224	549,645	1,192,458
Rental Income	501,959	502,627	503,969	504,678	505,407
Miscellaneous Income	301,693	-22,108	860,880	269,454	188,121
Change in Fair Market Value	-202,624	22,108	-491,415	-449,054	1,199,336
Direct Charges/Cost Distribution	1,210,854	1,226,515	1,804,338	2,859,497	1,872,224
Transfers from Other Funds	165,919	173,058	165,919	462,734	573,513
Developmental Fees <sup>(1)</sup>	1,014,026	1,686,652	1,425,098	1,473,011	1,141,200
<b>GROSS REVENUES</b>	<b>\$46,853,368</b>	<b>\$48,964,422</b>	<b>\$50,920,938</b>	<b>\$54,530,096</b>	<b>\$62,665,616</b>
<b>OPERATING EXPENSES:</b>					
Operating Expenditures, Net of Depreciation	\$20,383,489	\$24,115,325	\$24,402,900	\$25,678,429	\$25,726,745
Allocated Indirect Administration Costs	615,916	665,616	642,202	848,937	853,289
Property Taxes <sup>(2)</sup>	138,980	142,526	136,993	83,956	141,587
Recycled Water	--	--	--	377,800	615,822
Other Uses (Transfers Out)	68,640	68,640	68,640	280,669	629,879
<b>TOTAL OPERATING EXPENSES<sup>(3)</sup></b>	<b>\$21,207,025</b>	<b>\$24,992,107</b>	<b>\$25,250,735</b>	<b>\$27,269,791</b>	<b>\$27,967,322</b>
<b>NET OPERATING REVENUES</b>	<b>\$25,646,343</b>	<b>\$23,972,315</b>	<b>\$25,670,203</b>	<b>\$27,260,305</b>	<b>\$34,698,294</b>
<b>DEBT SERVICE<sup>(4)</sup>:</b>					
Series 2005 Bonds <sup>(5)</sup>	\$3,539,469	\$3,721,135	\$0	\$0	\$0
Series 2006A Bonds <sup>(5)</sup>	729,721	849,151	629,476	508,881	1,250
2011 State Loan <sup>(6)</sup>	0	0	7,894,560	10,025,183	7,512,697
Series 2015 Bond	0	0	2,787,062	2,774,024	2,776,495
2016 State Loan <sup>(7)</sup>	0	0	1,500	1,000	1,105,895
Series 2018A Refunding Bonds	0	0	0	338,695	562,070
<b>TOTAL DEBT SERVICE</b>	<b>\$4,269,190</b>	<b>\$4,570,286</b>	<b>\$11,312,598</b>	<b>\$13,647,783</b>	<b>\$11,958,407</b>
<b>NET REVENUES AFTER DEBT SERVICES</b>	<b>\$21,377,153</b>	<b>\$19,402,029</b>	<b>\$14,357,605</b>	<b>\$13,612,522</b>	<b>\$22,739,887</b>
<b>DEBT SERVICE COVERAGE<sup>(8)</sup></b> (Net Operating Revenues/ Total Debt Service)	<b>6.01</b>	<b>5.25</b>	<b>2.27</b>	<b>2.00</b>	<b>2.90</b>
Capital Projects Funded by Wastewater	\$16,768,852	\$21,094,814	\$14,013,897	\$11,141,420	\$17,152,642
Fund Balance	\$78,109,157	\$76,416,372	\$76,760,080	\$79,231,182	\$84,818,428

(1) Developmental fees are connection charges. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS—Additional Bonds and Parity Debt" for a discussion of how connection charges are treated for additional bonds purposes.

(2) Property taxes paid for property outside of City limits.

(3) Increase of approximately 17.8% from Fiscal Year ended June 30, 2015 to Fiscal Year ended June 30, 2016 largely driven by the 12.6 mgd Phase 2 BNR/Tertiary Treatment Facilities completed in 2015. See "WASTEWATER SYSTEM—System Description—General."

(4) See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS—Outstanding Parity Debt."

(5) Refunded. The Series 2005 Bonds were refunded on November 1, 2015. The Series 2006A Bonds were refunded on April 20, 2018. Debt service in Fiscal Year 2018-19 on the Series 2006A Bonds is for arbitrage rebate costs.

(6) To be refunded by the Series 2020 Bonds.

(7) Debt service commenced in Fiscal Year 2018-19 after draw down period was complete.

(8) Decline in debt service coverage for Fiscal Year ended June 30, 2017 reflects first payment of 2011 State Loan, which funded the Phase 2 BNR/Tertiary Treatment Facilities. Results differ in minor respects from the summary table in the City's CAFR. See Appendix B – "CITY OF MODESTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FY 2018-19."

Source: City of Modesto Finance Department.

### **Projected Debt Service Coverage**

The following table sets forth projected operating revenues, Operating Expenses and debt service coverage for the Sewer Enterprise Fund for the Fiscal Years ending June 30, 2020 through June 30, 2024. The projections of amounts, and timing for receipts and disbursements in the table, are updated for growth assumptions and assume projected rate increases (See “WASTEWATER SYSTEM FINANCES—Rates”). The impact of COVID-19 on projected income and expenses for the Enterprise are currently not significant and have been incorporated below. However, the long-term impact is still uncertain. See “RISK FACTORS—COVID-19 Related Matters” below. The following table also assumes no optional or special mandatory redemption of the Series 2020 Bonds or prepayment of the Existing Parity Debt. *The following projections are based on the City’s current circumstances and currently available information and are believed to be reasonable. The projections may be affected by various factors and there can be no assurance that they will be achieved and any variation from projected operating results may be material.*

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**TABLE 19**  
**CITY OF MODESTO WASTEWATER ENTERPRISE**  
**PROJECTED DEBT SERVICE COVERAGE\***  
**Fiscal Years Ending June 30, 2020 through June 30, 2024**  
**(In Thousands of Dollars)**

Fiscal Year Ending June 30	2020 <sup>(1)</sup>	2021	2022 <sup>(2)</sup>	2023 <sup>(2)</sup>	2024 <sup>(2)</sup>
Prop 218 Rate Increase	6%	4%	NA	NA	NA
Rate Increase Effective Date	1/1/2020	1/1/2021	NA	NA	NA
<b>GROSS REVENUES:</b>					
<b>Operating Revenue</b>					
Service Charges	\$53,583,406	\$55,190,908 <sup>(3)</sup>	\$56,798,410 <sup>(4)</sup>	\$56,798,410 <sup>(4)</sup>	\$56,798,410 <sup>(4)</sup>
Del Puerto Water District (Debt Service)	1,148,553	1,154,276	1,152,162	1,152,162	1,152,162
Del Puerto Water District (DS Cost Savings)	85,000	85,000	85,000	85,000	85,000
Del Puerto Water District (O&M)	841,339	1,208,605	1,234,277	1,260,463	1,287,172
Del Puerto Water District (DPWD Water Sales)	495,000	495,000	495,000	495,000	495,000
Interest Income	330,000	516,315	329,583	370,101	343,966
Rental Income	522,744	504,744	504,744	504,744	504,744
Direct Charges/Cost Distribution	2,373,255	2,664,871	2,718,168	2,772,532	2,827,982
Transfers from Other Funds	521,355	521,355	521,355	521,355	521,355
Developmental Fees <sup>(5)</sup>	565,500	565,500	565,500	565,500	565,500
<b>GROSS OPERATING REVENUES</b>	<b>\$60,466,152</b>	<b>\$62,906,574</b>	<b>\$64,404,200</b>	<b>\$64,525,267</b>	<b>\$64,581,291</b>
<b>OPERATING EXPENSES</b>					
Total Operating Expenditures, Net of Depreciation	\$33,011,678	\$33,208,882	\$33,872,804	\$34,550,260	\$35,241,265
Property Taxes <sup>(6)</sup>	153,400	156,468	159,597	162,789	166,045
Recycled Water	826,669	1,283,605	1,309,277	1,335,463	1,362,172
Other Uses (Transfers Out) <sup>(7)</sup>	1,092,542	68,640	68,640	68,640	68,640
<b>TOTAL OPERATING EXPENSES</b>	<b>\$35,084,289</b>	<b>\$34,717,595</b>	<b>\$35,410,319</b>	<b>\$36,117,152</b>	<b>\$36,838,122</b>
<b>NET OPERATING REVENUES</b>	<b>\$25,381,863</b>	<b>\$28,188,980</b>	<b>\$28,993,881</b>	<b>\$28,408,114</b>	<b>\$27,743,169</b>
<b>DEBT SERVICE<sup>(8)</sup></b>					
2011 State Loan <sup>(9)</sup>	\$8,819,955	\$7,212,834	\$0	\$0	\$0
Series 2015 Bond	2,782,658	2,776,631	2,784,602	2,784,358	909,130
2016 State Loan	1,153,663	1,154,276	1,152,162	1,152,162	1,152,162
Series 2018A Bonds	561,530	563,513	555,400	555,400	555,400
Series 2020 Bonds <sup>(*)</sup>	--	1,032,730	7,905,755	7,902,860	7,903,568
Future Indebtedness	--	--	--	2,180,100	2,187,800
<b>TOTAL DEBT SERVICE</b>	<b>\$13,317,806</b>	<b>\$12,739,984</b>	<b>\$12,397,918</b>	<b>\$14,574,879</b>	<b>\$12,708,059</b>
<b>NET REVENUES AFTER DEBT SERVICE</b>	<b>\$12,064,057</b>	<b>\$15,448,995</b>	<b>\$16,595,963</b>	<b>\$13,833,235</b>	<b>\$15,035,110</b>
<b>DEBT SERVICE COVERAGE</b> (Net Operating Revenues/ Total Debt Service)	1.91	2.21	2.34	1.95	2.18
Fund Balance Applied to Fund Capital Projects	\$29,555,761	\$41,526,818	\$9,329,433	\$15,875,571	\$32,149,183
Projected Ending Fund Balance	\$67,326,724	\$41,248,901	\$48,515,431	\$46,473,095	\$29,359,022
Minimum Reserve Required by City Policy <sup>(10)</sup>	\$18,744,690	\$17,046,508	\$10,004,741	\$10,181,450	\$10,361,692

(1) Estimated, based on unaudited results.

(2) The Proposition 218 process will be completed before the City Council approves any increase for these years.

(3) Reflects rate increase as of January 1, 2021.

(4) Reflects full year of January 1, 2021 rate increase.

(5) Developmental fees are connection charges. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS—Additional Bonds and Parity Debt" for a discussion of how connection charges are treated for additional bonds purposes.

(6) Property taxes paid for property outside of City limits, including north Ceres and the former Empire Sanitation District.

(7) Includes a one-time transfer of \$1 million to the City's water fund for the non-capital, phase 1, of the SCADA Master Plan..

(8) See "SECURITY AND SOURCES OF PAYMENT OF THE SERIES 2020 BONDS—Outstanding Parity Debt."

(9) To be refunded by the Series 2020 Bonds.

(10) Per City Policy, the City maintains a minimum reserve of 25% of Operating Expense plus one year of annual debt service on the 2016 State Loan and one year of annual debt service on the 2011 State Loan. Beginning in Fiscal Year 2021-22 the minimum reserve will no longer include one year of annual debt service on the 2011 State Loan.

Source: City of Modesto Finance Department.

\* Preliminary, subject to change

## **RISK FACTORS**

The following section describes certain risk factors affecting the payment of and security for the Series 2020 Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Series 2020 Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating the Series 2020 Bonds. There can be no assurance that other risk factors will not become material in the future.

### **General**

The payment of principal of and interest on the Series 2020 Bonds is secured solely by a pledge of the Net Revenues and certain funds under the Indenture. The realization of the Net Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide wastewater services to its users, and the ability of the City to establish and maintain wastewater fees and charges sufficient to provide the required debt service coverage as well as pay for Operating Expenses.

Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net Revenues realized by the City. See “System Demand” below.

### **Earthquakes, Floods and Other Natural Disasters**

Earthquakes, floods or other natural disasters could interrupt operation of the Enterprise and cause increased costs and thereby interrupt the ability of the City to realize Net Revenues. The City is not obligated under the Indenture to have earthquake or flood insurance. According to the California Geological Survey website, the City is not one of the 100 incorporated cities within California on an Earthquake Fault Zone. The primary treatment plant site that was impacted by the 1997 Tuolumne River flooding was upgraded in Fiscal Year 1998-99 with a new Headworks and Cannery Segregation Project. This project mitigated the critical functions of the facility and the impact on those critical process and functional units at the facility from a hundred year flood event. Both the City’s treatment facilities were affected by both the Tuolumne and San Joaquin Rivers flooding in 2016. A collapsed River Sewer Trunk line increased the hydraulic flows and overloaded the treatment facilities. The River Trunk Realignment project, currently completing design, will mitigate this issue in the future. The City maintains flood insurance for areas surrounding the Tuolumne River. See “WASTEWATER SYSTEM—System Description” and “—Master Plan Update, Capital Improvement Plan and Future Capital Needs” for further information regarding planned updates to the facilities of the Enterprise to mitigate flood risk.

The 2016 Wastewater Master Plan did include a Flood Risk Analysis for the Sutter and Jennings Plants. The analysis concluded that the Sutter Plant is vulnerable to flooding from the adjacent Tuolumne River, but that providing flood protection at the Sutter Plant would not be feasible. Additionally, the analysis concluded that the levee protecting the Jennings Plant is an uncertified federal levee which would require flood control improvements as a separate program with the State and Federal agencies.

Natural disasters could also adversely affect the service area of the Enterprise, leading to reduced demand for wastewater service.

### **System Demand/Concentrated Customers**

There can be no assurance that the demand for wastewater services will occur as described in this Official Statement. Reduction in levels of demand could require an increase in rates or charges in order to comply with the covenants to fix rates and charges so as to produce Net Revenues equal to 125% of Debt Service. Moreover, although industrial users account for only 49 of the over 61,000 accounts utilizing the Enterprise as of January 2019, they are responsible for approximately 27% of the sewer fee operating revenues of the Enterprise; and the overwhelming majority of the industrial users are associated with the food or beverage industries. Nine of the ten largest customers of the Enterprise in Fiscal Year 2019-20 are in this category and accounted for 22.1% of sewer fee operating revenue

as of June 30, 2020 See “WASTEWATER SYSTEM—Wastewater System Users.” Thus, any changes in these industries and/or the particular customers who utilize the services of the Enterprise which would reduce their wastewater discharge could adversely affect the revenues of the Enterprise.

The City allocates capacity in the Enterprise to major industrial users through the issuance of Wastewater Discharge Permits. Pursuant to Section 5-6.403 of the City’s Municipal Code, whenever the annual flow from a major industrial user for a calendar year falls below 80% of the capacity allocation shown in the applicable Wastewater Discharge Permit, the major industrial user must pay a minimum sewer service charge for such calendar year based on 80% of such capacity allocation. This requirement is intended to assure that the City will receive at least 80% of the sewer service charges based on the capacity allocated to major industrial users. However, it may limit the ability of the City to reallocate unused allocated capacity in order to maximize the potential sewer fee revenue of the Enterprise.

### **COVID-19 Related Matters**

The outbreak of COVID-19, a respiratory disease which was first reported in China in late 2019, has since spread to other countries, including the United States, and is considered a pandemic by the World Health Organization. The United States State Department and the Center for Disease Control and Prevention (“CDC”), as well as other governmental authorities, have issued restrictions and warnings for the United States and a number of countries in Asia, Europe, South American and Africa, and similar restrictions and warnings may be extended to other countries in the future. The outbreak has had an adverse effect on, among other things, the world economy, global supply chain, international travel and a number of travel-related industries. The outbreak has also negatively affected travel, commerce, asset values and financial markets globally, and is widely expected to continue to negatively affect economic output worldwide and within the State and the County. Unemployment in the United States has dramatically increased as a result of the outbreak. Federal and state governments (including California) have enacted legislation and have taken executive actions designed to mitigate the negative public health and economic impacts of the outbreak.

In response to the COVID-19 outbreak, the Enterprise is proactively implementing measures intended to mitigate operational and financial impacts, including: daily wellness screenings for all employees prior to their shift; mandating use of masks for all staff, including use of other personal protection equipment for field staff; mandating all staff to follow Centers for Disease Control and Prevention social distancing and hygiene guidelines; deferring non-essential discretionary operations and maintenance activities; limiting approvals of contracts and task orders to those that are essential to key capital projects and critical tasks; limiting overtime to those activities that are necessary for safety, critical operations, or emergency management and encouraging voluntary work from home schedules for certain employees. The City has also established a Utilities Department COVID-19 Emergency Operations Plan to address potential staffing shortages and operational impacts, including for the Enterprise.

The City does not presently anticipate a material impact to the operations or financial position of the Enterprise as a result of COVID-19, in part because revenues have remained steady and there is no presently expected material increase in expenses or operational challenges. Nonetheless, the City cannot predict (i) the severity, duration or extent of the COVID-19 outbreak; (ii) the duration or expansion of governmental restrictions imposed by governmental entities other than the City that affect the City; (iii) what effect any such COVID-19 related restrictions or warnings may have on the finances or operations of the City or the Enterprise; (iv) the extent to which the COVID-19 outbreak may result in changes in demand for the services or products of the Enterprise or the ability of the Enterprise’s customers to pay for such services or products; or (v) whether or to what extent the City may provide deferrals, forbearances, adjustment or other changes to the Enterprise’s arrangements with its customers in the future but any of the foregoing factors alone or in combination with others could result in material adverse impacts to the finances or operations of the City and the Enterprise.

### **System Expenses**

There can be no assurance that the City’s expenses will be consistent with the descriptions in this Official Statement. Increases in expenses could require a significant increase in rates or charges in order to pay for City wastewater projects and comply with the rate covenant. The treatment needs are expected to be affected by growth and tightened regulatory requirements in the future. Preliminary cost estimates for capital improvements required to service build out in the City (currently expected in 2035) are in the range of \$505.3 million based on current build out

and permit requirements assumptions. These preliminary cost estimates were measured in June 1, 2017 dollars. See “WASTEWATER SYSTEM—Master Plan Update, Capital Improvement Plan and Future Capital Needs.”

### **Rate Process**

The passage of Proposition 218 by the California electorate potentially affects the City’s ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition under Proposition 218. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIC and XIID of the California Constitution.”

### **Permits and Regulation**

The wastewater operations of the City are subject to discharge permits from the State Water Resources Control Board. A number of these permits will be modified from time to time to show increased capacity. The major sewer permits are two centered on river discharge (the 2016 NPDES Permit and the 2017 NPDES Permit) and one on land discharge (the 1999 WDR Permit). See “WASTEWATER SYSTEM—Permitting Issues.”

The City-treated effluent discharge to the San Joaquin River is regulated by the State through the 2017 NPDES Permit. The renewal process includes specific “effluent limitations” that are typically maximum allowable discharge concentrations for certain constituents. Those constituents that require effluent limitations, and the process for determining the effluent limitation concentration are based on water quality objectives on the San Joaquin River, the implementation of these objectives using the State Implementation Plan (SIP), and observed concentrations in the wastewater treatment facility effluent and the San Joaquin River. The SIP also allows the City to perform additional water quality studies related to permit compliance and effluent limitations. These can be considered during the permit renewal process and can be critical to establishing accurate effluent limitations that are protective of the San Joaquin River and based on the best available science. Each permit-adopted effluent limitation violation is subject to a maximum mandatory penalty.

During the last several years, the City has successfully completed several water quality studies as part of the permitting process. The completed study list includes a copper translator study, a dilution/mixing zone study, a dissolved oxygen “far-field” modeling study, a dynamic regulatory compliance model study, and continued water quality monitoring using state-of-the-art analytical methods. To provide the best available science to the permit renewal process, the City intends to continue to collect data and perform water quality studies. The City will also increase effluent and San Joaquin River monitoring of key constituents that have been identified as ongoing and new permit issues.

In the event that the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state agencies, should impose stricter water quality standards upon the Enterprise, the City’s expenses could increase accordingly and rates and charges would have to be increased significantly to offset those expenses. It is not possible to predict the direction federal or state regulation will take with respect to water quality standards, although it is likely that, over time, both will impose more stringent standards with attendant higher costs. See “WASTEWATER SYSTEM—Permitting Issues.”

### **Limitations on Remedies and Bankruptcy**

The ability of the City to increase sewer services charges and to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest on the Series 2020 Bonds and Parity Debt may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIC and XIID of the California Constitution.” Furthermore, any remedies available to the owners of the Series 2020 Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the Series 2020 Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California. Various legal opinions to be delivered concurrently with the issuance of the Series 2020 Bonds will be so qualified. In addition, the opinion to be delivered by Norton Rose Fulbright US LLP, Bond Counsel, concurrently with the issuance of the Series 2020 Bonds, will also state that the enforceability of the Indenture is subject to the limitations on the imposition of fees and charges by the City relating to the Enterprise under Article XIII C and XIII D of the California Constitution. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto. In the event the City fails to comply with its covenants under the Indenture or to pay principal of or interest on the Series 2020 Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Series 2020 Bonds.

The enforcement of the remedies provided in the Indenture could prove both expensive and time consuming. In addition, the rights and remedies provided in the Indenture may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. If the City were to file a petition under Chapter 9 ("Chapter 9") of the Bankruptcy Code (Title 11, United States Code), the Series 2020 Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture. See "INTRODUCTION—COVID-19 Pandemic" above.

Chapter 9 provides certain protections for bonds secured by "special revenues." "Special revenues" includes "receipts derived from the ownership, operation, or disposition of projects or systems of the debtor that are primarily used or intended to be used primarily to provide transportation, utility, or other services, including the proceeds of borrowings to finance the projects or systems." "The City believes that the Net Revenues and other funds pledged under the Indenture constitute "special revenues" under Chapter 9. Section 928(a) of Chapter 9 provides that special revenues received by a municipal debtor after the commencement of a Chapter 9 case remain subject to any lien resulting from the pre-petition pledge provided under the Indenture. Further, Section 922 provides that the automatic stay imposed by Chapter 9 does not stay the application of special revenues to the payment of bonded indebtedness. However, a bankruptcy court may determine that the Net Revenues and other funds pledged under the Indenture are not special revenues, or that the bankruptcy court has no power to control the municipality's use of such special revenues during the pendency of the bankruptcy case.

In a recent bankruptcy court decision, entitled *Opinion and Order Granting Motion to Dismiss Plaintiffs' Complaint Pursuant to Fed. R. Civ. P. 12(B)(1) and (B)(6)*, and filed in U.S.D.C. (Puerto Rico) Case Nos. 17-00155 and 17-00156, respectively, involving instrumentalities of the Commonwealth of Puerto Rico, the bankruptcy court reiterated that the Bankruptcy Code could not be used to invalidate consensual prepetition liens on special revenues acquired by a debtor post-petition. However, the bankruptcy court held that the "special revenue" provisions of the Bankruptcy Code (made applicable to the Commonwealth by provisions of special legislation known as PROMESA) do not require the turnover of those special revenues to bondholders during the course of a bankruptcy proceeding. Rather, the court found that Section 922(d) of the Bankruptcy Code merely authorized the debtor to permit special revenues to be turned over to bondholders to keep itself in compliance with state law, but did not give bondholders the right to compel such payments. The court further found that bondholders were prohibited by the automatic stay from enforcing their liens against the special revenues. The decision has now been appealed to the U.S. Court of Appeals for the First Circuit.

In addition, Chapter 9 provides that any application of "special revenues" to the payment of the municipality's debt obligations is subject to prior use of such moneys for the payment of "necessary operating expenses" of the municipal enterprise. There can be no assurance that a bankruptcy court would not interpret the term "necessary operating expenses" to be more expansive than the meaning afforded "Operating Costs" under the Indenture, thus potentially reducing Net Revenues available to pay the Series 2020 Bonds.

In order to confirm a plan of adjustment in any bankruptcy proceeding of the City, it must still comply with the requirements of Section 943 of the Bankruptcy Code. This requires the City to demonstrate, among other things, that it is not prohibited by state law from taking any action necessary to carry out the proposed plan, including with respect to its use of special revenues. However, because Section 943 was not likewise amended by Congress when the "special revenues" provisions were enacted, it is possible that, without the consent and over the objection of the Trustee and

the Bondholders, the bankruptcy court may permit the alteration of the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources and uses, covenants (including tax-related covenants and call protection), and other terms or provisions of the Indenture as amended and the Series 2020 Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

### **Cybersecurity**

The Enterprise relies on a complex technology environment to conduct its operations. As a recipient and provider of personal, private, and sensitive information, the City and its departments and offices including the Enterprise face multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computers and other sensitive digital networks and systems. The City has implemented several preventive measures to protect against cybersecurity threats. These include, but are not limited to, firewalls, email filtering, web content filtering, anti-malware, endpoint protection, and maintaining current patch levels on operating systems, network equipment, and endpoint devices. To date, neither the City nor the Enterprise has experienced any cyberattacks that have resulted in major operational disruptions or financial consequences.

The City currently maintains insurance coverage with respect to certain information security and privacy liability claims which include the Enterprise.

### **Limited Obligations**

The Series 2020 Bonds are limited obligations of the City and are not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues of the Enterprise. The obligation of the City to make debt service payments on the Series 2020 Bonds does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

The City is obligated under the Indenture to make debt service payments on the Series 2020 Bonds solely from Net Revenues. There is no assurance that the City can succeed in operating the Enterprise such that the Net Revenues in the amounts projected in this Official Statement will be realized.

## **CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES**

### **Tax Limitations – Proposition 13**

Article XIII A of the State Constitution, known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIII A limits the maximum *ad valorem* tax on real property to 1% of “full cash value,” and provides that such tax shall be collected by the counties and apportioned according to State statutes. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest or redemption charges on (1) indebtedness approved by the voters prior to July 1, 1978, and (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition.

Section 2 of Article XIII A defines “full cash value” to mean the county assessor’s valuation of real property as shown on the Fiscal Year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. 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 taxing jurisdiction, or may be reduced in the event of declining property value 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. Such legislation further provides that each county will levy the maximum tax permitted by Article XIII A, which is \$1.00 per \$100 of assessed market value. The legislation further establishes the method for allocating the taxes collected by each county among the taxing agencies in the county.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

The effect of Article XIII A on the City’s finances 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 outstanding general obligation bonds and unissued bonds authorized prior to July 1, 1978. Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

### **Spending Limitations**

At the statewide special election of November 6, 1979, the voters approved an initiative entitled “Limitation of Government Appropriations” which added Article XIII B to the California Constitution. Under Article XIII B, State and local governmental entities have an annual “appropriations limit” which limits the ability to spend certain moneys which are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the “appropriations.”

### **Proposition 62**

A statutory initiative (“Proposition 62”) was adopted by the voters voting in the State at the November 4, 1986 General Election which (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency’s legislative body and by a majority of the electorate of the governmental entity, (2) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction, (3) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (4) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires that any tax imposed by a local governmental entity on or after March 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988.

### **Proposition 218**

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges.

**Article XIII D.** Article XIII D established procedural requirements for imposition of assessments, which are defined as any charge on real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements include the conducting of a public hearing and an election by mailed ballot, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. The City does not currently impose standby charges or assessments for its Wastewater System.

Article XIID conditions the imposition or increase of any “fee” or “charge” upon there being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIID defines “fee” or “charge” to mean levies (other than *ad valorem* or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a “property-related service.” One of the requirements of Article XIID is that before a property-related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and notice must be mailed to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

Article XIID provides that nothing in Proposition 218 shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The California Supreme Court decisions in *Richmond v. Shasta Community Services District*, 32 Cal. 4th 409 (2004) (“Richmond”), and *Bighorn Desert View Water Agency v. Verjil*, 39 Cal. 4th 206 (2006) (“Bighorn”) have clarified uncertainty surrounding the applicability of Section 6 of Article XIID to service fees and charges. In Richmond, the California Supreme Court upheld a Court of Appeal decision that water connection fees (which included a capacity charge for capital improvements to the water system and a fire suppression charge) imposed by the Shasta Community Services District were not property related fees or charges subject to Article XIID because a water connection fee results from the property owner’s voluntary decision to apply for the connection. In both Richmond and Bighorn, however, the Court stated that a fee for ongoing water service through an existing connection is imposed “as an incident of property ownership” within the meaning of Article XIID, rejecting, in Bighorn, the water agency’s argument that consumption based water charges are not imposed “as an incident of property ownership” but as a result of the voluntary decisions of customers as to how much water to use.

The City has followed the notice, hearing and protest procedures in Article XIID in connection with wastewater rate increases since its Fiscal Year 2016–17 rate increases, and plans to follow such notice, hearing and protest procedures in connection with future rate increases.

In addition to the procedural requirements of Article XIID, under Article XIID all property-related fees and charges, including those which were in existence prior to the passage of Proposition 218 in November 1996, must meet the following substantive standards:

- (1) Revenues derived from the fee or charge cannot exceed the funds required to provide the property-related service.
- (2) Revenues derived from the fee or charge must not be used for any purpose other than that for which the fee or charge was imposed.
- (3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- (4) No 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. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIID (relating to assessments).
- (5) No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to property owners.

On April 20, 2015, the California Fourth District Court of Appeal issued a decision in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, 235 Cal.App.4th 1493 (2015), holding that the City of San Juan

Capistrano's tiered water rates (or inclining block rates) that were in effect from February 1, 2010 through June 30, 2014 violated the requirement of Proposition 218 that a fee or charge for property-related services, such as water delivery, must be proportional to the cost of providing service. In interpreting Proposition 218, the Court of Appeal emphasized that tiered water rates, or inclining block rates, that go up progressively in relation to usage are compatible with Proposition 218. However, the court concluded that Article XIID requires that each tier must reflect the actual costs of service for property owners falling in each of the tiers. The court further concluded that the city had the burden of proof to demonstrate compliance with Proposition 218 and that the city failed to meet its burden of proof in demonstrating that its tiered water rates corresponded to the actual costs of providing service to each tier.

It is City policy to conduct periodic cost of service studies and as part of the most recent study, completed in January 2016, the City focused efforts on developing a strong and clear administrative record for its rates and charges. The City will be undertaking a new study prior to the end of Fiscal Year 2020-21 to cover rates for the Enterprise between Fiscal Year 2021-22 and 2026-27. The City believes that its established and proposed rates for wastewater service comply with the substantive standards of Article XIID. However, due to the uncertainties of evolving case law and potential future judicial interpretations of Proposition 218, the City is unable to predict at this time whether Proposition 218 could be interpreted, for example, to further limit fees and charges for wastewater services and/or to require stricter standards for the allocation of costs among customers and customer classes. See "WASTEWATER SYSTEM FINANCES—Rates."

**Article XIIC.** 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 XIIC does not define the terms "local tax," "assessment," "fee" or "charge." The California Supreme Court held in *Bighorn* that the provisions of Article XIIC applied to rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. The City and its City Attorney do not believe that Article XIIC grants to the voters within the City the power to repeal or reduce rates and charges in a manner that would be inconsistent with the contractual obligations of the City.

The interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and the City is unable to predict the outcome of such determinations, or what, if any, further implementing legislation will be enacted. No assurance can be given that the courts will not further interpret Article XIIC and Article XIID to limit the ability of the City to impose, levy, charge and collect increased fees and charges for wastewater services, or the voters of the City will not, in the future, approve initiatives which seek to repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City's wastewater service fees and charges, which are the source of Net Revenues pledged to the payment of debt service on the Series 2020 Bonds.

## **Proposition 26**

Proposition 26, which amended Articles XIII A and XIIC of the California Constitution, was approved by the electorate at the November 2, 2010 election. Proposition 26 imposes a majority voter approval requirement on local governments such as the City with respect to certain fees and charges for general purposes, and a two-thirds voter approval requirement with respect to certain fees and charges for special purposes, unless the fees and charges are expressly excluded. Proposition 26, according to its supporters, was intended to prevent the circumvention of tax limitations imposed by the voters in California Constitution Articles XIII A, XIIC and XIID pursuant to Proposition 13, approved in 1978, Proposition 218, approved in 1996, and other measures. Proposition 26 expressly excludes from its scope "a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the local government of providing the service or product" and "assessments and property-related fees imposed in accordance with the provisions of Article XIID." The City believes that its wastewater fees and charges meet the criteria for exclusion under Proposition 26 and that the initiative is not intended to, and would not, apply to fees for wastewater services charged by the City. The City is unable to predict, however, how Proposition 26 will be interpreted by the courts or what its ultimate impact will be.

## **Other Initiatives**

Articles XIII A, XIII B, XIII C and XIII D and Propositions 62 and 26 were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives have been and could be proposed and adopted affecting the City's revenues or ability to increase revenues. Neither the nature and impact of these measures nor the likelihood of qualification for ballot or passage can be anticipated by the City.

## **TAX MATTERS (TAXABLE BONDS - SERIES 2020A)**

The issuance and delivery of the Series 2020A Bonds is subject to delivery of the opinion of Bond Counsel, based upon existing provisions of the laws of the State of California, that interest on the Series 2020A Bonds is exempt from personal income taxes of the State of California.

The following is a general summary of the United States federal income tax consequences of the purchase and ownership of the Series 2020A Bonds. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the Series 2020A Bonds in light of the investor's particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax-exempt organizations, financial institutions, brokers-dealers and persons who have hedged the risk of owning the Series 2020A Bonds). This summary is therefore limited to certain issues relating to initial investors who will hold the Series 2020A Bonds as "capital assets" within the meaning of Section 1221 of the Code, and who acquire such Bonds for investment and not as a dealer or for resale. Prospective investors should note that no rulings have been or will be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed herein, and no assurance can be given that the IRS will not take contrary positions. A form of Bond Counsel's anticipated opinion is included as Appendix D.

**INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SERIES 2020A BONDS.**

### **Payments of Stated Interest on the Bonds.**

The stated interest paid on the Series 2020A Bonds will be included in the gross income, as defined in Section 61 of the Code, of the beneficial owners thereof and be subject to U.S. federal income taxation when received or accrued, depending on the tax accounting method applicable to the beneficial owners thereof.

### **Original Issue Discount.**

If a substantial amount of the Series 2020A Bonds of any stated maturity is purchased at original issuance for a purchase price (the "Issue Price") that is less than their face amount by more than one quarter of one percent times the number of complete years to maturity, the Series 2020A Bonds of such maturity will be treated as being issued with "original issue discount." The amount of the original issue discount will equal the excess of the principal amount payable on such Series 2020A Bonds at maturity over the Issue Price of such Series 2020A Bonds, and the amount of the original issue discount on the Series 2020A Bonds will be amortized over the life of the Series 2020A Bonds using the "constant yield method" provided in the Treasury Regulations. As the original issue discount accrues under the constant yield method, the beneficial owners of the Series 2020A Bonds, regardless of their regular method of accounting, will be required to include such accrued amount in their gross income as interest. This can result in taxable income to the beneficial owners of the Series 2020A Bonds that exceeds actual cash distributions to the beneficial owners in a taxable year.

The amount of the original issue discount that accrues on the Series 2020A Bonds each taxable year will be reported annually to the IRS and to the beneficial owners. The portion of the original issue discount included in each

beneficial owner's gross income while the beneficial owner holds the Series 2020A Bonds will increase the adjusted tax basis of the Series 2020A Bonds in the hands of such beneficial owner.

### **Premium.**

If a beneficial owner purchases a Series 2020A Bond for an amount that is greater than its stated redemption price at maturity, such beneficial owner will be considered to have purchased the Series 2020A Bond with "amortizable bond premium" equal in amount to such excess. A beneficial owner may elect to amortize such premium using a constant yield method over the remaining term of the Series 2020A Bond and may offset interest otherwise required to be included in respect of the Series 2020A Bond during any taxable year by the amortized amount of such premium for the taxable year. Bond premium on a Series 2020A Bond held by a beneficial owner that does not make such an election will decrease the amount of gain or increase the amount of loss otherwise recognized on the sale, exchange, redemption or retirement of a Series 2020A Bond. However, if the Series 2020A Bond may be optionally redeemed after the beneficial owner acquires it at a price in excess of its stated redemption price at maturity, special rules would apply under the Treasury Regulations which could result in a deferral of the amortization of some bond premium until later in the term of the Series 2020A Bond. Any election to amortize bond premium applies to all taxable debt instruments held by the beneficial owner on or after the first day of the first taxable year to which such election applies, and may be revoked only with the consent of the IRS.

### **Medicare Contribution Tax.**

Pursuant to Section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals beginning January 1, 2013. The additional tax is 3.8% of the lesser of (i) net investment income (defined as gross income from interest, dividends, net gain from disposition of property not used in a trade or business and certain other listed items of gross income), or (ii) the excess of "modified adjusted gross income" of the individual over \$200,000 for unmarried individuals (\$250,000 for married couples filing a joint return and a surviving spouse). Holders of the Series 2020A Bonds should consult with their tax advisors concerning this additional tax, as it may apply to interest earned with respect to the Series 2020A Bonds as well as gain on the sale of a Series 2020A Bond.

### **Disposition of Series 2020A Bonds and Market Discount.**

A beneficial owner of Series 2020A Bonds will generally recognize gain or loss on the redemption, sale or exchange of a Bond equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the beneficial owner's adjusted tax basis in the Series 2020A Bonds. Generally, the beneficial owner's adjusted tax basis in the Series 2020A Bonds will be the beneficial owner's initial cost, increased by the original issue discount previously included in the beneficial owner's income to the date of disposition. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner's holding period for the Series 2020A Bonds.

Under current law, a purchaser of Series 2020A Bonds who did not purchase the Series 2020A Bonds in the initial public offering (a "subsequent purchaser") generally will be required, on the disposition of the Series 2020A Bonds, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued "market discount." Market discount is the amount by which the price paid for the Series 2020A Bonds by a subsequent purchaser is less than the sum of Issue Price and the amount of original issue discount previously accrued on the Series 2020A Bonds. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire Series 2020A Bonds with market discount. As an alternative to the inclusion of market discount in income upon disposition, a subsequent purchaser may elect to include market discount in income currently as it accrues on all market discount instruments acquired by the subsequent purchaser in that taxable year or thereafter, in which case the interest deferral rule will not apply. The re-characterization of gain as ordinary income on a subsequent disposition of Bonds could have a material effect on the market value of the Series 2020A Bonds.

### **Legal Defeasance.**

If the City elects to defease the Series 2020A Bonds by depositing in escrow sufficient cash and/or obligations to pay when due outstanding Series 2020 Bonds (a “legal defeasance”), under current tax law, a beneficial owner of Series 2020A Bonds may be deemed to have sold or exchanged its Series 2020A Bonds. In the event of such a legal defeasance, a beneficial owner of Series 2020A Bonds generally would recognize gain or loss in the manner described above. Ownership of the Series 2020A Bonds after a deemed sale or exchange as a result of a legal defeasance may have tax consequences different from those described above, and each beneficial owner should consult its own tax advisor regarding the consequences to such beneficial owner of a legal defeasance of the Series 2020A Bonds.

### **Backup Withholding.**

Under Section 3406 of the Code, a beneficial owner of the Series 2020A Bonds who is a United States person, as defined in Section 7701(a)(30) of the Code, may, under certain circumstances, be subject to “backup withholding” on payments of current or accrued interest on the Series 2020A Bonds. This withholding applies if such beneficial owner of Series 2020A Bonds: (i) fails to furnish to payor such beneficial owner’s social security number or other taxpayer identification number (“TIN”); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends or other “reportable payments” as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the Series 2020A Bonds. Beneficial owners of the Series 2020 Bonds should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

### **Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations.**

Under Sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the rate of 30% on periodic income items arising from sources within the United States, provided such income is not “effectively connected,” within the meaning of Section 864 of the Code, with the conduct of a United States trade or business. Assuming the interest received by the beneficial owners of the Series 2020A Bonds is not treated as effectively connected income, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as “portfolio interest” within the meaning of Sections 871 and 881 of the Code. Interest will be treated as portfolio interest under such sections if: (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial owner; (ii) such interest is treated as not effectively connected with the beneficial owner’s United States trade or business; (iii) interest payments are not made to a person within a foreign country which the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the Series 2020A Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such beneficial owner is not a controlled foreign corporation, within the meaning of Section 957 of the Code; and (vi) such beneficial owner is not a bank receiving interest with respect to the Series 2020A Bonds pursuant to a loan agreement entered into in the ordinary course of the bank’s trade or business.

Assuming payments with respect to the Series 2020A Bonds are treated as portfolio interest within the meaning of Sections 871 and 881 of the Code, then no backup withholding under Section 1441 and 1442 of the Code and no backup withholding under Section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8BEN, Form W-8EXP or Form W-8IMY, as applicable, provided the payor does not have actual knowledge that such person is a U.S. person.

### **Foreign Account Tax Compliance Act.**

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to a foreign financial institution, unless the foreign financial institution enters into an agreement with the U.S. Treasury

to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, the Foreign Account Tax Compliance Act (“FATCA”) imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest and principal under the Series 2020A Bonds and sales proceeds of Series 2020A Bonds held by or through a foreign entity. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and will apply to “foreign passthru payments” but no earlier than two years after the date of publication of final regulations defining the term “foreign passthru payment.” Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

### **Reporting of Interest Payments.**

Subject to certain exceptions, interest payments made to beneficial owners with respect to the Series 2020A Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099, which will reflect the name, address and TIN of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a Bond for U.S. federal income tax purposes.

A copy of the form of opinion of Bond Counsel relating to the Series 2020 Bonds is included in Appendix D hereto.

## **TAX MATTERS (TAX-EXEMPT BONDS – SERIES 2020B)**

### **Federal Tax Exemption**

In the opinion of Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel to the City, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance by the City with certain covenants in the Indenture, the Tax Certificate and other documents pertaining to the Series 2020B Bonds and requirements of the Internal Revenue Code of 1986, as amended (the “Code”) and assuming compliance by the State of California Water Resources Control Board (“State Water Board”) with covenants and representations with respect to the prepayment of the 2011 State Loan, regarding the use, expenditure and investment of proceeds of the Series 2020B Bonds and the timely payment of certain investment earnings to the United States, interest on the Series 2020B Bonds is not included in the gross income of the owners of the Series 2020B Bonds for federal income tax purposes. Failure by the City or the State Water Board to comply with such covenants and requirements may cause interest on the Series 2020B Bonds to be included in gross income retroactive to the date of issuance of the Series 2020B Bonds.

In the further opinion of Bond Counsel, interest on the Series 2020B Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral federal income 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 Series 2020B 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, the Tax Certificate or other documents pertaining to the Series 2020B Bonds may be changed, and certain actions may be taken or not 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 effect of any change to any document pertaining to the Series 2020B Bonds or of any action taken or not taken where such change is made or action is taken or not taken without the approval of Norton Rose Fulbright US LLP or in reliance upon the advice of counsel other than Norton Rose Fulbright US LLP with respect to the exclusion from gross income of the interest on the Series 2020B Bonds for federal income tax purposes.

Bond Counsel's opinion is not a guarantee of result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and judicial decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of examining the tax-exempt status of the interest on municipal obligations. If an examination of the Series 2020B Bonds is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Series 2020B Bonds would have no right to participate in the examination process. In responding to or defending an examination of the tax-exempt status of the interest on the Series 2020B Bonds, the City may have different or conflicting interests from the owners. Additionally, public awareness of any future examination of the Series 2020B Bonds could adversely affect the value and liquidity of the Series 2020B Bonds during the pendency of the examination, regardless of its ultimate outcome.

### **Tax Accounting Treatment of Bond Premium and Original Issue Discount**

***Bond Premium.*** To the extent a purchaser acquires a Series 2020B Bond at a price in excess of the amount payable at its maturity, such excess will constitute "bond premium" under the Code. The Code and applicable Treasury Regulations provide generally that bond premium on a tax-exempt obligation is amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations) based on the obligation's yield to maturity (or shorter period in the case of certain callable obligations). The amount of premium so amortized reduces the owner's basis in such obligation for federal income tax purposes, though such amortized premium is not deductible for federal income tax purposes. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. Bond Counsel is not opining on the accounting for bond premium or the consequence to a Series 2020B Bond purchaser of purchasing a Series 2020B Bond with bond premium. Persons considering the purchase of Series 2020B Bonds with bond premium should consult with their own tax advisors with respect to the determination of bond premium on such Series 2020B Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such Series 2020B Bonds.

***Original Issue Discount.*** The excess, if any, of the stated redemption price at maturity of Series 2020B Bonds of a particular maturity over the initial offering price to the public of the Series 2020 Bonds of that maturity at which a substantial amount of the Series 2020B Bonds of that maturity is sold to the public is "original issue discount." Original issue discount accruing on a Series 2020B Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes under the same conditions and limitations as are applicable to interest payable on such Bond. Original issue discount on a Series 2020B Bond or a particular maturity purchased pursuant to the initial public offering at the initial public offering price at which a substantial amount of the Series 2020B Bonds of that maturity is sold to the public accrues on a semiannual basis over the term of the Series 2020B Bond on the basis of a constant yield; and within each semiannual period accrues on a ratable daily basis. The amount of original issue discount on a Series 2020B Bond accruing during each period is added to the adjusted basis of such Bond, which will affect the amount of taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers that purchase Series 2020B Bonds other than at the initial offering price.

Bond Counsel is not opining on the accounting for or consequence to a Series 2020B Bond purchaser of bond premium or original issue discount. Accordingly, persons considering the purchase of Series 2020B Bonds with bond premium or original issue discount should consult with their own tax advisors with respect to the determination of bond premium or original issue discount on such Series 2020B Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such Series 2020B Bonds.

## **Information Reporting and Backup Withholding**

Interest paid on the Series 2020B Bonds will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the Series 2020B 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 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 are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner’s federal income tax liability so long as the required information is furnished to the IRS.

## **State Tax Exemption**

In the further opinion of Bond Counsel, interest on the Series 2020 Bonds is exempt from personal income taxes imposed by the State of California.

## **Future Developments**

Existing law may change to reduce or eliminate the benefit to owners of the Series 2020B Bonds of the exclusion of the interest on the Series 2020B Bonds from gross income for federal income tax purposes or of the exemption of interest on the Series 2020B Bonds from State of California personal income taxation. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Series 2020B Bonds. Prospective purchasers of the Series 2020B Bonds should consult with their own tax advisors with respect to any proposed or future change in tax law.

## **ABSENCE OF LITIGATION**

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the execution or delivery of the Series 2020 Bonds or the Indenture or in any way contesting or affecting the validity of the foregoing or any proceedings of the City taken with respect to any of the foregoing. There is no action, suit or proceeding known by the City to be pending or threatened, restraining or enjoining the City in any way which could have a material adverse effect on the Enterprise, the ability of the City to increase rates or to pay scheduled debt service on the Series 2020 Bonds.

## **FINANCIAL STATEMENTS**

The City’s Comprehensive Annual Financial Report (“CAFR”) for the Fiscal Year ended June 30, 2019, is included in Appendix B to this Official Statement. The CAFR as of and for year ended June 30, 2019 has been audited by Macias Gini & O’Connell LLP, certified public accountants (the “Auditor”), as stated in its report appearing in Appendix B. The Series 2020 Bonds are special, limited obligations of the City payable solely from the Net Revenues and other funds pledged under the Indenture. The financial information in Appendix B does not account for the potential effects of COVID-19. For further information concerning the potential effects of COVID-19 on the City and the Enterprise, see “INTRODUCTION—COVID-19 Pandemic” above.

The financial statements of the City are public documents and the City has not requested nor did the City obtain permission from the Auditor to include the CAFR and the Auditor’s report in an Appendix to this Official Statement. Accordingly, the Auditor has made no representation in connection with inclusion of the audit herein that there has been no material change in the financial condition of the City or the System since the most recent audit was concluded. The Auditor has not been engaged to perform and have not performed, since the date of its report included in Appendix B, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Official Statement.

## RATINGS

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P") is expected to assign a rating of "AA" to the Series 2020 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 rating may be obtained from the rating agency furnishing such rating at the following address: S&P, 55 Water Street, New York, New York 10041. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2020 Bonds.

## UNDERWRITING

The Series 2020A Bonds are being purchased by BofA Securities, Inc., Citigroup Global Markets Inc., and J.P. Morgan Securities LLC (collectively, the "Underwriters") at a purchase price of \$\_\_\_\_\_, such amount being equal to the principal amount of the Series 2020A Bonds, [plus /less] [an/a net] original issue [premium/discount] of \$\_\_\_\_\_, less an underwriting discount of \$\_\_\_\_\_. The Series 2020B Bonds are being purchased by the Underwriters at a purchase price of \$\_\_\_\_\_, such amount being equal to the principal amount of the Series 2020B Bonds, [plus /less] [an/a net] original issue [premium/discount] of \$\_\_\_\_\_, less an underwriting discount of \$\_\_\_\_\_. The obligation of the Underwriters to make such purchase is subject to certain terms and conditions set forth in the purchase contract related to the Series 2020 Bonds. The purchase contract relating to the Series 2020 Bonds provides that the Underwriters will purchase all of the Series 2020 Bonds if any are purchased. The Series 2020 Bonds may be offered and sold by the Underwriters to certain dealers and others at prices lower than such public offering price, and such public offering price may be changed, from time to time, by the Underwriters.

The following paragraphs have been provided by the Underwriters:

BofA Securities, Inc., one of the Underwriters of the Series 2020 Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the Series 2020 Bonds.

Citigroup Global Markets Inc., an Underwriter of the Series 2020 Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts with respect to the Series 2020 Bonds.

J.P. Morgan Securities LLC ("JPMS"), the Underwriter of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Series 2020 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2020 Bonds that such firm sells.

## MUNICIPAL ADVISOR

The City has retained PFM Financial Advisors LLC, San Francisco, California, as municipal advisor with respect to the issuance of the Series 2020 Bonds. PFM Financial Advisors LLC 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. PFM Financial Advisors LLC is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

## LEGAL PROCEEDINGS

The validity of the Series 2020 Bonds and certain other legal matters are subject to the approving opinion of Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel. A copy of the proposed form of the opinion of Bond Counsel is attached as Appendix D 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 Underwriters by Nixon Peabody, LLC; for the City by the City Attorney and by Norton Rose Fulbright US LLP, San Francisco, California, Disclosure Counsel and for the Trustee by the Law Offices of Samuel D. Waldman.

## CONTINUING DISCLOSURE

The City has covenanted for the benefit of the owners of the Series 2020 Bonds to provide certain financial information and operating data and the City by not later than the 31<sup>st</sup> of March following the end of the City's Fiscal Year (presently June 30) commencing with the report for the City's Fiscal Year 2019-20 (the "Annual Reports"), which shall be due March 31, 2021, 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 Digital Assurance Certification, L.L.C. ("DAC"), as Dissemination Agent on behalf of the City, with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access System ("EMMA"). The notices of material events will be filed by DAC, as Dissemination Agent on behalf of the City, with the MSRB through EMMA 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 E – "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's Department of Finance has taken responsibility for ongoing compliance with the Rule.

Except as set forth in this paragraph, during the five years preceding the date of this Official Statement, the City has not failed to comply in all material respects with its prior continuing disclosure obligations entered into in connection with the Rule. In February 2018, the underlying rating on the City's Community Facilities District No. 2004-1 (Village One #2) 2014 Special Tax Refunding Bonds (the "2014 Special Tax Bonds") was upgraded and the City did not file a material event notice. The underlying rating on the 2014 Special Tax Bonds is still lower than the insured rating and DAC does not serve as dissemination agent for the 2014 Special Tax Bonds.

## 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 City and the purchasers or holder of any Series 2020 Bonds.

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

**CITY OF MODESTO, CALIFORNIA**

By: \_\_\_\_\_  
Finance Director

## APPENDIX A

### CERTAIN INFORMATION REGARDING THE CITY OF MODESTO

The following information with respect to the City is presented for information purposes only. The Series 2020 Bonds do not constitute an indebtedness of the City within the meaning of any constitutional, statutory or charter limitations and the City is not obligated to levy any *ad valorem* taxes therefor or to use any other funds of the City to pay debt service on the Series 2020 Bonds. **The information in this Appendix A predates the COVID-19 pandemic unless specifically referenced. For further information concerning the potential effects of COVID-19 on the City and the Enterprise, see “INTRODUCTION—COVID-19 Pandemic” in the forepart of this Official Statement.**

#### General Description

The City, which is the county seat of Stanislaus County, was incorporated in 1884. It covers approximately 37.4 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 the City and County of San Francisco.

The City Council (the “Council”) appoints the City Clerk and Auditor, the City Attorney, and the City Manager. The City Manager heads the executive branch of government, implements Council directives and policies, 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 public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services. 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.

**TABLE A-1  
CITY OF MODESTO  
Population Estimate<sup>(1)</sup>**

<i>Calendar Year</i>	<i>City of Modesto</i>	<i>Stanislaus County</i>	<i>State of California</i>
2016	214,044	539,515	39,131,307
2017	216,881	547,357	39,398,702
2018	218,674	550,964	39,586,646
2019	220,126	554,018	39,695,376
2020	222,335	557,709	39,782,870

<sup>(1)</sup> As of January 1.

Source: California State Department of Finance, *Population Estimates for City, County and State Population, 2011-2020 with 2010 Benchmark*.

## Employment

The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 2015 through 2019. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

**TABLE A-2**  
**MODESTO METROPOLITAN STATISTICAL AREA**  
**Industry Employment and Labor Force**  
**(Annual Averages)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<u>Civilian Labor Force</u>					
Employment	218,000	221,800	224,100	227,500	228,800
Unemployment	22,900	20,900	18,100	15,800	14,700
Unemployment Rate	9.5%	8.6%	7.5%	6.5%	6.0%
<u>Wage and Salary Employment:</u>					
Total Farm	14,600	14,900	14,300	14,400	14,800
Total Nonfarm	166,400	171,500	174,800	179,200	181,100
Natural Resources, Mining and Construction	8,500	9,000	9,300	10,200	10,500
Manufacturing	21,300	21,800	21,400	21,600	21,400
Wholesale Trade	5,800	6,000	6,100	6,300	6,200
Retail Trade	22,400	22,700	23,200	23,200	22,800
Transport., Warehousing, Utilities	7,500	8,200	7,700	8,000	8,800
Information	900	1,000	1,000	1,000	1,000
Financial Activities	5,200	5,300	5,300	5,300	5,300
Professional and Business Services	14,200	14,600	14,900	15,400	15,300
Educational and Health Services	30,900	32,200	32,600	33,600	30,900
Leisure and Hospitality	18,800	18,700	19,200	19,300	19,200
Other Services	5,300	5,400	5,700	5,800	5,900
Federal Government	800	800	800	800	800
State Government	1,900	2,000	2,100	2,200	2,100
Local Government	23,900	24,800	25,500	26,600	27,300
Total All Industries	181,000	186,300	189,200	193,600	195,900

Note: Totals may not add up because of rounding.

Source: Labor Division of the California State Employment Development Department.

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## Major Employees

The following table summarizes the largest employers in the County of Stanislaus as of June 30, 2019.

**TABLE A-3  
COUNTY OF STANISLAUS  
Largest Employers  
as of June 30, 2019**

<u>No.</u>	<u>Company Name</u>	<u>No. Employees</u>
1.	E & J Gallo Winery	6,700
2.	Stanislaus County	4,048
3.	Modesto City Schools	3,200
4.	Doctors Medical Center	2,600
5.	Memorial Medical Center	2,400
6.	Foster Farms Poultry	2,200
7.	Del Monte Foods Inc.	2,010
8.	Stanislaus Food Products	1,875
9.	Save Mart Supermarkets	1,650
10.	Turlock Unified School District	1,500

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Source: *City of Modesto.*

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**Commercial Activity**

The following table shows the dollar volume of taxable transactions in the City of Modesto from 2015 through 2019.

**TABLE A-4  
CITY OF MODESTO  
Taxable Transactions  
Calendar Years 2015 through 2019  
(in Thousands of Dollars)**

<b>Retail Outlets</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Motor Vehicle and Parts Dealers	\$246,567	\$263,747	\$252,304	\$228,695	\$224,837
Home Furnishings and Appliance Stores	137,561	149,096	153,682	159,528	152,958
Building Material And Garden Equip. and Supplies	154,052	165,913	172,798	177,802	177,136
Food and Beverage Stores	149,024	150,726	155,484	161,334	159,738
Gasoline Stations	200,713	185,485	211,768	242,906	262,836
Clothing and Clothing Accessories Stores	260,777	268,348	261,562	262,644	262,644
General Merchandise Stores	398,374	435,576	439,803	439,547	432,196
Food Services and Drinking Places	366,841	384,710	403,575	411,865	433,824
Other Retail Group	239,830	239,710	239,772	232,663	243,681
<b>Total Retail and Food Services</b>	<b>\$2,153,739</b>	<b>\$2,243,311</b>	<b>\$2,290,749</b>	<b>\$2,316,985</b>	<b>\$2,345,449</b>
All Other Outlets	552,799	547,532	597,735	657,422	610,245
<b>Totals All Outlets</b>	<b>\$2,706,538</b>	<b>\$2,790,843</b>	<b>\$2,888,484</b>	<b>\$2,974,407</b>	<b>\$2,955,694</b>

Source: State of California, Board of Equalization.

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The following table shows the dollar volume of taxable transactions in the County of Construction Trends Stanislaus from 2015 through 2019.

**TABLE A-5  
COUNTY OF STANISLAUS  
Taxable Transactions  
Calendar Years 2015 through 2019**

<b>Retail Outlets</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Motor Vehicle and Parts Dealers	\$4,546,934	\$3,858,111	\$3,606,285	\$5,407,541	\$8,895,827
Furniture and Home Furnishings Stores	30,352,236	37,081,340	31,461,536	32,875,606	41,192,208
Building Material and Garden Equip. and Supplies	11,735,240	14,346,501	16,961,639	21,239,774	26,485,726
	290,740	209,019	706,863	2,198,177	1,291,288
Food and Beverage Stores	856,077	845,835	949,280	1,274,276	4,068,482
Gasoline Stations					
Clothing and Clothing Accessories Stores	25,864,503	30,364,117	34,168,538	44,151,259	50,644,869
General Merchandise Stores	23,998,109	28,529,789	30,504,036	36,329,111	42,991,318
Food Services and Drinking Places	2,781,548	4,121,577	5,129,994	3,024,530	1,413,230
Other Retail Group	107,233,640	126,924,935	146,968,151	169,082,602	220,689,799
<b>Total Retail and Food Services</b>	<b>207,659,027</b>	<b>246,281,224</b>	<b>270,125,674</b>	<b>315,582,876</b>	<b>397,672,747</b>
All Other Outlets	721,691,192	942,806,022	755,740,807	690,584,762	806,330,218
<b>Totals All Outlets</b>	<b>929,350,219</b>	<b>1,189,087,246</b>	<b>1,025,866,481</b>	<b>1,006,167,638</b>	<b>1,204,002,965</b>

Source: State of California, Board of Equalization.

### Construction Trends

“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. Multifamily 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 of Modesto for calendar years 2015 through 2019.

**TABLE A-6  
CITY OF MODESTO  
Residential and Nonresidential Building Permit Valuations  
and Total Residential Building Permits**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<b>Permit Valuation</b>					
New Single-family	\$4,292,856	\$14,433,404	\$23,800,808	\$21,428,412	\$21,173,429
New Multi-family	\$300,000	0	\$25,800,000	\$280,000	\$10,800,000
Res. Alterations & Additions	\$7,395,794	\$4,911,603	\$10,499,153	\$10,315,164	\$9,000,959
Total Residential	\$11,988,650	\$19,345,007	\$60,099,961	\$32,023,576	\$40,974,388
New Commercial	\$7,630,000	\$4,604,510	\$21,295,586	\$8,940,300	\$14,899,100
New Industrial	0	0	\$9,500,000	\$3,100,000	\$7,662,000
New Other	\$3,985,749	\$7,793,413	\$10,217,282	\$70,356,893	\$16,898,036
Non-Res. Alterations & Additions	\$13,744,379	\$18,177,113	\$24,510,447	\$19,158,973	\$43,326,295
Total Nonresidential	\$25,360,128	\$30,575,036	\$65,523,315	\$101,556,166	\$82,785,431
Total All Building	\$37,348,778	\$49,920,043	\$125,623,276	\$133,579,742	\$123,759,819
<b>New Dwelling Units</b>					
Single Family	32	129	201	191	173
Multiple Family	4	0	83	4	101
Total	36	129	284	195	274

Note: Totals may not add up because of rounding.

Source: *Building Permit Summary, Construction Industry Research Board and City of Modesto.*

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## Agriculture

The following table summarizes historical agricultural production within the County for calendar years 2015 through 2019.

**TABLE A-7  
STANISLAUS COUNTY  
Agricultural Production  
2015-2019**

<i>Commodity</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Apiary	\$ 74,794,900	\$ 76,768,000	\$ 80,706,000	\$ 89,041,000	\$ 109,523,000
Field Crops	256,892,000	185,744,000	207,574,000	212,742,000	214,113,000
Fruit and Nut Crops	1,647,390,000	1,248,457,000	1,392,747,000	1,390,010,000	1,484,057,000
Livestock & Poultry	731,506,000	622,473,000	582,477,000	588,352,000	636,561,000
Livestock & Poultry Products	729,031,000	649,556,000	715,117,000	680,197,000	659,186,000
Nursery Products	169,887,000	204,797,000	271,049,000	220,953,000	227,537,000
Organic Products	89,413,000	99,696,000	199,409,000	193,609,000	61,415,000
Other Agriculture	22,019,000	17,738,000	19,793,000	23,540,000	25,018,000
Seed Crops <sup>(1)</sup>	740,000	-	-	-	-
Vegetable Crops	157,659,000	156,182,000	179,320,000	171,546,000	180,994,000
<b>TOTALS</b>	<b><u>\$3,879,331,900</u></b>	<b><u>\$3,261,411,000</u></b>	<b><u>\$3,648,192,000</u></b>	<b><u>\$3,569,990,000</u></b>	<b><u>3,598,404,000</u></b>

<sup>(1)</sup> After 2015 Seed Crops are no longer a tracked commodity.

Source: Stanislaus County Department of Agriculture.

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**APPENDIX B**

**CITY OF MODESTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FY 2018-19**

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DoMo First Fridays! - Downtown Modesto

**City of Modesto**  
Comprehensive Annual Financial Report  
FY 2018-2019 | Fiscal Year Ended June 30, 2019



CITY OF  
**MODESTO**  
CALIFORNIA



**CITY OF  
Modesto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
Fiscal Year Ended June 30, 2019**

**Prepared by  
Finance Department**



**CITY OF MODESTO**  
 June 30, 2019  
**TABLE OF CONTENTS**

**INTRODUCTORY SECTION**

Transmittal Letter ..... iii - x  
 Certificate of Achievement for Excellence in Financial Reporting ..... xi  
 City of Modesto Organizational Chart..... xii

**FINANCIAL SECTION**

Independent Auditors' Report..... 3-5  
 Management's Discussion and Analysis ..... 6-15  
 Basic Financial Statements:  
   Government-wide Financial Statements:  
     Statement of Net Position ..... 19  
     Statement of Activities..... 20-21  
   Fund Financial Statements:  
     Balance Sheet – Governmental Funds ..... 22  
     Reconciliation of the Balance Sheet of Governmental Funds to the  
       Statement of Net Position – Governmental Activities..... 23  
     Statement of Revenues, Expenditures, and Changes in Fund Balances -  
       Governmental Funds..... 24  
     Reconciliation of the Statement of Revenues, Expenditures, and  
       Changes in Fund Balances of Governmental Funds to the Statement of Activities –  
       Governmental Activities ..... 25  
     Statement of Net Position – Proprietary Funds ..... 26  
     Statement of Revenues, Expenses, and Changes in Fund Net Position -  
       Proprietary Funds ..... 27  
     Statement of Cash Flows – Proprietary Funds ..... 28-29  
     Statement of Fiduciary Net Position – Fiduciary Funds ..... 30  
     Statement of Changes in Fiduciary Net Position - Private Purpose Trust Fund..... 31  
   Notes to Basic Financial Statements ..... 32-78  
 Required Supplementary Information:  
   Schedule of Changes in the Net Pension Liability and Related Ratios..... 81-82  
   Schedule of Plan Contributions..... 83  
   Schedule of Changes in the OPEB Liability and Related Ratios ..... 84  
   Schedule of Contributions..... 85  
   Schedule of Revenues – Budget (GAAP Basis) and Actual – General Fund ..... 86  
   Schedule of Expenditures by Function – Budget (GAAP Basis) and Actual – General Fund..... 87  
   Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis)  
     and Actual - Housing and Community Development Special Revenue Fund ..... 88  
   Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis)  
     and Actual – Transportation Special Tax Special Revenue Fund ..... 89  
   Notes to Required Supplementary Information..... 90-91  
 Combining and Individual Fund Statements and Schedules:  
   Nonmajor Governmental Funds:  
     Combining Balance Sheet..... 98-100  
     Combining Statement of Revenues, Expenditures, and Changes in  
       Fund Balances ..... 102-104

Schedules of Revenues, Expenditures, and Changes in Fund Balance –	
Budget (GAAP Basis) and Actual:	
Operating Grants Special Revenue Fund.....	105
Local Transportation Special Revenue Fund.....	106
Traffic Safety Special Revenue Fund .....	107
Downtown Improvement District Special Revenue Fund.....	108
Strategic Planning and Development Special Revenue Fund .....	109
Nonmajor Enterprise Funds:	
Combining Statement of Net Position .....	112-113
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position.....	114-115
Combining Statement of Cash Flows.....	116-119
Internal Service Funds:	
Combining Statement of Net Position .....	122-123
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position.....	124-125
Combining Statement of Cash Flows.....	126-129
Agency Funds:	
Statement of Changes in Assets and Liabilities.....	132

## STATISTICAL SECTION

Financial Trends:	
Net Position by Component .....	136
Changes in Net Position .....	137-138
Fund Balances of Governmental Funds .....	139
Changes in Fund Balances of Governmental Funds.....	140
Revenue Capacity:	
Water Utility System .....	141
Debt Capacity:	
Ratio of Outstanding Debt by Type.....	142
Computation of Direct and Overlapping Debt.....	143
Computation of Legal Debt Margin .....	144
Revenue Bond Coverage, Wastewater Revenue Bonds.....	145
Demographic and Economic Information:	
Demographic and Economic Statistics .....	146
Principal Employers .....	147
Principal Property Taxpayers .....	148
Operating Information:	
Full-Time City Government Employees by Function .....	149
Operating Indicators by Function .....	150
Capital Asset Statistics by Function/Program .....	151

## CONTINUING DISCLOSURE SECTION

Continuing Disclosure Requirements Information.....	156-166
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# **INTRODUCTORY SECTION**





## Department of Finance

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Hearing and Speech Impaired Only  
TDD 209.526.9211

December 11, 2019

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Modesto:

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for the City of Modesto (the City). The City of Modesto City Charter and Municipal Code require that a complete CAFR, which is comprised of financial statements and reports on the finances of the City, be submitted to the City Council at the end of each fiscal year. This report fulfills that requirement for the year ended June 30, 2019.

City management assumes full responsibility for the completeness and reliability of the information contained in this report. We believe the data fairly represents 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 a particular control requires estimates and judgments by management.

The Modesto City Charter also requires an annual audit be performed by an independent certified public accountant selected by the Modesto City Council. The accounting firm of Hudson Henderson and Company, Inc. was selected in 2018 to perform the City's annual financial audits. The auditors have issued an unmodified ("clean") opinion on the financial statements for the fiscal year ended June 30, 2019, 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 Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The auditors' 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 auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A is designed to be read in conjunction with this transmittal letter.

### **City of Modesto Profile**

Modesto is located in the heart of California's San Joaquin Valley and is the County Seat of Stanislaus County. It is also the retail, service and financial center of Stanislaus County. The City currently occupies a land area of 37.4 square miles and serves a population of 215,030. The City has a diverse economy and population with a strong sense of community pride.

Incorporated as a municipal city in 1884, the City adopted its City Charter on March 12, 1951, with a Council-Manager form of government. The Modesto City Council (Council) is the City's legislative body and is made up of seven elected officials serving overlapping 4-year terms. The Mayor is elected at-large by the entire City; while the six Councilmembers are elected by district and are limited to two terms.

The Council sets policy and tax rates, approves budgets, and passes ordinances and resolutions, which govern the City. The Council also appoints citizens to advisory boards, committees and commissions as well as appoints the City Manager, City Attorney, City Clerk and City Auditor. The City Manager is responsible for carrying out Council policy and managing the day-to-day affairs of the City.

The City is a “full-service” city including police and fire; public works; water and sewer; community and economic development; parks, recreation and neighborhoods; public transportation; and cultural and convention visitor services.

The City’s financial reporting entity includes all funds and activities of the City 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 there is a financial benefit/burden relationship when the City or management has operational responsibility over the component unit. These component units are the Modesto Public Financing Authority and the City of Modesto Community Facilities Districts.

The annual operating budget serves as the foundation for the City’s financial planning and control. The proposed budget is adopted annually prior to July 1, by City Council ordinance. The Council’s legally adopted budget level is at the fund level. Throughout the fiscal year, the budget may be modified. The City Council has also adopted fiscal policies that delineate the delegated budget control authority to the following parties: the City Council, the City Manager and the Director of Finance.

### **Local Economy**

Modesto is the county seat for fast-growing Stanislaus County. A major center for local commerce, the City attracts thousands to its environs for work, shopping and entertainment. Major employment sectors include manufacturing, healthcare, education and retail. Modesto and its surrounding communities contain canneries, packing plants and warehouses which ship agricultural products across the nation and the world. An active farm to table movement has been spearheaded by the area’s large production of nuts, dairy, poultry and other locally grown products.

The unemployment rate within the county-wide Modesto Statistical Area (MSA) decreased during the 2018-2019 fiscal year. As of June 30, 2019, the MSA’s unemployment rate was recorded at 6.5%, which is down from the 7.2% rate of a year ago. Total non-farm employment in the MSA is projected to grow by 21,300 jobs to 192,800 during the ten year period 2016 to 2026. For the same period, the industry sector consisting of Health Care and Social Assistance shows the highest percentage increase of 31.9% adding 9,400 jobs followed by Educational Services which is projected to grow by 30.9% and add 9,600 jobs. Transportation, Warehousing and Utilities is expected to grow by 29.3% and add 2,400 jobs. The next fastest growing industry sectors are Federal Government, Leisure and Hospitality, Mining, Lodging and Construction which are forecasted to add 4,700 jobs by 2026.

According to Zillow, the ZHVI (Zillow Home Value Index) homes listed in the City of Modesto as of September 30, 2019 is \$319,950, an increase of 4.1% over 2018, and the median rent price is \$1,550, with the Modesto MSA at \$1,600. CoStar Realty Information stated the average Modesto MSA asking rent as \$1,258 with an average per square foot per month rate of \$1.45, representing an annual increase of 5%. Modesto building permit activity during fiscal year 2018-2019 ended with a total of 4,335 permits issued with a valuation of \$112,433,029.

Modesto is a prime and central location for business, and has attracted both start-ups and expanding firms. Specialized health care facilities like HealthSouth and Central Valley Specialty Hospital have chosen to expand their services and operations in Modesto. There is also a strong culture of entrepreneurship and innovation. Datapath, a technology management company with headquarters in Modesto, has been recognized by Inc. Magazine as one of the fastest-growing private companies in America. E&J Gallo Winery, also based in Modesto, is the world’s largest privately owned winery and the

leading US exporter of California wines. The Gallo Glass Company is a state of the art glass manufacturer and a leading producer of wine and spirits glass bottles in the US.

### **Entertainment and Tourism**

Modesto features vibrant arts, entertainment, sports and cultural expression. With the newly relaunched Convention and Visitor's Bureau and Tourism Marketing District, Modesto is committed to attracting visitors by promoting and marketing Modesto as a convention, sports, tourism, and leisure travel destination.

Downtown Modesto is home to the world-class Gallo Center that brings national and international entertainment, arts and multicultural programming to the Central Valley region. Downtown, you can experience the Historic Graffiti Cruise Route, the Legends of the Cruise Walk of Fame, and the Classic Community Mural Series celebrating the cruising culture phenomenon born in Modesto and immortalized by native son George Lucas in American Graffiti. Live entertainment is a prominent feature in the Civic Plaza and nearby clubs, and a busy calendar of entertaining and educational events can be experienced just across the street at the Modesto Centre Plaza.

Baseball with the Modesto Nuts baseball team is just minutes from the city center, and golfers enjoy two-highly rated 18-hole courses and a municipal course year-round. Modesto is gaining recognition for its bike routes and trails, and is a frequent host city for the Tour-de-France rated Amgen Tour of California bicycle race. Water lovers have river parks and kayaking.

The McHenry Mansion and McHenry Museum anchor the city's loving preservation of its historical heritage, drawing visitors from all over the world. The city's annual Architectural Festival offers free tours, exhibits, workshops and films in the iconic State Theatre featuring one of the best collections of mid-century modernism in the nation. Arts live year round with monthly Art Walks, and seasonal activities including the Graffiti Cruise, parades, the Modesto on Ice downtown skating rink, the Dickens Faire, ModShop arts and crafts walk, and PorchFest community music stroll bring joy to residents and visitors. Modesto truly offers something great for everyone.

### **Our Strategic Priorities**

During 2019, the City continued to utilize the 2015-2018 Strategic Plan to incorporate input from newly elected Councilmembers and to reaffirm our strategic priorities. Our priorities bring the City's vision and values to life in our community and define our overall direction as a city. It also confirms our commitment to our citizens. While the priorities are individually important, they are also interconnected and cannot be addressed in isolation. In addition, they are the basis of our scorecard that measures success and upon which our performance metrics are built.

- **Healthy Economy and Great Quality of Life:** Increase the City's proactive economic development efforts by creating and preserving jobs, strengthening our economic base and enhancing the City's revenue base.
- **Vibrant Infrastructure and Sustainable Environment:** Strengthen and maintain a safe infrastructure of City roads, water supply, storm sewers, transit and airport needs for residents, businesses and visitors.
- **Great Safe Neighborhoods:** Explore new approaches to public safety, working in partnership with the community to reduce crime and maintain a safe and inviting community in which to live, work and play. Increase collaboration with neighborhoods and school districts to achieve quality of life improvements, and safe neighborhoods through supporting community self-reliance, problem solving and public/private partnerships.
- **Effective, Responsive and Transparent Government:** Enhance the organization's commitment to develop new and creative methods to leverage technology, market organization strengths and remain dedicated to seeking efficiencies and continuous improvement.

### **Long-Term Financial Planning**

The City continues to refine its 10-year forecasting model and update estimates and assumptions used to project future operations. At the end of fiscal year 2018-19, General Fund Balance was as follows: Restricted and Nonspendable - \$4.9 million; Committed - \$18.4 million; Assigned - \$0.5 million; and Unassigned \$1.7 million. The Committed Fund Balance allows the City to respond to unplanned circumstances and maintain adequate working capital to meet its cash flow needs.

The City's long-term maintenance of a stable fund balance is a direct reflection of the Mayor and Council's leadership and prudent fiscal management.

### **SIGNIFICANT EVENTS / ACCOMPLISHMENTS**

#### *Healthy Economy & Great Quality of Life*

- Volunteers range from community members and local clubs to large groups such as corporations seeking to participate in local clean-ups, volunteering at community centers, programs and special events. Over the last year approximately 3,597 volunteers worked a total of 17,317 hours at 533 individual events which amounted to a total leveraged value of \$498,371.
- Through collaboration with the Modesto Police Department, Parks Recreation and Neighborhood Department was able to offer two Crime Scene Investigation (CSI) Camps serving 50 local youth. All participants learned about the many aspects of police work from Police Officers, Detective, Community Service Officers, Crime Scene Investigators, Traffic Officers, and the many Technicians that make up the Police Department. Each week of camp ended with the kids learning how to process a crime scene.
- The Mary Grogan Soccer Complex served 5,735 community members in drop-in activities. During Fiscal Year 18/19 had over 1,700 bookings equaling over 8,100 hours of booked rentals.
- The City of Modesto, in partnership with The Modesto Peace Life Center, Modesto Junior College, and several other partners sponsored the 25th Anniversary Martin Luther King Commemoration Event. This year's event featured the much honored author, commentator, professor, preacher, and dynamic speaker, Dr. Michael Eric Dyson. Over 700 community members attended the positive night of civic engagement through word and music at Modesto Junior College.
- The City of Modesto Parks, Recreation and Neighborhoods Department partnered with the Modesto City Schools Student, Parent & Community Support Services team to present the 5th Annual Westside Community "Back to School" event at the Neighborhood Center at Marshall Park. The free community event provided an exciting evening program focused on health, safety & community resources. The evening's festivities included guest speakers, kids' activities, games, prizes, face painting, a bounce house, and the event highlight "Backpack Giveaway." The event served approximately 1,800 participants.
- The Kids Connect Community Celebration at Marshall Park, in partnership with the Stanislaus County Department of Child Support Services, provided a variety of community resource information to families and featured cultural group performances, musical entertainment, child activities, a bounce house, and guest speakers for approximately 360 participants
- Completion of the John Thurman Field Improvements – Replacement of Upper Box Seats and Video Board.
- The City Council adopted a significant amendment to the land use and circulation elements of the General Plan in March 2019.
- The City Council approved eight retail cannabis dispensaries in December 2018, of which four are currently open and operating.
- Continued the successful TI (Tenant Improvement) Tuesday Program and processed 51 projects helping businesses fast-track their building permit review time, thus reducing time and costs for these businesses.
- The Public Works Transit Division began utilizing 5 electric buses and public Wi-Fi in Modesto Area Express service.
- The Public Works Transit Division implemented mobile ticketing Modesto Area Express to allow easier purchasing and use of bus fare.

- Increased community engagement with the first Modesto Police and Fire Departments softball game hosted by the Modesto Nuts to raise charity funds.

### Great Safe Neighborhoods

- Recertified 106 Crime Free Multi-Housing properties hold bi-monthly meetings and reinstated 8-hour Manager Training.
- City of Modesto is ranking #1 in cities its size in California for National Night Out and #5 in the nation.
- Increased the number of Business Watch Groups by 20% and Business Watch Meetings by 25%.
- Community Engagement Activities increased by 123%.
- Modesto Police Department (MPD) hosted 7 Town Hall Meetings and 3 Coffee with Cops events throughout the City.
- Five (5) firefighters graduated from the academy in August, and several Engineers and a Battalion Chief joined celebrated their promotions.
- Five (5) new engines and two ladder trucks were placed into service.
- Placed a new California Office of Emergency (OES) grant funded HazMat rig into service, this apparatus is able to serve throughout the County and State during HazMat incidents.
- Approval of two new apartment complexes in Kiernan Business Park, totaling 306 dwelling units. Approval of a new 50-unit apartment complex at Rumble Road and Conant Avenue.
- Approval of the Almond Grove subdivision for 246 single-family lots in the Fairview area of southwest Modesto.
- Approval of the Woodglen subdivision for 367 single-family lots and a 7-acre multi-family site on the north side of Pelandale Avenue west of Tully Road.
- Partnered with the Housing Authority to provide funding to rehabilitate 40 affordable rental units which will serve those who are homeless or at risk of homelessness.
- Partnered with STANCO to acquire a transitional housing into to serve four women with mental health issues who are homeless or at risk of homelessness.
- Provided 22 homeowner grants and loans to address health and safety concerns and maintain the affordable housing stock in the City.
- Completed LED lighting installation at the 10<sup>th</sup> Street Garage and Centre Plaza Parking lot.
- The Public Works Community Forestry increased pruning by over 47%, for a total increase of 2,800 pruned trees compared to Fiscal Year 2017-18.
- Staff registered 2,545 people in fee based recreational programs such as swimming, tennis, soccer, art, dance, day camps, archery, etc.
- 253 financial assistance “Leisure Bucks” vouchers were issued to Low-Income Youth, Seniors and Disabled adults. A total of \$13,443 in assistance was given.
- The Police Department’s license plate reader program was expanded with the installation of cameras at the intersection of Briggsmore and McHenry Avenues.
- The Police Department partnered with the Department of Justice on an investigation that resulted in the takedown of more than 30 gang members committing acts of violence in the City.

### Vibrant Infrastructure & Sustainable Environment

- Completion of the Dennett Dam Project removed the remnants of Dennett Dam in the Tuolumne River and provided habitat restoration to approximately 200 feet of river channel. The removal included the installation of temporary cofferdams, a bypass channel and constant pumping to dewater the site for demolition and excavation activities.
- Staff coordinated fifteen-(15) community meetings to engage the neighboring residents of César E. Chavez, Mancini, and Mellis Park, in efforts to submit a competitive grant application for Proposition 68 State Wide Park Development and Community Revitalization Program. Over 600 community members attended the span of the meetings and provided valuable input on the issues and needs of the park, along with community base design for each specific park.
- Completed design and right-of-way acquisition for the State Route 132 project.
- Completed pavement rehabilitation of 0.9 miles of Claus Road from Gomes Road to Briggsmore Avenue.

- Completed pavement rehabilitation of more than 20 equivalent lane miles in the Lakewood Neighborhood.



- Completed pavement rehabilitation of 3.0 miles of Standford Avenue from Dale Road to Sherwood Avenue (Measure L project).



- Completed pavement rehabilitation of 1.8 miles of Carpenter Road from Chicago Avenue to Torrid Avenue (Measure L Project).
- The Public Works Solid Waste Division converted 109,668 tons of waste into energy, which powered 19,000 homes with renewable energy and composed 53,242 tons of organic material.

- Completed 8 street paving projects throughout Modesto, paving 137,735 square feet with average cost of \$2.49 per square foot.
- The 4 million gallon Industrial Tank was completed in Summer 2019. This is the last of the major "Downstream Improvements" needed to efficiently deliver domestic water to our customers in South Modesto.
- Construction of the Del Rio Tank, Well & Pump Station Project began in December 2018 and is expected to be complete in Summer 2020. The project will increase service reliability, correct existing supply and pressure deficiencies for the City's Del Rio Water System.
- Construction of the City's new Corporation Yard for the Utilities Departments Water Services Division commenced in October 2018 and is expected to be complete in December 2019. The City's first vertical design build project will consolidate three locations operated by Water Services into a single site.
- Successfully drilled three new domestic wells (Well 70, 71 & 72) that will in Fiscal Year 18/19. These new wells are currently being finalized so that construction of the above ground improvements and are expected to begin construction in FY 19/20.
- Headworks and Dryden Box Project began construction. The project consists of diverse improvements at the Sutter Wastewater Treatment Plant including: screens, compactors, parshall flume, grit basins, massive in-ground concrete structures, and sewer trunk line installations.
- The Ceres Trunk Project is nearly complete, which is comprised of approximately 3,500 LF of sewer trunk, rehabilitation of the existing trunk section crossing the HWY 99 and the installation of a secondary trunk line for reliability.
- Construction of the Area 2 Cross Connection Removal – Roosevelt Park Project began which is comprised of six existing sewer cross connections to be removed, a new underground storm drain system and renovations to Roosevelt Park. This project received a \$4 million Proposition 84 grant.
- For FY 18/19, the City water system has shown an average monthly water production reduction of 25.03% as compared to the State's baseline of June 2013. This reduction represents an average of 406 million gallons of water saved each month! The Water Services Division maintains approx. 1,000 miles of water mains, 72,362 water services, and currently has 77 water wells in service. During FY 18/19, Water Services Division staff performed 7,906 water quality samples, responded 4,689 water service calls, and made 8,260 water conservation contacts.
- Completed Trash Assessment of all priority land use areas with the City and identified opportunities to mitigated potential trash impacts to the Tuolumne River that include a mixture of full capture devices and best management practices.

#### Effective Responsive & Transparent Government

- Installed 5 new groundwater monitoring wells at the Compost Facility site in compliance with the Regional Water Quality Control Board's Composting General Order.
- Successful implementation of PerfectMind system for facility and park rentals and recreational program registration.
- Completed the implementation of Phase I of the City's new Business License software which will allow businesses to submit their payments online.
- Completed the implementation of our new utility billing online portal which provides an easier way to view utility bills online and make online payments.
- Procedural Justice training was deployed throughout the Modesto Police Department focusing on how law enforcement can improve trust and relationships with their communities by using principles to evaluate their policies, procedures and training.
- Completed 95% of Citywide upgrade of Network and Communication System, which provides access to over 3,000 endpoint access to City resources.
- Completed Upgrade of Chambers and Master Control facility for Education and Government Channel. Replaced aged projector with digital TV displays to improve audience viewing and upgraded microphones and speakers for better sound quality. Overhauled the Master Control Facility to improve quality and reliability of video transmission and recordings.
- Improved Website experience by implementing ADA Website tool to identify non-compliant items for remediation.

- Implemented the new Lucity, Enterprise Asset Management Software that has enhanced productivity by integrating Geographic Information Systems (GIS) and providing field staff the capability to receive work orders remotely, (utilizing a mobile device) so they can resolve the issue and close out the work order without the need to return to the office to do so.

**Awards / Acknowledgments**

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, 2018. This was the 36<sup>th</sup> consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

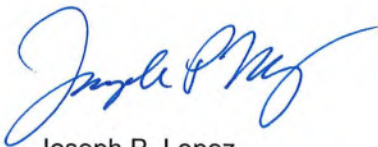
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Comprehensive Annual Financial Report (CAFR) is the result of the cooperative work of many people. We wish to convey our appreciation to all of the City departments and members of the Finance Department team who prepared and contributed to its successful completion. Without their hard work, this report would not be possible.

In addition, the City submitted and received an award from the GFOA for its third year for the Popular Annual Financial Report (PAFR) for fiscal year ended June 30, 2018. A PAFR presents financial information in a manner that appeals to the reader, is understandable and shows creativity and usefulness. The PAFR award is valid for one year and the City intends to submit its 2019 PAFR to the GFOA for consideration.

Finally, we would like to express our appreciation to the City Council, City employees, and community for their leadership and support. We look forward to the next year's challenges and opportunities.

Respectfully submitted,



Joseph P. Lopez  
City Manager



DeAnna Christensen  
Director of Finance



Government Finance Officers Association

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, 2018**

*Christopher P. Morrill*

Executive Director/CEO

# CITY OF MODESTO ORGANIZATIONAL CHART



- Legend**
- Elected
  - Council Appointed
  - City Manager Appointed

**CITIZENS OF MODESTO**

**CITY COUNCIL**  
 Ted Brandvold, Mayor  
 Mani Grewal, District 1      Bill Zoslocki, District 4  
 Tony Madrigal, District 2      Jenny Kenoyer, District 5  
 Kristi Ah You, District 3      Douglas Ridenour, District 6

**CITY ATTORNEY**  
Adam Lindgren

**CITY AUDITOR**  
Vacant

**CITY CLERK**  
Stephanie Lopez

**MODESTO CITY MANAGER**  
Joseph P. Lopez

**DEPUTY CITY MANAGER OPERATIONS**

**PUBLIC WORKS**

**UTILITIES**

**PARKS, RECREATION & NEIGHBORHOODS**

**COMMUNITY & ECONOMIC DEVELOPMENT**

**Healthy Economy, Vibrant Infrastructure & Sustainable Environment**

Neighborhood Engagement, Utility and Infrastructure Maintenance and Repair, Recycling and Waste Removal, Community Programming and Neighborhood Development, Environmental Compliance, Construction Management, Economic Development, Transportation Management, Land Acquisition and Development

**POLICE DEPARTMENT**

**FIRE DEPARTMENT**

**PUBLIC RELATIONS**

**Safe Neighborhoods**

Emergency Service Calls, Dispatch, Rescue, Hazardous Materials Control, Fire Prevention, Safety Education, Crime Prevention and Mapping, Patrols, Traffic Enforcement, Gang Enforcement

**DEPUTY CITY MANAGER SUPPORT**

**BUDGET**

**FINANCE**

**HUMAN RESOURCES**

**INFORMATION TECHNOLOGY**

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# **FINANCIAL SECTION**





## **INDEPENDENT AUDITORS' REPORT**

To the City Council  
City of Modesto, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto, California (the City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of plan contributions, schedule of changes in the OPEB liability and related ratios, schedule of contributions, and budgetary comparison schedules for the General Fund and Housing and Community Development Special Revenue Fund, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules, statistical section and the continuing disclosure section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section, statistical section and continuing disclosure section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

HUDSON HENDERSON & COMPANY, INC.

*Hudson Henderson & Company, Inc.*

Fresno, California  
December 11, 2019

# Management's Discussion and Analysis

This section of the City of Modesto (the City) comprehensive annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2019. 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 2019 fiscal year by \$1,109,443,626 (*total net position*). Of this amount, \$143,454,894 is restricted for a specific purpose (*restricted net position*), \$1,009,329,066 is invested in capital assets, net of related debt and (\$43,340,334) is unrestricted (*unrestricted net position*).
- The City's total deferred outflow of resources decreased by \$4,722,102 compared to the prior year. The City's total deferred inflow of resources decreased by \$2,215,734 compared to the prior year.
- The City's total net position increased by \$60,889,871 compared to the prior year. This increase is attributed to additions made to the City's infrastructure and capital improvements.
- As of June 30, 2019, the City's governmental funds reported combined fund balances of \$131,301,714, a decrease of \$2,657,564 in comparison with the prior year.
- As of June 30, 2019, 6.81% of the General fund balance of \$1,742,785 is available to meet the City's current and future needs (*General Fund unassigned fund balance*).
- At the end of the fiscal year, the General Fund balance was \$25,582,870 or 20.6% of total General Fund expenditures. Of this, \$2,209,485 is the restricted fund balances. The unassigned fund balance of \$1,742,785 represents 1.3% of total General Fund outflows. The City Council has adopted a goal of maintaining an 8% unassigned fund balance amount based on General Fund outflows.
- The City's total long-term liabilities showed a net decrease of \$17,717,191 in comparison with the prior year. This decrease was attributed to reduction in debt from the principal payments made during the fiscal year.

## 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 the City finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all the City assets and liabilities, deferred outflows of resources and deferred inflow of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, Compost, Airport, Bus, Golf, Community Center and Abatement and Public Nuisance operations.

## Management's Discussion and Analysis (*continued*)

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 or the City has operational responsibility for the entities. Examples are the Community Facilities Districts, Redevelopment Successor Agency of the City of Modesto and the Modesto Public Financing Authority.

**The government-wide financial statements can be found on pages 19-21 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, Housing and Community Development Fund and Transportation Special Tax Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

**The governmental funds financial statements can be found on pages 22-25 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, Compost, Airport, Bus, Golf, Community Center and Abatement and Public Nuisance 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 with the exception of portions of the compensated absences that have been included within business-type activities. The rest of 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, Sewer and Bus 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 26-29 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

## Management's Discussion and Analysis *(continued)*

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 30-31 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 32-78** of this report.

**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. This section also includes the schedules for net pension liability and OPEB.

**Required supplementary information can be found on pages 81-91 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 98-132** of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,109,443,626 at the close of the most recent fiscal year.

#### Net Position

	Governmental activities		Business-type activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$246,108,781	\$243,103,994	\$281,130,823	\$261,380,685	\$527,239,604	\$504,484,679
Capital assets	439,689,132	418,014,444	926,872,707	904,169,388	1,366,561,839	1,322,183,832
Total assets	685,797,913	661,118,438	1,208,003,530	1,165,550,073	1,893,801,443	1,826,668,511
Deferred outflow s of resources	60,664,344	70,743,496	45,442,749	40,085,699	106,107,093	110,829,195
Current and other liabilities	310,234,095	303,343,367	146,601,151	132,037,995	456,835,246	\$435,381,362
Long-term liabilities	89,612,581	92,513,335	333,748,552	348,564,989	423,361,133	441,078,324
Total liabilities	399,846,676	395,856,702	480,349,703	480,602,984	880,196,379	876,459,686
Deferred inflow s of resources	8,559,554	10,481,112	1,708,977	2,003,153	10,268,531	12,484,265
Net position:						
Net investment in capital assets	401,515,805	377,529,238	607,813,261	571,811,118	1,009,329,066	949,340,356
Restricted net position	127,885,787	130,192,278	15,569,107	21,071,542	143,454,894	151,263,820
Unrestricted net position	(191,345,565)	(182,197,396)	148,005,231	130,146,975	(43,340,334)	(52,050,421)
Total net position	\$338,056,027	\$325,524,120	\$771,387,599	\$723,029,635	\$1,109,443,626	\$1,048,553,755

The largest portion of the City's net position, \$1,009,329,066 or 91.0%, reflects its investment in capital assets (e.g. land, water rights, buildings, improvements, furnishings and equipment, buses and fare boxes, pipelines, and infrastructure), less any related debt used to acquire those assets that are 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 debt and related deferred outflows and inflows, 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 position represents *unrestricted net position* of (\$43,340,334) or (3.9%).

The remaining balance of the City's net position of \$143,454,894 or 12.9% represents resources that are subject to external restrictions on how they may be used.

## Management's Discussion and Analysis *(continued)*

The City's net position increased by \$60,889,871 during the current fiscal year was largely due to the additions associated with the City's infrastructure and capital improvements.

The following table indicates the changes in net position for governmental and business-type activities, as well as comparative data for the prior year:

	Governmental activities		Business-type activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$28,975,356	\$32,463,928	\$158,963,772	\$150,864,635	\$187,939,128	\$183,328,563
Operating grants and contributions	6,591,435	5,802,634	25,668,280	17,858,762	32,259,715	23,661,396
Capital grants and contributions	8,831,664	3,062,292	5,198,721	7,196,698	14,030,385	10,258,990
General revenues:						
Taxes	61,114,320	59,468,267	201,931	207,849	61,316,251	59,676,116
Intergovernment revenue not restricted for specific purpose	85,826,338	76,641,006	-	-	85,826,338	76,641,006
Unrestricted investment earnings	5,753,083	726,199	7,290,802	1,047,604	13,043,885	1,773,803
Miscellaneous	3,421,783	818,542	1,528,727	1,472,809	4,950,510	2,291,351
Total revenues	200,513,979	178,982,868	198,852,233	178,648,357	399,366,212	357,631,225
Expenses:						
General government	13,973,768	15,432,617	-	-	13,973,768	15,432,617
Community development	15,720,280	17,268,926	-	-	15,720,280	17,268,926
Highways and streets	23,937,423	22,997,140	-	-	23,937,423	22,997,140
Public works	3,472,405	8,674,538	-	-	3,472,405	8,674,538
Parks and recreation	15,680,980	4,456,508	-	-	15,680,980	4,456,508
Public safety	111,059,794	120,629,673	-	-	111,059,794	120,629,673
Interest on long-term debt	2,402,299	2,510,224	-	-	2,402,299	2,510,224
Water	-	-	62,745,688	56,526,729	62,745,688	56,526,729
Sewer	-	-	41,216,914	41,444,220	41,216,914	41,444,220
Bus	-	-	24,276,760	20,538,934	24,276,760	20,538,934
Parking	-	-	1,899,479	1,553,258	1,899,479	1,553,258
Storm drain	-	-	7,157,290	5,202,444	7,157,290	5,202,444
Compost	-	-	8,477,947	9,652,175	8,477,947	9,652,175
Airport	-	-	1,646,800	1,578,654	1,646,800	1,578,654
Golf	-	-	3,052,785	2,616,077	3,052,785	2,616,077
Community center	-	-	1,541,592	1,780,010	1,541,592	1,780,010
Abatement and Public Nuisance	-	-	63,312	351,557	63,312	351,557
Total expenses	186,246,949	191,969,626	152,078,567	141,244,058	338,325,516	333,213,684
Change in net position before transfers	14,267,030	(12,986,758)	46,773,666	37,404,299	61,040,696	24,417,541
Transfers	(1,675,373)	(354,287)	1,675,373	354,287	-	-
Total transfers	(1,675,373)	(354,287)	1,675,373	354,287	-	-
Change in net position	12,591,657	(13,341,045)	48,449,039	37,758,586	61,040,696	24,417,541
Net position - beginning	325,524,120	309,111,010	723,029,635	690,285,159	1,048,553,755	999,396,169
Prior year adjustments	(59,750)	29,754,155	(91,075)	(5,014,110)	(150,825)	24,740,045
Net position - ending	\$338,056,027	\$325,524,120	\$771,387,599	\$723,029,635	\$1,109,443,626	\$1,048,553,755

**Governmental activities.** Governmental activities increased the City's net position by \$12,531,907. This increase was due to the on-going results of implementing GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other than Pension" which generated a reduction of the net OPEB liability by \$1.9 million. The long-term liabilities decrease was attributed to the principal payments of about \$2.6 million and \$0.8 million in claim reductions made during the fiscal year. Operating and capital grants contributions increased by \$6.6 million due to on-going efforts on grant funding opportunities. Intergovernmental revenue increased by \$9.1 million due to establishing the new revenue source beginning in Fiscal Year 2017-18 from the Stanislaus County county-wide, 25 year, half-cent sales tax increase known as Measure L. Measure L will be utilized to fund local transportation improvements.

## Management's Discussion and Analysis (*continued*)

Expenses in total decreased compared to the prior year by \$5,722,677 due to the City's payment made to the California Public Employment Retirement system (CalPERS) for their annual unfunded accrued liability.

**Business-type activities.** Business-type activities increased the City's net position by \$48,357,964. This increase is attributed to a healthy net position in our Water and Sewer Fund which generated an increase in net position by \$44.1 million and increase in our business-type capital assets. The Sewer fund has been able to manage their operational revenues due to a rate increase on July 1, 2018 of 6% to ensure they meet the debt ratio requirements set by Council. In addition, the Water Fund implemented a rate increase of 9% on January 1, 2019 to manage their debit ratio requirements and their capital needs for the City's water infrastructure.

### 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, *unassigned 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, 2019, the City's governmental funds reported combined fund balances of \$131,301,714 a decrease of \$2,657,564 from the prior year. The total unassigned fund balance for the governmental funds was (\$1,066,518), which includes a positive \$1,742,785, which represents the General Fund unassigned fund balance that is available to meet the City's current and future needs. The remainder of fund balance is *nonspendable, restricted, committed and assigned* to indicate that it is *not* available for new spending because certain constraints have been placed on the use of the balances. The unassigned fund balance for the General Fund increased by \$47,309.

The General Fund is the chief operating fund of the City. At June 30, 2019, unassigned fund balance of the General Fund was \$1,742,785 while total fund balance was \$25,582,870. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 1.4% of total General Fund expenditures, while total fund balance represents 20.57% of that same amount. The prior year ratios were 1.1% and 22.52%, respectively.

The Housing and Community Development fund accounts for the grants and funds received to disburse for projects developed and administered under the Housing and Community Development Act. At June 30, 2019, total fund balance was \$30,928,788, an increase of \$3,207,154 from prior year. This increase is attributed to new program income received to fund future low income project activity.

The Transportation Special Tax fund accounts for state-collected, locally-shared gas tax, 25 year, ½ cent sales tax Measure L, and SB-1 (Road Repair and Accountability Act of 2017) monies. At June 30, 2019, total fund balance was \$17,499,878, an increase of \$3,054,905 from prior year. This increase is attributed to the inflow of a full year of SB-1 funding compared to a partial amount in the prior year.

Revenues of governmental funds totaled \$190,501,002 in fiscal year 2018-19, which represents an increase of \$11,191,753 from fiscal year 2017-18.

Expenditures of governmental funds totaled \$193,922,912 in fiscal year 2018-19, representing an increase of \$33,244,950 from fiscal year 2017-18.

## Management's Discussion and Analysis (continued)

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 2019		FY 2018		% Change
	Amount	Percent	Amount	Percent	
Taxes	\$61,114,320	32.1%	\$59,468,267	33.2%	2.8%
Licenses and permits	344,855	0.2%	153,226	0.1%	125.1%
Intergovernmental	96,174,839	50.5%	85,629,758	47.8%	12.3%
Charges for services	23,226,714	12.2%	25,467,795	14.2%	-8.8%
Special assessments	4,260,281	2.2%	5,715,030	3.2%	-25.5%
Interest and rent	2,219,282	1.2%	1,574,347	0.9%	41.0%
Net increase (decrease) in fair value	1,294,543	0.7%	(645,593)	-0.4%	-300.5%
Fines and forfeits	1,143,506	0.6%	1,127,877	0.6%	1.4%
Miscellaneous	722,662	0.4%	818,542	0.4%	-11.7%
<b>Total</b>	<b>\$190,501,002</b>	<b>100.0%</b>	<b>\$179,309,249</b>	<b>100.0%</b>	<b>6.2%</b>

- Taxes – Revenues for property and business license taxes came in higher than the prior year due to an ongoing positive upturn in the economy and increased collection and compliance efforts by the City staff.
- Intergovernmental – Revenues increased by \$10.5 million due to an increase in the revenue source for the Stanislaus County county-wide, 25 year, half-cent sales tax increase known as Measure L to assist with the funding for local transportation improvements for the City.
- Charges for Services – Revenues decreased by \$2.2 million due to the Capital Facility Funds collecting an increase revenue for the building permits issued in 2018 for all new construction or additional square footage built within the City of Modesto.
- Special assessments: Revenue decreased by \$1.4 million due to an increase in building permits issued in the Community Facility District Village One #2 during FY 2017-18. No major building permits were issued in 2018-19 to generate an on-going increase in revenue.
- Interest and Net increase in fair value – Revenues increased due to increases to our interest earnings based on on-going improvements to the City's investment strategy which has increased our return on investment in the City's portfolio.

The following table presents expenditures by function compared to prior year amounts.

### Expenditures by Function – Governmental Funds

Exp by Function	FY 2019		FY 2018		% Change
	Amount	Percent	Amount	Percent	
General government	\$12,262,797	6.3%	\$11,837,635	7.4%	3.6%
Community development	13,796,154	7.1%	13,234,820	8.2%	4.2%
Highways and streets	10,102,646	5.2%	8,936,163	5.6%	13.1%
Public works	3,017,247	1.6%	6,509,418	4.1%	-53.6%
Parks and recreation	13,843,885	7.1%	3,420,453	2.1%	304.7%
Public safety	97,411,634	50.2%	92,341,706	57.5%	5.5%
Capital outlay	38,522,334	19.9%	19,037,250	11.8%	102.4%
Debt Service-principal retirement	2,562,498	1.3%	2,849,343	1.8%	-10.1%
Debt Service-interest charges	1,897,384	1.0%	2,114,488	1.3%	-10.3%
Debt Service-other	506,333	0.3%	396,686	0.2%	27.6%
<b>Total</b>	<b>\$193,922,912</b>	<b>100.0%</b>	<b>\$160,677,962</b>	<b>100.0%</b>	<b>20.7%</b>

## Management’s Discussion and Analysis (continued)

The following provides an explanation of the expenditures by function that changed significantly over the prior year:

- Highways and Streets – Expenditures increased by \$1,166,483 or 13.1% over the prior year, due to a reduction in street related projects compared to the prior year.
- Parks and recreation – Expenditures increased by \$10,423,432 or 304.7% over the prior year, due to the re-organizational change to move the operating park maintenance and various parks facilities from Public Works and Community Economic Development to Parks and Recreation.
- Public safety – Expenditures increased by \$5,069,928 or 5.5% over the prior year, due to an increase of expenses for police services. These increases were attributed to continuous increases to workers’ compensation cost for police, information technology and police equipment and salary and benefit increase for the police department.
- Capital outlay – Expenditures increased by \$19,485,084 or 102.4% reflects an increase due to an increase in construction projects related to State Route 132 West Express project in the amount of \$19.4 million.

Other financing sources and uses are presented below to illustrate changes from the prior year:

	FY 2019	FY 2018	Increase/(Decrease)	
			Amount	Percent
Transfers in	\$21,496,638	\$10,707,217	\$10,789,421	100.8%
Transfers out	(20,760,150)	(13,568,675)	(7,191,475)	53.0%
Sale of assets	87,608	154,458	(66,850)	-43.3%
Net financing (uses)	\$824,096	(\$2,707,000)	\$3,531,096	-130.4%

Transfers - The City uses interfund transfers to: (1) move resources from a fund to other funds that will utilize them in accordance with statutory and budgetary requirements, (2) utilize unrestricted resources 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 pay debt service to the funds that are responsible for payment as those payments become due.

- The net financing (uses) from governmental funds for 2019 were \$824,096 compared to \$(2,707,000) in the prior year. This net transfer is to various City funds including transferring funds from the General Fund, Capital Facility Fee funds, Fleet Fund, Measure L Capital Fund and the Public Financing Authority to cover the debt service payments, fleet replacement, funding for capital projects and various transfers to cover City grant matches.

The fund balance of the City’s General Fund decreased by \$1,162,712 during the fiscal year. This result is consistent with the City Council’s budgetary direction to reduce spending and identify additional revenue sources that would allow the General Fund to retain an unrestricted reserve that meets the City Council’s adopted 8% unassigned fund balance amount based on General Fund outflows.

**Proprietary funds.** The City’s proprietary fund disclosures provide the same type of information found in the government-wide financial statements, but in more detail.

## Management's Discussion and Analysis *(continued)*

The following table shows actual revenues, expenses and results of operations of enterprise funds for the current fiscal year:

	Major Funds			Nonmajor Funds	
	Water	Sewer	Bus	Other	Total
Operating revenues	\$76,806,740	\$56,726,373	\$3,176,134	\$21,418,279	\$158,127,526
Operating expenses	(55,552,772)	(37,479,496)	(24,237,441)	(23,693,594)	(140,963,303)
Operating income (loss)	21,253,968	19,246,877	(21,061,307)	(2,275,315)	17,164,223
Nonoperating revenues (expenses), net	(3,096,720)	2,766,272	22,763,424	2,158,505	24,591,481
Income (loss) before capital contributions and transfers	18,157,248	22,013,149	1,702,117	(116,810)	41,755,704
Contributions and transfers	(584,399)	4,473,685	663,221	2,321,587	6,874,094
Changes in net position	\$17,572,849	\$26,486,834	\$2,365,338	\$2,204,777	\$48,629,798

The Water fund had a 9.0% rate increase in January 2019 and the Sewer fund had a rate increase of 6.0% in July 2018. Based on these rate increases the Water and Sewer funds had an increase in their operating revenue which increased their net position.

A pollution remediation liability was reported for the Water and Sewer fund in the amounts of \$8,179,540 and \$7,230,328, respectively based on net recoveries the City has received from various settlements. Additional information regarding these liabilities can be found under Note II-N.

### GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the General Fund is presented as Required Supplementary Information, beginning on **page 86-87** of this report.

While the City Council amended the budget several times through the year, the differences between the original budget and the final amended budget for the General Fund were increased overall mainly due to an increase in intergovernmental revenue, charges for services and fines and forfeit revenue. The estimated revenues increased about \$413,340 while total appropriations were increased \$602,333. These amendments 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 \$2,722,142 more than final estimates. Variances in Property Taxes \$470,138, Business License Taxes \$2,068,205, Intergovernmental \$1,070,184 and Interest and Rent Revenue \$536,921 were due to an increase in collection and compliance efforts and increases in property values.

Expenditures, overall, were \$5,722,633 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, 2019, amounted to \$1,366,561,839 (net of accumulated depreciation). The total increase in the City's investment in capital assets compared to 2018 was 3.0%.

## Management's Discussion and Analysis (continued)

Capital assets net of depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year.

	Governmental		Business-type		Total		Increase (decrease)	
	2019	2018	2019	2018	2019	2018	Percent Change	\$ Change
Land	\$33,315,549	\$28,486,969	\$34,511,762	\$34,453,868	\$67,827,311	\$62,940,837	8%	\$4,886,474
Capitalized interest	-	-	6,377,963	7,273,825	6,377,963	7,273,825	-12%	(895,862)
Buildings	11,296,297	12,182,014	32,474,814	34,456,293	43,771,111	46,638,307	-6%	(2,867,196)
Improvements	56,043,331	51,358,075	208,531,497	135,928,019	264,574,828	187,286,094	41%	77,288,734
Furnishings and equipment	3,414,170	3,057,257	5,341,815	5,420,938	8,755,985	8,478,195	3%	277,790
Intangible assets	2,797,538	3,164,415	24,751	36,239	2,822,289	3,200,654	-12%	(378,365)
Equipment pool	16,825,119	18,857,425	-	-	16,825,119	18,857,425	-11%	(2,032,306)
Service animals	19,584	16,046	-	-	19,584	16,046	22%	3,538
Water rights	-	-	250,758,682	262,699,572	250,758,682	262,699,572	-5%	(11,940,890)
Streets	211,213,953	192,817,087	-	-	211,213,953	192,817,087	10%	18,396,866
Signalization	13,805,103	4,848,397	-	-	13,805,103	4,848,397	185%	8,956,706
Bridges	30,326,497	28,500,140	-	-	30,326,497	28,500,140	6%	1,826,357
Buses & fareboxes	25,103	25,103	18,410,479	16,210,586	18,435,582	16,235,689	14%	2,199,893
Pipelines	3,007,877	-	146,817,986	137,243,577	149,825,863	137,243,577	9%	12,582,286
Construction in progress	57,599,011	74,701,516	223,622,958	270,446,471	281,221,969	345,147,987	-19%	(63,926,018)
<b>Total</b>	<b>\$439,689,132</b>	<b>\$418,014,444</b>	<b>\$926,872,707</b>	<b>\$904,169,388</b>	<b>\$1,366,561,839</b>	<b>\$1,322,183,832</b>	<b>3%</b>	<b>\$44,378,007</b>

Major capital asset events during the current fiscal year included the following:

- Improvements – The North Valley Recycled Water improvement was completed in FY 18-19 in the amount of \$48.3 million.
- Land – 6 land parcels were purchased by the City in fiscal year 2018-19 in the amount of \$4.9 million.
- Streets – The State Route 99 and Pelandale Interchange project was completed in FY 18-19 in the amount of \$29.1 million

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 45-46 of this report.

The City had major capital commitments for contracts awarded for various construction projects. As of June 30, 2019, there were major contracts awarded for water, sewer system improvements, State Route 132 Project, and major street improvements throughout the City in the amount of \$74.3 million for both governmental and business-type funds. Additional information on the City's commitments can be found in note III-D on page 68 of this report.

### Long-term debt

At June 30, 2019, the City had total long-term liabilities outstanding of \$423,361,133 net of unamortized discounts and premiums, as compared to \$441,078,324 in the prior year. This amount was comprised of \$50,915,000 of lease revenue bonds, \$46,146,545 of certificates of participation, \$25,522,898 of revenue bonds payable, \$117,047,906 of reimbursement agreement related to Modesto Irrigation District bonds, \$10,319,630 of estimated compensated absences, \$23,630,560 of claims liability, \$141,971,062 of loans payable, \$951,141 of developer advances, \$5,022,391 of capital leases, and \$1,834,000 of notes payable.

For the governmental and business activities, the long-term debt decreased was mainly due to the principal payments made during the fiscal year. Additional information on the City's long-term debt can be found in Note II-C on pages 47-60 of this report.

## Management’s Discussion and Analysis (continued)

The City maintains a current bond rating for the various bonds listed below.

<b>BONDS</b>	<b>Moody’s Rating</b>	<b>S &amp; P Rating</b>	<b>Fitch Rating</b>
Wastewater Revenue Bonds, Series 2006A	A1		AA-
Wastewater Revenue Bonds, Series 2018A		AA+/A-1+	
2008 Lease Revenue Bonds		A/A-1	A+
2008 Water Certificates of Participation	Aa1	AA+/A-1	

With the implementation of GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other than Pension, the City’s net OPEB liability as of June 30, 2019 was \$26.9 million. Additional information on the City’s net OPEB liability and Pension can be found in Notes III-F and III-G.

### **Economic Factors and Next Year’s Budget and Rates**

- *Consumer Price Index* – Growth in the CPI has been relatively stable during the past ten years and serves as a measure for the growth in the cost for supplies and services used by the City. In the fiscal year ended June 30, 2019, the CPI-Western Urban Index increased by 2.7%.
- *Utility Service Charges* - Water and Sewer utility rates have a 9.0% and 6.0% scheduled rate increase for fiscal year 2017-18. For the Water and Sewer utility rates, these planned rate increases were effective on July 2018 for Sewer and January 2019 for Water. In fiscal year 2019-20, the Water and Sewer utility rates have a 6.0% and 6.0% increase effective on April 2020 for Water and January 2020 for Sewer. These rate increases will be used to assist with maintaining the debt coverage ratio requirements and related capital improvements for the utility funds.

All of these factors were considered in preparing the City’s budget for fiscal year 2019-20.

During the current fiscal year, fund balance in the General Fund decreased by \$1,162,712, to \$25,582,870, which represents 19.2% of total General Fund outflows which exceeds the City Council’s target value of 8% unassigned fund balance amount based on General Fund outflows. The budget adopted for fiscal year 2019-20 reflects the Council policy reserve level of a minimum \$16 million emergency reserve policy. This amount is reported as part of the committed fund balance.

### **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.

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## **BASIC FINANCIAL STATEMENTS**

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**CITY OF MODOSTO**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2019**

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 65,846,320	\$ 220,357,575	\$ 286,203,895
Accounts receivable, net	2,509,914	2,196,874	4,706,788
Interest receivable	720,387	910,180	1,630,567
Utility billings receivable, net	950,586	14,325,270	15,275,856
Taxes receivable	13,449,763	-	13,449,763
Due from governments, net	19,704,696	12,918,943	32,623,639
Prepaid expenses	766,663	2,620,112	3,386,775
Internal balances	907,460	(907,460)	-
Inventories	19,022	82,422	101,444
Investments in joint ventures	8,010,105	-	8,010,105
Restricted assets:			
Cash and cash equivalents	57,159,254	18,238,352	75,397,606
Cash and cash equivalents with fiscal agent	6,203,352	10,388,555	16,591,907
Interest receivable	1,687	-	1,687
Due from governments, net	385,304	-	385,304
Reimbursement agreement	14,765,350	-	14,765,350
Notes and loan receivable, net	54,708,918	-	54,708,918
Capital assets:			
Land and construction in progress	90,914,560	258,134,720	349,049,280
Other capital assets, net of accumulated depreciation	348,774,572	668,737,987	1,017,512,559
Total assets	<u>685,797,913</u>	<u>1,208,003,530</u>	<u>1,893,801,443</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred OPEB	2,292,283	719,931	3,012,214
Deferred pensions	49,943,744	10,060,971	60,004,715
Loss on refunding	-	759,920	759,920
Accumulated decrease in fair value of hedging derivatives	8,428,317	33,901,927	42,330,244
Total deferred outflows of resources	<u>60,664,344</u>	<u>45,442,749</u>	<u>106,107,093</u>
Total assets and deferred outflows of resources	<u>746,462,257</u>	<u>1,253,446,279</u>	<u>1,999,908,536</u>
<u>LIABILITIES</u>			
Accounts payable	9,807,384	13,439,169	23,246,553
Accrued salaries and benefits	1,836,187	567,198	2,403,385
Approved loans payable	491,157	-	491,157
Interest payable	49,617	1,254,545	1,304,162
Due to other governments	244,009	-	244,009
Unearned revenue	2,064,054	15,762,416	17,826,470
Refundable deposits	4,102,755	2,669,245	6,772,000
Derivative instrument - interest swap	8,428,317	33,901,927	42,330,244
Pollution remediation liability	-	20,333,609	20,333,609
Long-term liabilities:			
Due within one year	8,590,337	17,241,791	25,832,128
Due in more than one year	81,022,244	316,506,761	397,529,005
Net OPEB liability	20,240,726	6,651,432	26,892,158
Net pension liability	262,969,889	52,021,610	314,991,499
Total liabilities	<u>399,846,676</u>	<u>480,349,703</u>	<u>880,196,379</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred OPEB	1,932,071	631,314	2,563,385
Deferred pensions	6,627,483	1,077,663	7,705,146
Total deferred inflows of resources	<u>8,559,554</u>	<u>1,708,977</u>	<u>10,268,531</u>
Total liabilities and deferred inflows of resources	<u>408,406,230</u>	<u>482,058,680</u>	<u>890,464,910</u>
<u>NET POSITION</u>			
Net investment in capital assets	401,515,805	607,813,261	1,009,329,066
Restricted for:			
Capital projects	48,093,688	-	48,093,688
Housing and community development	57,480,291	-	57,480,291
Other purposes	22,311,808	15,569,107	37,880,915
Unrestricted	(191,345,565)	148,005,231	(43,340,334)
Total net position	<u>\$ 338,056,027</u>	<u>\$ 771,387,599</u>	<u>\$ 1,109,443,626</u>

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**STATEMENT OF ACTIVITIES**  
**FISCAL YEAR ENDED JUNE 30, 2019**

FUNCTIONS/PROGRAMS:	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 13,973,768	\$ 6,387,743	\$ -	\$ -
Community development	15,720,280	12,106,237	4,610,720	-
Highways and streets	23,937,423	748,319	-	8,782,258
Public works	3,472,405	2,779,546	-	-
Parks and recreation	15,680,980	2,450,965	-	49,406
Public safety	111,059,794	4,502,546	1,980,715	-
Interest on long-term debt	2,402,299	-	-	-
Total governmental activities	186,246,949	28,975,356	6,591,435	8,831,664
Business-type activities:				
Water	62,745,688	76,806,740	584,031	61,682
Sewer	41,216,914	57,562,619	1,951,280	4,472,995
Bus	24,276,760	3,176,134	22,506,575	489,931
Parking	1,899,479	1,519,954	-	-
Storm drain	7,157,290	6,133,801	-	-
Compost	8,477,947	10,090,662	329,114	-
Airport	1,646,800	737,072	297,280	174,113
Golf	3,052,785	2,419,938	-	-
Community center	1,541,592	285,685	-	-
Abatement and public nuisance	63,312	231,167	-	-
Total business-type activities	152,078,567	158,963,772	25,668,280	5,198,721
<b>Total</b>	<b>\$ 338,325,516</b>	<b>\$ 187,939,128</b>	<b>\$ 32,259,715</b>	<b>\$ 14,030,385</b>

General revenues:

Taxes:

  Utility users tax

  Property taxes, levied for general purposes

  Property taxes, generated by and allocated to the airport

  Transient occupancy tax

  Franchise tax

  Business license tax, levied for general purposes

  Business license tax, levied for downtown improvement district

  Intergovernmental revenue not restricted to specific programs:

Intergovernmental revenue:

  Sales tax (state appropriation)

  Motor vehicle license fee

  Transportation tax funding

  Community facilities district fees

  Special assessments, levied

  Other

Unrestricted investment earnings

Miscellaneous

Transfers, net

Total general revenues and transfers

Changes in net position

Net position, July 1

Prior year adjustments

Net position, June 30

The notes to basic financial statements are an integral part of this statement.

Net (Expense) Revenue and  
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (7,586,025)	\$ -	\$ (7,586,025)
996,677	-	996,677
(14,406,846)	-	(14,406,846)
(692,859)	-	(692,859)
(13,180,609)	-	(13,180,609)
(104,576,533)	-	(104,576,533)
(2,402,299)	-	(2,402,299)
<u>(141,848,494)</u>	<u>-</u>	<u>(141,848,494)</u>
-	14,706,765	14,706,765
-	22,769,980	22,769,980
-	1,895,880	1,895,880
-	(379,525)	(379,525)
-	(1,023,489)	(1,023,489)
-	1,941,829	1,941,829
-	(438,335)	(438,335)
-	(632,847)	(632,847)
-	(1,255,907)	(1,255,907)
-	167,855	167,855
-	<u>37,752,206</u>	<u>37,752,206</u>
<u>(141,848,494)</u>	<u>37,752,206</u>	<u>(104,096,288)</u>
19,803,859	-	19,803,859
17,316,735	-	17,316,735
-	201,931	201,931
2,961,406	-	2,961,406
6,762,101	-	6,762,101
14,068,205	-	14,068,205
202,014	-	202,014
-	-	-
31,665,700	-	31,665,700
17,057,003	-	17,057,003
19,002,236	-	19,002,236
8,432	-	8,432
4,260,281	-	4,260,281
13,832,686	-	13,832,686
5,753,083	7,290,802	13,043,885
3,421,783	1,528,727	4,950,510
<u>(1,675,373)</u>	<u>1,675,373</u>	<u>-</u>
<u>154,440,151</u>	<u>10,696,833</u>	<u>165,136,984</u>
12,591,657	48,449,039	61,040,696
325,524,120	723,029,635	1,048,553,755
<u>(59,750)</u>	<u>(91,075)</u>	<u>(150,825)</u>
<u>\$ 338,056,027</u>	<u>\$ 771,387,599</u>	<u>\$ 1,109,443,626</u>

**CITY OF MODESTO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2019**

	General	Housing and Community Development	Transportation Special Tax	Other Governmental	Total Governmental
<b>ASSETS</b>					
Cash and cash equivalents	\$ 10,753,579	\$ 4,923,754	\$ 15,994,771	\$ 5,180,033	\$ 36,852,137
Receivables:					
Accounts, net	408,245	60,424	58,977	85,693	613,339
Interest	150,447	2,680	54,588	178,150	385,865
Utilities, net	950,586	-	-	-	950,586
Taxes	12,953,505	-	353,638	142,620	13,449,763
Due from governments	1,857,232	770,534	1,604,683	15,461,883	19,694,332
Due from other funds	3,230,977	-	-	-	3,230,977
Prepaid expenditures	386,710	7,625	1,127	4,538	400,000
Restricted assets:					
Cash and cash equivalents	2,209,485	-	-	49,566,461	51,775,946
Cash and cash equivalents with fiscal agent	-	-	-	6,054,226	6,054,226
Interest receivable	-	-	-	1,687	1,687
Due from governments	-	-	-	385,304	385,304
Notes receivable, net	-	52,427,739	-	2,281,179	54,708,918
Advances to other funds	2,336,322	-	-	-	2,336,322
<b>Total assets</b>	<b>\$ 35,237,088</b>	<b>\$ 58,192,756</b>	<b>\$ 18,067,784</b>	<b>\$ 79,341,774</b>	<b>\$ 190,839,402</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 1,643,327	\$ 137,853	\$ 406,686	\$ 6,132,550	\$ 8,320,416
Accrued salaries and benefits	1,534,877	9,012	76,772	96,444	1,717,105
Accrued interest payable	-	12,426	-	18,732	31,158
Approved loans payable	-	491,157	-	-	491,157
Due to other funds	-	-	-	2,944,365	2,944,365
Due to other governments	189,617	54,392	-	-	244,009
Unearned revenue	239,425	-	-	1,656,638	1,896,063
Refundable deposits	3,929,977	-	-	172,778	4,102,755
Advances from other funds	1,842,973	-	-	1,551,509	3,394,482
<b>Total liabilities</b>	<b>9,380,196</b>	<b>704,840</b>	<b>483,458</b>	<b>12,573,016</b>	<b>23,141,510</b>
Deferred inflows of resources:					
Unavailable revenue	274,022	26,559,128	84,448	9,478,580	36,396,178
Fund balances:					
Nonspendable	2,723,032	7,625	1,127	4,538	2,736,322
Restricted	2,209,485	30,921,163	-	58,288,857	91,419,505
Committed	18,397,817	-	-	-	18,397,817
Assigned	509,751	-	17,498,751	1,807,356	19,815,858
Unassigned	1,742,785	-	-	(2,810,573)	(1,067,788)
<b>Total fund balances</b>	<b>25,582,870</b>	<b>30,928,788</b>	<b>17,499,878</b>	<b>57,290,178</b>	<b>131,301,714</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 35,237,088</b>	<b>\$ 58,192,756</b>	<b>\$ 18,067,784</b>	<b>\$ 79,341,774</b>	<b>\$ 190,839,402</b>

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2019**

Total fund balances - total governmental funds \$ 131,301,714

Amounts reported for governmental activities in the statement of net position 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	\$ 87,728,921	
Depreciable	169,817,910	
Accumulated depreciation on general capital assets	(93,436,244)	
Infrastructure:		
Depreciable	613,643,445	
Accumulated depreciation on infrastructure	<u>(355,290,015)</u>	422,464,017

Other long-term assets are not available to pay for current-period expenditures and, therefore, are:

Deferred in the governmental funds	\$ 36,396,178	
Reimbursement agreement with Successor Agency	14,765,350	
Investments in joint ventures	<u>8,010,105</u>	59,171,633

Derivative instruments:

Rate swaps are not reported in governmental funds.	\$ (8,428,317)	
Deferred outflows of resources used to accumulate decreases in fair value of hedging derivatives also are not reported in governmental funds.	<u>8,428,317</u>	-

Internal service funds are used by management to charge the costs of activities to individual funds. The assets, liabilities, and deferred inflows of resources of internal service funds are included in governmental activities in the statement of net position.

11,744,950

Deferred outflows and inflows of resources for pension items in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

Deferred outflows of resources	\$ 47,762,238	
Deferred inflows of resources	<u>(6,269,343)</u>	41,492,895

Deferred outflows and inflows of resources for net OPEB items in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

Deferred outflows of resources	\$ 2,103,306	
Deferred inflows of resources	<u>(1,770,435)</u>	332,871

Some liabilities, are not due and payable in the current period and therefore are not reported in the funds.

Net pension liability	\$ (251,607,623)	
Net OPEB liability	(18,574,090)	
Bonds payable, and other long-term debt	(58,251,881)	
Accrued interest	<u>(18,459)</u>	<u>(328,452,053)</u>

Net position of governmental activities \$ 338,056,027

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	General	Housing and Community Development	Transportation Special Tax	Other Governmental	Total Governmental
<b>REVENUES:</b>					
Taxes	\$ 59,150,379	\$ -	\$ 1,392,951	\$ 570,990	\$ 61,114,320
Licenses and permits	295,007	-	7,566	42,282	344,855
Intergovernmental	52,496,580	6,225,719	19,002,236	18,450,304	96,174,839
Charges for services	14,051,767	569,872	740,753	7,864,322	23,226,714
Special assessments levied	-	-	-	4,260,281	4,260,281
Interest and rent	1,160,531	-	203,798	854,953	2,219,282
Net increase in fair value of investments	482,347	-	212,955	599,241	1,294,543
Fines and forfeits	852,872	-	-	290,634	1,143,506
Miscellaneous	497,076	-	77,831	147,755	722,662
Total revenues	<u>128,986,559</u>	<u>6,795,591</u>	<u>21,638,090</u>	<u>33,080,762</u>	<u>190,501,002</u>
<b>EXPENDITURES:</b>					
Current:					
General government	11,764,452	-	-	498,345	12,262,797
Community development	5,969,720	2,312,366	-	5,514,068	13,796,154
Highways and streets	-	-	9,851,764	250,882	10,102,646
Public works	456,686	-	-	2,560,561	3,017,247
Parks and recreation	11,381,053	-	-	2,462,832	13,843,885
Public safety	94,077,508	-	-	3,334,126	97,411,634
Capital outlay	150,850	-	14,682	38,356,802	38,522,334
Debt service:					
Principal retirement	446,498	256,000	-	1,860,000	2,562,498
Interest	152,046	46,089	-	1,699,249	1,897,384
Other	-	-	-	506,333	506,333
Total expenditures	<u>124,398,813</u>	<u>2,614,455</u>	<u>9,866,446</u>	<u>57,043,198</u>	<u>193,922,912</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>4,587,746</u>	<u>4,181,136</u>	<u>11,771,644</u>	<u>(23,962,436)</u>	<u>(3,421,910)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	2,885,185	14,356	1,601,033	16,996,064	21,496,638
Transfers out	(8,723,251)	(988,338)	(10,317,772)	(730,789)	(20,760,150)
Sale of assets	87,608	-	-	-	87,608
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(5,750,458)</u>	<u>(973,982)</u>	<u>(8,716,739)</u>	<u>16,265,275</u>	<u>824,096</u>
<b>CHANGES IN FUND BALANCES</b>	<u>(1,162,712)</u>	<u>3,207,154</u>	<u>3,054,905</u>	<u>(7,697,161)</u>	<u>(2,597,814)</u>
<b>FUND BALANCES, JULY 1</b>	<u>26,745,582</u>	<u>27,721,634</u>	<u>14,444,973</u>	<u>65,047,089</u>	<u>133,959,278</u>
<b>PRIOR PERIOD ADJUSTMENTS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(59,750)</u>	<u>(59,750)</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 25,582,870</u>	<u>\$ 30,928,788</u>	<u>\$ 17,499,878</u>	<u>\$ 57,290,178</u>	<u>\$ 131,301,714</u>

The notes to basic financial statements are an integral part of this statement.

**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**  
**FISCAL YEAR ENDED JUNE 30, 2019**

Net change in fund balances - total governmental funds \$ (2,597,814)

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	\$ 38,522,334	
Depreciation expense	<u>(19,205,740)</u>	19,316,594

In the statement of activities, only the gain or loss on the sales and transfer of capital assets is reported, whereas in the governmental funds, the proceeds from such sales or transfer increase financial resources. Thus, the change in net position differs from the change in fund balances by the cost of the assets sold.

2,644,420

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unearned revenues	\$ 4,535,198	
Change in investments in joint ventures	<u>(934,363)</u>	3,600,835

Recognition of Successor Agency annual payment for their Reimbursement Agreement receivable associated with long-term debt.

539,400

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 position.

Principal retirement		2,562,498
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Some expenses reported in the statement of activities require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in accrued interest	\$ 1,418	
OPEB expense associated with net OPEB liability	1,043,851	
Pension expense associated with net pension liability	<u>(12,022,142)</u>	(10,976,873)

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.

(2,497,403)

Change in net position of governmental activities		\$ <u><u>12,591,657</u></u>
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The notes to basic financial statements are an integral part of this statement.

**CITY OF MESTO**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**JUNE 30, 2019**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 90,487,403	\$ 101,476,306	\$ 7,573,175	\$ 20,820,691	\$ 220,357,575	\$ 28,994,183
Receivables:						
Accounts, net	33,725	40,944	56,410	2,065,795	2,196,874	1,896,575
Interest	360,825	417,775	24,618	106,962	910,180	334,522
Utilities, net	8,322,695	5,065,482	-	937,093	14,325,270	-
Prepaid expenses	2,223,116	78,272	262,807	55,917	2,620,112	366,663
Due from governments	665,504	3,904,717	8,267,079	81,643	12,918,943	10,364
Inventories	35,435	-	-	46,987	82,422	19,022
Total current assets	<u>102,128,703</u>	<u>110,983,496</u>	<u>16,184,089</u>	<u>24,115,088</u>	<u>253,411,376</u>	<u>31,621,329</u>
Noncurrent assets:						
Advances to other funds	2,300,000	3,203,664	-	-	5,503,664	-
Restricted cash and cash equivalents	8,112,245	10,126,107	-	-	18,238,352	5,383,308
Restricted cash and cash equivalents with fiscal agent	9,360,880	377,194	-	650,481	10,388,555	149,126
Land and construction in progress	70,735,823	167,717,911	4,716,461	14,964,525	258,134,720	3,185,639
Other capital assets, net of accumulated depreciation	387,474,031	214,523,072	36,937,358	29,803,526	668,737,987	14,039,476
Total noncurrent assets	<u>477,982,979</u>	<u>395,947,948</u>	<u>41,653,819</u>	<u>45,418,532</u>	<u>961,003,278</u>	<u>22,757,549</u>
Total assets	<u>580,111,682</u>	<u>506,931,444</u>	<u>57,837,908</u>	<u>69,533,620</u>	<u>1,214,414,654</u>	<u>54,378,878</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred OPEB	298,755	215,962	46,867	158,347	719,931	188,977
Deferred pensions	3,702,615	3,651,340	641,270	2,065,746	10,060,971	2,181,506
Loss on refunding	404,463	355,457	-	-	759,920	-
Accumulated decrease in fair value of hedging derivatives	33,901,927	-	-	-	33,901,927	-
Total deferred outflows of resources	<u>38,307,760</u>	<u>4,222,759</u>	<u>688,137</u>	<u>2,224,093</u>	<u>45,442,749</u>	<u>2,370,483</u>
Total assets and deferred outflows of resources	<u>\$ 618,419,442</u>	<u>\$ 511,154,203</u>	<u>\$ 58,526,045</u>	<u>\$ 71,757,713</u>	<u>\$ 1,259,857,403</u>	<u>\$ 56,749,361</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	\$ 7,183,353	\$ 4,228,782	\$ 1,647,568	\$ 379,466	\$ 13,439,169	\$ 1,486,968
Accrued salaries and benefits	192,457	210,728	36,759	127,254	567,198	119,082
Interest payable	3,343	1,208,122	-	43,080	1,254,545	-
Due to other funds	-	-	-	286,612	286,612	-
Current portion - compensated absences	-	-	-	-	-	3,632,114
Current portion - claims liability	-	-	-	-	-	4,819,758
Current portion - long-term debt	5,445,942	8,714,065	-	400,000	14,560,007	-
Current portion - developer advances	92,294	-	-	-	92,294	-
Unearned revenue	60,975	1,871,941	12,800,099	1,029,401	15,762,416	167,991
Total current liabilities	<u>12,978,364</u>	<u>16,233,638</u>	<u>14,484,426</u>	<u>2,265,813</u>	<u>45,962,241</u>	<u>10,225,913</u>
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	1,499,392	1,169,853	-	-	2,669,245	-
Advances from other funds	-	-	-	4,445,504	4,445,504	-
Compensated absences	-	-	-	-	-	6,687,516
Claims liability	-	-	-	-	-	18,810,802
Derivative instrument - interest swap	33,901,927	-	-	-	33,901,927	-
Pollution remediation liability	8,179,540	7,230,328	-	4,923,741	20,333,609	-
Long-term debt:						
Reimbursement agreement related to MID debt	112,042,904	-	-	-	112,042,904	-
Revenue bonds payable	-	23,001,571	-	-	23,001,571	-
Loans payable	374,183	134,877,710	-	-	135,251,893	-
Certificates of participation	43,566,546	-	-	1,785,000	45,351,546	-
Developer advances	858,847	-	-	-	858,847	-
Net OPEB liability	2,661,944	1,975,457	418,877	1,595,154	6,651,432	1,666,636
Net pension liability	19,250,375	18,994,445	3,177,325	10,599,465	52,021,610	11,362,266
Total noncurrent liabilities	<u>222,335,658</u>	<u>187,249,364</u>	<u>3,596,202</u>	<u>23,348,864</u>	<u>436,530,088</u>	<u>38,527,220</u>
Total liabilities	<u>235,314,022</u>	<u>203,483,002</u>	<u>18,080,628</u>	<u>25,614,677</u>	<u>482,492,329</u>	<u>48,753,133</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred OPEB	256,927	188,360	40,371	145,656	631,314	161,636
Deferred pensions	521,764	322,055	48,028	185,816	1,077,663	358,140
Total deferred inflows of resources	<u>778,691</u>	<u>510,415</u>	<u>88,399</u>	<u>331,472</u>	<u>1,708,977</u>	<u>519,776</u>
<b>NET POSITION</b>						
Net investment in capital assets	306,545,622	216,380,288	41,653,819	43,233,532	607,813,261	17,225,115
Restricted for other purposes	6,612,853	8,956,254	-	-	15,569,107	5,383,308
Unrestricted	69,168,254	81,824,244	(1,296,801)	2,578,032	152,273,729	(15,131,971)
Total net position	<u>382,326,729</u>	<u>307,160,786</u>	<u>40,357,018</u>	<u>45,811,564</u>	<u>775,656,097</u>	<u>7,476,452</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 618,419,442</u>	<u>\$ 511,154,203</u>	<u>\$ 58,526,045</u>	<u>\$ 71,757,713</u>	<u>\$ 1,259,857,403</u>	<u>\$ 56,749,361</u>
Adjustment to reflect the consolidation of internal service fund activities					(4,268,498)	
Net position of business-type activities					<u>\$ 771,387,599</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 POSITION - PROPRIETARY FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Enterprise				Total Enterprise	Internal Service
	Water	Sewer	Bus	Other Enterprise		
<b>OPERATING REVENUES:</b>						
Charges for services	\$ 76,805,223	\$ 56,718,698	\$ 2,862,304	\$ 21,348,545	\$ 157,734,770	\$ 63,616,462
Miscellaneous	1,517	7,675	313,830	69,734	392,756	135,100
Total operating revenues	<u>76,806,740</u>	<u>56,726,373</u>	<u>3,176,134</u>	<u>21,418,279</u>	<u>158,127,526</u>	<u>63,751,562</u>
<b>OPERATING EXPENSES:</b>						
Salaries and wages	8,929,682	9,128,806	1,544,187	5,264,485	24,867,160	5,008,749
Contractual services	4,759,887	4,505,521	14,680,158	4,805,817	28,751,383	4,924,817
Utilities	2,083,772	3,167,332	167,144	594,081	6,012,329	274,713
Maintenance and supplies	2,468,379	2,466,948	2,094,101	4,284,111	11,313,539	4,568,205
Water purchases	12,376,629	-	-	-	12,376,629	-
Insurance	284,707	538,697	27,647	338,607	1,189,658	17,304,990
Claims	-	-	-	-	-	7,090,372
Employee benefits	4,869,915	5,188,596	848,565	2,937,653	13,844,729	23,290,283
Administration services	1,027,973	2,305,856	1,149,717	2,990,557	7,474,103	1,464,302
Allocated indirect administrative costs	1,424,066	853,289	370,776	599,582	3,247,713	271,618
Depreciation	17,327,762	9,324,451	3,355,146	1,878,701	31,886,060	2,991,244
Total operating expenses	<u>55,552,772</u>	<u>37,479,496</u>	<u>24,237,441</u>	<u>23,693,594</u>	<u>140,963,303</u>	<u>67,189,293</u>
<b>OPERATING INCOME (LOSS)</b>	<u>21,253,968</u>	<u>19,246,877</u>	<u>(21,061,307)</u>	<u>(2,275,315)</u>	<u>17,164,223</u>	<u>(3,437,731)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Operating grants	584,031	1,951,280	22,506,575	626,394	25,668,280	-
Gain (loss) on disposition of capital assets	86,351	(6,812)	6,175	13,938	99,652	(13,724)
Tax revenue	-	-	-	201,931	201,931	-
Tax expense	(88,527)	(141,587)	-	(27,481)	(257,595)	-
Interest income	1,457,474	1,515,286	(6,341)	310,138	3,276,557	1,635,218
Net increase (decrease) in fair value of investments	1,924,703	1,658,329	113,231	317,982	4,014,245	1,538,403
Connection fees	-	836,246	-	-	836,246	-
Rental income	45,105	505,407	143,784	834,431	1,528,727	-
Interest expense and amortization	(7,104,106)	(3,548,833)	-	(115,583)	(10,768,522)	-
Trustee and letter of credit fees	(1,751)	(3,044)	-	(3,245)	(8,040)	-
Total nonoperating revenues (expenses)	<u>(3,096,720)</u>	<u>2,766,272</u>	<u>22,763,424</u>	<u>2,158,505</u>	<u>24,591,481</u>	<u>3,159,897</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>18,157,248</u>	<u>22,013,149</u>	<u>1,702,117</u>	<u>(116,810)</u>	<u>41,755,704</u>	<u>(277,834)</u>
Capital contributions	61,682	4,472,995	489,931	174,113	5,198,721	11,533
Transfers in	144,778	180,637	381,164	2,290,813	2,997,392	2,499,131
Transfers out	(790,859)	(179,947)	(207,874)	(143,339)	(1,322,019)	(4,910,992)
<b>CHANGES IN NET POSITION</b>	<u>17,572,849</u>	<u>26,486,834</u>	<u>2,365,338</u>	<u>2,204,777</u>	<u>48,629,798</u>	<u>(2,678,162)</u>
<b>NET POSITION, JULY 1</b>	<u>364,753,880</u>	<u>280,673,952</u>	<u>37,991,680</u>	<u>43,697,862</u>		<u>10,154,614</u>
<b>PRIOR YEAR ADJUSTMENTS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(91,075)</u>		<u>-</u>
<b>NET POSITION, JUNE 30</b>	<u>\$ 382,326,729</u>	<u>\$ 307,160,786</u>	<u>\$ 40,357,018</u>	<u>\$ 45,811,564</u>		<u>\$ 7,476,452</u>
Adjustment to reflect the consolidation of internal service funds					<u>(180,759)</u>	
Change in net position of business-type activities					<u>\$ 48,449,039</u>	

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users	\$ 75,394,791	\$ 52,754,397	\$ 3,120,524	\$ 21,341,872	\$ 152,611,584	\$ 16,061
Receipts from interfund services provided	90,254	1,087,274	-	-	1,177,528	63,751,462
Payments to suppliers	(15,263,800)	(7,017,656)	(16,209,266)	(7,015,255)	(45,505,977)	(26,181,918)
Payment of insurance claims	-	-	-	-	-	(7,889,728)
Payments to employees	(12,931,861)	(13,382,727)	(2,233,069)	(7,723,915)	(36,271,572)	(27,397,645)
Payments for interfund services used	(6,413,350)	(6,555,527)	(2,341,776)	(7,834,505)	(23,145,158)	(2,814,286)
Net cash provided (used) by operating activities	<u>40,876,034</u>	<u>26,885,761</u>	<u>(17,663,587)</u>	<u>(1,231,803)</u>	<u>48,866,405</u>	<u>(516,054)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Operating grants received	584,031	1,951,280	22,506,575	626,394	25,668,280	-
Taxes received	-	-	-	201,931	201,931	-
Transfers in	144,778	180,637	381,164	2,290,813	2,997,392	2,499,131
Transfers out	(790,859)	(179,947)	(207,874)	(143,339)	(1,322,019)	(4,910,992)
Payments on advances from other funds	-	-	-	2,265,800	2,265,800	88,647
Receipts on advances to other funds	(2,250,000)	(127,691)	-	-	(2,377,691)	-
Net cash provided (used) by noncapital financing activities	<u>(2,312,050)</u>	<u>1,824,279</u>	<u>22,679,865</u>	<u>5,241,599</u>	<u>27,433,693</u>	<u>(2,234,567)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition and construction of capital assets	(25,920,625)	(21,863,463)	(5,748,141)	(1,140,011)	(54,672,240)	(2,867,203)
Proceeds from sale of capital assets	86,352	7,561	6,175	12,755	112,843	157,094
Proceeds of debt issues	-	144,227	-	-	144,227	-
Principal repayments	(5,335,947)	(8,473,178)	-	(380,000)	(14,189,125)	-
Interest paid	(7,645,758)	(3,548,833)	-	(76,292)	(11,270,883)	-
Trustee and letter of credit fees	(1,751)	(3,044)	-	(3,245)	(8,040)	-
Capital contributions	61,682	4,472,995	489,931	174,113	5,198,721	-
Connection fees for capital purposes	-	836,246	-	-	836,246	-
Net cash provided (used) by capital and related financing activities	<u>(38,756,047)</u>	<u>(28,427,489)</u>	<u>(5,252,035)</u>	<u>(1,412,680)</u>	<u>(73,848,251)</u>	<u>(2,710,109)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Interest received	1,358,647	644,431	(11,288)	254,070	2,245,860	1,568,017
Net increase (decrease) in the fair value of investments	1,924,703	1,658,329	113,231	317,982	4,014,245	1,538,403
Rental income received	45,105	505,407	143,784	834,431	1,528,727	-
Net cash provided (used) by investing activities	<u>3,328,455</u>	<u>2,808,167</u>	<u>245,727</u>	<u>1,406,483</u>	<u>7,788,832</u>	<u>3,106,420</u>
Net increase (decrease) in cash and cash equivalents	3,136,392	3,090,718	9,970	4,003,599	10,240,679	(2,442,957)
CASH AND CASH EQUIVALENTS, JULY 1	<u>104,824,136</u>	<u>108,888,889</u>	<u>7,563,205</u>	<u>17,467,573</u>	<u>238,743,803</u>	<u>36,969,574</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 107,960,528</u>	<u>\$ 111,979,607</u>	<u>\$ 7,573,175</u>	<u>\$ 21,471,172</u>	<u>\$ 248,984,482</u>	<u>\$ 34,526,617</u>
<b>RECONCILIATION TO STATEMENT OF NET POSITION:</b>						
Cash and cash equivalents	\$ 90,487,403	\$ 101,476,306	\$ 7,573,175	\$ 20,820,691	\$ 220,357,575	\$ 28,994,183
Restricted cash and cash equivalents	8,112,245	10,126,107	-	-	18,238,352	5,383,308
Restricted cash and cash equivalents with fiscal agent	9,360,880	377,194	-	650,481	10,388,555	149,126
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 107,960,528</u>	<u>\$ 111,979,607</u>	<u>\$ 7,573,175</u>	<u>\$ 21,471,172</u>	<u>\$ 248,984,482</u>	<u>\$ 34,526,617</u>

(continued)

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 21,253,968	\$ 19,246,877	\$ (21,061,307)	\$ (2,275,315)	\$ 17,164,223	\$ (3,437,731)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	17,327,762	9,324,451	3,355,146	1,878,701	31,886,060	2,991,244
Taxes paid	(88,527)	(141,587)	-	(27,481)	(257,595)	-
Change in assets, liabilities, and deferred resources:						
(Increase) decrease in accounts receivable	(23,946)	4,684	(6,485)	(483,173)	(508,920)	(607,476)
(Increase) in utilities receivable	(924,229)	(1,143,802)	-	(151,090)	(2,219,121)	-
(Increase) decrease in due from governments	(449,402)	(1,583,224)	(5,378,473)	346,430	(7,064,669)	14,871
(Increase) decrease in prepaid expenses	536,421	36,178	14,436	(9,698)	577,337	(216,830)
(increase) in inventories	-	-	-	(31,455)	(31,455)	(9,675)
Increase (decrease) in accounts payable	2,441,008	491,990	(75,935)	(1,052,726)	1,804,337	611,123
Increase (decrease) in accrued salaries and benefits	(26,984)	(68,496)	1,773	3,083	(90,624)	(10,390)
Increase in compensated absences	-	-	-	-	-	366,090
Increase (decrease) in net OPEB liability and deferred resources	(155,633)	(438,296)	(24,404)	(80,889)	(699,222)	305,389
Increase in net pension liability and deferred resources	1,050,353	1,441,467	182,314	558,651	3,232,785	240,298
(Decrease) in claims liability	-	-	-	-	-	(801,955)
(Decrease) in pollution remediation liability	(140,639)	(122,121)	-	(118,268)	(381,028)	-
(Decrease) in due to other funds	-	-	-	(162,654)	(162,654)	-
Increase (decrease) in unearned revenue	54,568	(164,700)	5,329,348	374,081	5,593,297	38,988
Increase in refundable deposits	21,314	2,340	-	-	23,654	-
Total adjustments	19,622,066	7,638,884	3,397,720	1,043,512	31,702,182	2,921,677
Net cash provided (used) by operating activities	<u>\$ 40,876,034</u>	<u>\$ 26,885,761</u>	<u>\$ (17,663,587)</u>	<u>\$ (1,231,803)</u>	<u>\$ 48,866,405</u>	<u>\$ (516,054)</u>

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS**  
**JUNE 30, 2019**

	Private-Purpose Trust	Agency
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,873,307	\$ 1,221,924
Cash and cash equivalents held with fiscal agent	1,986,577	2,989,708
Interest receivable	23,151	-
Other assets	2,704	-
Total assets	3,885,739	\$ 4,211,632
<u>LIABILITIES</u>		
Due to special district bondholders	\$ -	\$ 3,820,372
Deposits held as agent for others	-	391,260
Other payables	95,600	-
Due to other agencies	1,192,004	-
Loans payable:		
Due within one year	1,900,000	-
Due in more than one year	20,575,350	-
Total liabilities	23,762,954	\$ 4,211,632
<u>NET POSITION</u>		
Unrestricted	\$ (19,877,215)	

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -**  
**PRIVATE PURPOSE TRUST FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

		<u>Private-Purpose Trust</u>
ADDITIONS:		
Redevelopment Agency Property Tax Trust Fund	\$	1,545,248
Interest and Investment Revenue:		
Use of money and property		<u>250,865</u>
Total additions		<u>1,796,113</u>
DEDUCTIONS:		
Distribution of property taxes to other taxing entities		758,078
Obligation retirements:		
Interest on note payable		390,388
City administrative expenses		<u>120,392</u>
Total deductions		<u>1,268,858</u>
Change in net position		527,255
Net position, July 1		<u>(20,404,470)</u>
Net position, June 30	\$	<u><u>(19,877,215)</u></u>

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

**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 (fire and police), highways and streets, drinking water, wastewater collection and treatment, storm drainage, public transit, recreation, 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 MPFA (Modesto Public Financing Authority) was established as a separate legal entity whose sole purpose is to provide financing for various City capital projects.
2. 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 twelve active Districts, which are combined for presentation in these financial statements. Individual component unit financial statements are prepared for each District.

The Redevelopment Successor Agency (Successor Agency) operates under the auspices of a legislatively formed Oversight Board comprised of representatives of the local agencies that serve the development project area. The Oversight Board, in its fiduciary capacity, has authority over the operations and the timely dissolution of the former Redevelopment Agency (RDA). It is tasked with fulfilling the obligations of the former RDA, and is also responsible for revenue collection, maintaining necessary loan reserves and disposing of excess property. This agency is reported as a private-purpose trust fund based on the generally accepted accounting standards requirement.

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 and operational responsibility. There is an operational responsibility for the City related to these component units and for the MPFA it provides services solely for the City. Component unit financial statements may be obtained from the City's Finance Department.

The joint ventures and jointly governed organizations 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 position and the statement of activities) report information on all of the non-fiduciary 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 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. 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. 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.

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. For grant revenues, the City considers this type of revenue to be available if collected within 180 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest, compensated absences, claims and judgement 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 Housing and Community Development Fund accounts for various grant funds received from Federal Community Development Block grants to be used for a variety of housing related programs primarily targeted at low-income housing. Additionally, this fund accounts for the City's revolving fund, which provides housing loans to low-income individuals and accounts for emergency shelter grant revenue received from the Housing and Urban Development Department.

The Transportation Special Tax Fund accounts for state-collected, locally-shared gas tax, 25 year, ½ cent sales tax Measure L, and SB-1 (Road Repair and Accountability Act of 2017) monies. This fund may be used for all road and traffic purposes including construction, purchase of rights-of-way, and maintenance.

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.

The Bus Fund accounts for operations, maintenance, and capital expenditures of the City's mass transportation service. This system operates pursuant to the terms of a Federal grant agreement. Buses are operated by a private contractor under the terms of a supervisory agreement with the City. A separate contract provides Dial-a-Ride service for the elderly and handicapped.

Additionally, the City reports the following fund types:

Internal service funds account for fleet management, central services, information and technology 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-purpose Trust Fund accounts as the fiduciary fund type used by the City to report trust arrangements under which principal and income benefit other governments. The fund reports the assets, liabilities, and net position of the Successor Agency.

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.

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 Sewer Fund also recognize as non-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 including the note disclosures. Actual results could differ from those estimates.

#### D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

##### 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 position 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 based on various levels identified further under Note II-A – Fair value measurements.

##### 2. Restricted Assets - Cash and Cash Equivalents

Refundable deposits which reside in the Trust Deposits of the General 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. Legal or contractual obligations associated with the nonmajor governmental funds have been reported as restricted assets due to the restrictions identified on the revenue sources generated from these funds. Refundable deposits in the Water and Sewer funds are also reported as restricted assets on the proprietary funds statement of net position. In addition, certain proceeds of Water certificates of participation and Sewer revenue bonds are considered restricted assets because their use is limited by applicable debt covenants. These proceeds are reported as part of “restricted assets – cash and cash equivalents” on the proprietary funds statement of net position. The Employee Benefits Management Fund

collects funds which are restricted for future payouts for leave balances due to employees who terminate or retire from the City as well as any severance payouts. These assets are restricted due to management's designation of assets for future payments for employee uses.

### 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 and prepaid items are offset by a nonspendable fund balance in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources to indicate that they are not in spendable form.

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 taxes are recognized in governmental funds 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 inflows of resources. 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, 2019 is \$33,008,943.

Utility service accounts receivable are \$15,275,856 net of an allowance for doubtful collections of \$462,472 and include unbilled receivables using actual amounts billed in July for June services for all City funds. City accounts receivable of \$4,706,788 are reported net of an allowance for doubtful collections of \$950,675, and are based on miscellaneous receivables from the City's invoice system as well as other receivables accrued at year-end.

### 4. Inventories and Prepaid Expenses/Expenditures

Inventories of material and supplies held by governmental and proprietary funds are stated at average cost. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/expenditures. The consumption method is used to record the prepaid expenses/expenditures.

### 5. Capital Assets

Capital assets, which include property, plant and equipment, intangible assets and infrastructure assets (e.g., streets, 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets received in a service concession agreement and all other types are recorded at acquisition value rather than fair value.

In the case of the initial capitalization of infrastructure assets reported by governmental activities, the City chose

to include them regardless of their acquisition date or amount. Historical values were estimated.

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. Interest incurred during the construction phase of capital assets of business-type activities and enterprise funds are included as part of the capitalized value of the assets constructed. The amount of interest capitalized is determined by offsetting interest expense incurred from the date of borrowing until completion of the project, against interest earned on invested proceeds of tax-exempted debt over the same period.

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, 5 to 15 years for intangible assets, 30 to 50 years for streets, 20 years for signalization, 30 years for water rights, 5 years for service animals, 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. Deferred Outflows and Inflows of Resources

The Governmental Accounting Standards Board (GASB) establishes criteria for recognizing deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. Refer to Note II for a detail listing of the deferred outflows and inflows of resources the City has recognized.

#### 7. 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 GASB 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 of June 30, 2019, the total estimated liability for all compensated absences, including vacation and sick leave, is \$10,319,630.

#### 8. Fund Balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the City's highest level of decision-making authority (City Council) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- *Assigned fund balance* – amounts that are constrained by the City's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, which includes City Council or by an official designated such as the City Manager for such purpose.

- *Unassigned fund balance* – the residual classification for the City’s General Fund that includes amounts not contained in other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned to those purposes.

The City establishes and modifies or rescinds fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget as a commitment of the fund, such as approved construction contracts. Assigned fund balance is established by the City through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, followed by the unrestricted committed, assigned, and unassigned resources as they are needed.

9. Fund Balance Policy

The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City needs to maintain unrestricted fund balance in its City funds sufficient to fund cash flows of the City and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

The purpose of the City’s fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

The City has adopted a policy to achieve and maintain a General Fund reserve at 8% of the fund’s total operating expenditures for fiscal year 2018-2019.

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 a reasonable period of time.

2. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Public Employees’ Retirement System (CalPERS) Safety (police and fire) and Miscellaneous (all other) Plans and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. GASB 68 requires that the reported results must pertain to the liability and asset information within certain defined timeframes. For this report, the following:

Valuation Date: June 30, 2017  
 Measurement Date: June 30, 2018  
 Measurement Period: July 1, 2017 to June 30, 2018

3. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the net position of the City’s plan (OPEB Plan) and additions to/deductions from the OPEB Plan’s net position have been determined on the same measurement

basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 75 requires that the reported results must pertain to liability information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date: January 1, 2019  
Measurement Date: June 30, 2018  
Measurement Period: July 1, 2017 to June 30, 2018

#### 4. Interfund Transactions

The City transfers resources among funds in the course of normal operations. Interfund services 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.

## F. NEW ACCOUNTING STANDARDS

During the fiscal year ended June 30, 2019, the City implemented the following GASB standards:

*GASB Statement No. 83 – Certain Asset Retirement Obligations.* The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

*GASB Statement No. 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

The City is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

*GASB Statement No. 84 – Fiduciary Activities.* The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

*GASB Statement No. 87 – Leases.* The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

*GASB Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period.* The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

*GASB Statement No. 90 – Majority Equity Interests-* an amendment of GASB Statements No. 14 and No 61. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

*GASB Statement No. 91 – Conduit Debt Obligations* – The requirement of this statement are effective for reporting periods beginning after December 15, 2020.

## 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 position as "cash and cash equivalents." Each fund is allocated interest on average monthly cash balances held by the funds throughout the year. Certain deposits held in trust are displayed on the governmental funds balance sheet and the proprietary funds statement of net position 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.

The City's cash and investments are reported as follows:

Primary Government:	
Cash and cash equivalents	\$ 286,203,895
Restricted cash and cash equivalents	75,397,606
Cash and cash equivalents held with fiscal agent	16,591,907
Sucessor Agency Private-Purpose Trust Fund	
Cash and cash equivalents	1,873,307
Cash and cash equivalents held with fiscal agent	1,986,577
Agency funds	
Cash and cash equivalents	1,221,924
Cash and cash equivalents held with fiscal agent	<u>2,989,708</u>
Total cash and investments	<u>\$ 386,264,924</u>

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:

Investment Type	Maximum Maturity	Maximum Specified % of Portfolio	Maximum % per Issuer	Minimum Quality Requirements
Local Agency Bonds	5 years	None	None	None
Treasury Obligations	5 years	None	None	None
State Obligations	5 years	None	None	A rating
CA Local Agency Obligations	5 years	None	None	A rating
Federal Agencies	5 years	None	None	None
Supranationals	5 years	30 %	5 %	AA
				Federal Reserve eligible
Banker's Acceptances	180 days	40 %	5 %	
Commercial Paper	270 days	25 %	5 %	A1/P1 rating
Negotiable Certificates of Deposit	5 years	30 %	5 %	A rating
				FDIC insured or collateralized
Certificates of Deposit	1 year	20 %	5 %	
Repurchase Agreements	90 days	None	5 %	None
		20 % of combined base value		
Reverse Repurchase Agreements	92 days		5 %	None
Medium Term Notes	5 years	30 %	5 %	A rating
Money Market Mutual Funds	N/A	20 %	10 %	Multiple
Mortgage and Asset-backed Securities	5 years	20 %	5 %	AA Rating
CAMP	N/A	None	None	N/A
LAIF	N/A	N/A	None	N/A

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The Pool's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. Security types prohibited include, but are not limited to: Investments in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages. At June 30, 2019, the fair value approximated the City's cost. At June 30, 2019, these investments range from a maximum maturity of 4 years to some maturity limits of 180 days or less. The City reports its investments in CAMP at the fair value amounts provided by CAMP.

#### 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.

#### Custodial Credit Risk – Deposits

The 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 deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The City does not, currently, have a Custodial Credit Risk – Deposits Policy. 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 110% 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 custody at the Bank of New York Trust Company N.A. under the name of the California Local Agency Collateral Pool as administered by the California Department of Business Oversight (Pool Administrator).

The City of Modesto has 6 deposit accounts at Bank of America that are monitored for deposit collateral purposes. As per the CA Government Code, the bank must provide collateral for the collected deposit balances at 110% coverage. The City is collateralized as part of the California Local Agency Collateral Pool Program. As of June 30, 2019, the City had collected deposit balances of \$22,740,975. On this amount, the FDIC insurance coverage was \$500,000 (\$250,000 for time and savings accounts and \$250,000 for their demand accounts). The remainder of their balances were collateralized as part of the California Local Agency Pool Program.

For further information, on June 30, 2019, the total collected deposit balances at Bank of America from California Local Agency Pool Program participants was \$1,960,199,936 of which \$76,254,211 was FDIC insured. The remaining uninsured balances, \$1,883,945,725 were collateralized by securities pledged by Bank of America that had a market value of \$2,684,793,717. This results in collateral margin coverage in excess of the 110% required by the California Government Code.

#### Custodial Credit Risk – Investments

The Custodial Credit Risk for Investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside 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.

The City's investments consist of pooled investments, dedicated investments, and other funds held by trustees. The dedicated investment funds represent restricted funds and relate to bond proceeds of the Water and Sewer Enterprise Funds, assessment districts (reported under Agency Funds) and the Successor Agency. The other funds held by trustees are made either in accordance with bond covenants and are pledged for payment of principal, interest, and specified capital improvements or in accordance with trust agreements. All investments held by a custodian are in the

City's name excluding the Successor Agency.

Interest Rate Risk

Interest Rate Risk is the risk that interest rates will rise and reduce the fair value of an investment. Long-term fixed-income securities have the greatest amount of interest rate risk, due to their duration, or sensitivity to interest rate changes, being greater.

As of June 30, 2019, the City owned six callable bonds. There were no Federal Agency callables in the portfolio. Information on those bonds has been provided as follows:

Corporate Notes			
Amount	Maturity Date	Call Date	Call Terms
\$1,087,000	9/30/2019	9/30/2019	Callable on and any time after 9/30/2019
\$1,339,000	3/3/2020	2/1/2020	Callable on and any time after 2/1/2020
\$1,188,000	2/1/2021	1/1/2021	Callable on and any time after 1/1/2021
\$5,455,000	4/15/2021	3/15/2021	Callable on and any time after 3/15/2021
\$2,308,000	3/1/2021	2/1/2021	Callable on and any time after 2/1/2021
\$2,454,000	5/15/2022	3/15/2022	Callable on and any time after 3/15/2022

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. The City may from time to time be invested in a security whose rating is downgraded subsequent to the date of purchase. In the event a rating drops below the minimum allowed rating category for that given investment type, the investment advisor shall notify the Finance Director and recommend a plan of action. The City will limit investments in any one non-government issuers, except investment pools to no more than 5% regardless of security type.

The following table summarizes the City's investments based on maturity dates of various investments:

Investment Type	Credit Rating		Remaining Time to Maturity				
	Standard & Poor's	Moody's Investors Service	Total	Less Than 1 Year	1-2 Years	2-3 Years	3-18 years
U.S. Treasury Bond/Notes	AA+	Aaa	\$ 85,261,397	\$ -	\$ 16,122,248	\$10,191,959	\$ 58,947,190
Federal Agencies:							
Collateralized Mortgage Obligation	AA+	Aaa	4,280,645	3,800	3,262,103	-	1,014,742
Bonds/Notes	AA+	Aaa	51,840,206	-	14,000,188	10,960,166	26,879,852
Corporate Notes	See Below	See Below	46,050,480	8,678,666	23,126,870	6,001,121	8,243,823
Certificate of Deposits	See Below	See Below	36,461,640	15,532,026	20,929,614	-	-
Asset-Backed Securities	See Below	See Below	9,773,126	-	-	-	9,773,126
CAMP Pool	AAAm	N/A	112,634,950	112,634,950	-	-	-
<b>Total</b>			<b>\$ 346,302,444</b>	<b>\$ 136,849,442</b>	<b>\$ 77,441,023</b>	<b>\$27,153,246</b>	<b>\$ 104,858,733</b>
Held By Fiscal Agent							
Money Market Funds	AAAm	Aaa-mf	\$ 5,291,130	\$ 5,291,130	\$ -	\$ -	\$ -
CAMP	AAAm	N/A	10,268,178	10,268,178	-	-	-
MID – Collateral Agreement	A+	Aa3	6,008,884	6,008,884	-	-	-
<b>Fiscal Agent Total</b>			<b>\$ 21,568,192</b>	<b>\$ 21,568,192</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
City of Modesto Banking Accts & Cash on Hand	A/A-1	A1/P1	19,161,809				
Timing Differences for Deposit & Electronic Vendor Payments			(767,521)				
<b>Total Cash and Investments</b>			<b>\$ 386,264,924</b>				

The following is a table indicating the credit ratings for the City's investment in Corporate Notes:

Amount	Standard & Poors	Moody's Investors Service
\$ 3,547,120	AA+	Aa1
3,596,740	AA-	Aa3
3,551,564	AA	A1
2,357,654	AA-	A3
5,454,816	A	A1
4,891,013	A+	A1
5,905,978	AA-	A1
2,707,968	A	A2
10,887,308	A-	A2
1,713,943	A	A3
1,436,376	BBB+	Baa1
<b>\$ 46,050,480</b>		

The following is a table indicating the credit ratings for the City's investment in Negotiable Certificate of Deposits:

Amount	Standard & Poors	Moody's Investors Service
\$ 12,079,667	A-1	P-1
3,452,360	A-1+	P-1
4,027,816	A+	Aa2
5,785,057	AA-	Aa2
4,139,209	AA-	Aa3
4,645,525	A	A1
2,332,006	A+	A1
<u>\$ 36,461,640</u>		

The following is a table indicating the credit ratings for the City's investment in Asset-Backed Securities:

Amount	Standard & Poors	Moody's Investors Service
\$ 2,519,786	AAA	Aaa
2,429,943	AAA	NR
4,823,397	NR	Aaa
<u>\$ 9,773,126</u>		

#### 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, 2019:

Issuer	Investment Type	Reported Amount	Percent of Portfolio
Fannie Mae (FNMA)	Federal agency securities	\$27,018,773	6.99%
Freddie Mac (FHLMC)	Federal agency securities	\$25,195,426	6.52%

#### Fair Value measurements

The Pool categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, of which levels 1 & 2 apply to the City as follows:

- Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement. Examples would be securities with prices derived from the major exchanges.
- Level 2: Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuations for which all significant assumptions are observable or can be corroborated by observable market data. Examples would be securities with prices derived from market corroborated sources such as indices and yield curves; and matrix pricing, such as for most debt securities.

Union Bank is the custodian of the City's investments. Union Bank utilizes pricing services that deliver current market values and security information which is input into their trust accounting systems. A security will be valued on the basis of valuations provided by a pricing service vendor if it has a substantial public market (i.e. is not thinly traded), and is freely tradable without restriction, has a valid CUSIP or SEDOL and resides on one of the depositories. Based on their direction, Union Bank will continue to obtain valuations for all other securities and assets, for which they do not receive a pricing feed and/or descriptive information from their pricing service vendors, from various sources independent of Union Bank. If no current market value price is available from their pricing service vendors and their

agents have provided Union Bank with pricing information, Union Bank will show the value of the asset at such value as Union Bank shall determine, such value to be for administrative purposes only and not be any indication of any market value.

The Pool has the following recurring fair value measurements as of June 30, 2019:

Investment Type	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<b>Investments by Fair Value Level</b>			
U.S Treasury Notes	\$ 85,261,397	\$ 85,261,397	\$ -
Corporate Notes	46,050,480	-	46,050,480
Certificate of Deposits	36,461,640	-	36,461,640
Collateralized Mortgage Obligation	4,280,645	-	4,280,645
Bonds/Notes	51,840,206	-	51,840,206
Asset-Backed Securities	9,773,126	-	9,773,126
Total Investments measured at fair value	233,667,494	\$ 85,261,397	\$ 148,406,097
Investments not subject to Fair Value hierarchy			
CAMP	112,634,950		
	<u>\$ 346,302,444</u>		
<b>Investments by Fair Value for Fiscal Agents</b>			
Money Market Funds	\$ 5,291,130	\$ -	\$ 5,291,130
Total Fiscal Agent investments measured at fair value	5,291,130	\$ -	\$ 5,291,130
Investments not subject to Fair Value hierarchy			
CAMP	10,268,178		
MID Collateral Agreement	6,008,884		
	<u>\$ 21,568,192</u>		

## B. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 28,486,969	\$ 4,828,580	\$ -	\$ 33,315,549
Construction in progress	74,701,516	38,424,347	(55,526,852)	57,599,011
Total capital assets, not being depreciated:	<u>103,188,485</u>	<u>43,252,927</u>	<u>(55,526,852)</u>	<u>90,914,560</u>
Capital assets being depreciated:				
Buildings	33,010,345	-	-	33,010,345
Improvements other than buildings	110,689,787	9,236,794	-	119,926,581
Furnishings & equipment	15,026,583	1,133,677	(1,789,298)	14,370,962
Buses and fareboxes	278,852	-	-	278,852
Service animals	37,199	8,725	-	45,924
Intangible assets	8,521,217	43,154	-	8,564,371
Equipment pool	42,976,582	1,229,273	(883,315)	43,322,540
Infrastructure				
Streets	509,914,450	29,178,728	-	539,093,178
Signals	22,388,079	9,780,491	-	32,168,570
Bridges	36,720,153	2,613,020	-	39,333,173
Pipeline	-	3,048,524	-	3,048,524
Total capital assets, being depreciated:	<u>779,563,247</u>	<u>56,272,386</u>	<u>(2,672,613)</u>	<u>833,163,020</u>
Less accumulated depreciation for:				
Buildings	(20,828,332)	(885,716)	-	(21,714,048)
Improvements	(59,331,713)	(4,551,537)	-	(63,883,250)
Furnishings & equipment	(11,969,323)	(669,900)	1,682,431	(10,956,792)
Buses and fareboxes	(253,749)	-	-	(253,749)
Service animals	(21,153)	(5,187)	-	(26,340)
Intangible assets	(5,356,802)	(410,031)	-	(5,766,833)
Equipment pool	(24,119,157)	(3,241,656)	863,392	(26,497,421)
Infrastructure				
Streets	(317,097,363)	(10,781,862)	-	(327,879,225)
Signals	(17,539,682)	(823,785)	-	(18,363,467)
Bridges	(8,220,013)	(786,663)	-	(9,006,676)
Pipelines	-	(40,647)	-	(40,647)
Total accumulated depreciation	<u>(464,737,287)</u>	<u>(22,196,984)</u>	<u>2,545,823</u>	<u>(484,388,448)</u>
Total capital assets being depreciated, net	<u>314,825,960</u>	<u>34,075,402</u>	<u>(126,790)</u>	<u>348,774,572</u>
Governmental activities capital assets, net	<u>\$ 418,014,445</u>	<u>\$ 77,328,329</u>	<u>\$ (55,653,642)</u>	<u>\$ 439,689,132</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 552,090
Community development	621,124
Highways and streets	12,887,793
Public works	135,841
Parks and recreation	623,273
Public safety	4,385,619
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>2,991,244</u>
Total depreciation expense – Governmental activities	<u>\$ 22,196,984</u>

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 34,453,868	\$ 57,894	\$ -	\$ 34,511,762
Construction in progress	270,446,471	46,018,567	(92,842,080)	223,622,958
Total capital assets, not being depreciated:	<u>304,900,339</u>	<u>46,076,461</u>	<u>(92,842,080)</u>	<u>258,134,720</u>
Capital assets being depreciated:				
Capitalized interest	19,496,181	-	-	19,496,181
Buildings	101,980,111	6,183	-	101,986,294
Improvements other than buildings	320,092,237	84,017,776	-	404,110,013
Furnishings and equipment	14,352,869	1,068,369	(89,594)	15,331,644
Intangible assets	403,384	-	-	403,384
Water rights	358,226,691	-	-	358,226,691
Buses and fareboxes	30,133,601	4,375,995	(563,956)	33,945,640
Pipelines	182,244,620	11,953,808	-	194,198,428
Total capital assets, being depreciated:	<u>1,026,929,694</u>	<u>101,422,131</u>	<u>(653,550)</u>	<u>1,127,698,275</u>
Less accumulated depreciation for:				
Capitalized interest	(12,222,356)	(895,862)	-	(13,118,218)
Buildings	(67,523,818)	(1,987,662)	-	(69,511,480)
Improvements other than buildings	(184,164,218)	(11,414,298)	-	(195,578,516)
Furnishings and equipment	(8,931,931)	(1,080,360)	22,462	(9,989,829)
Intangible assets	(367,145)	(11,488)	-	(378,633)
Water rights	(95,527,119)	(11,940,890)	-	(107,468,009)
Buses and fareboxes	(13,923,015)	(2,176,101)	563,955	(15,535,161)
Pipelines	(45,001,043)	(2,379,399)	-	(47,380,442)
Total accumulated depreciation	<u>(427,660,645)</u>	<u>(31,886,060)</u>	<u>586,417</u>	<u>(458,960,288)</u>
Total capital assets being depreciated, net	<u>599,269,049</u>	<u>69,536,071</u>	<u>(67,133)</u>	<u>668,737,987</u>
Business-type activities capital assets, net	<u>\$ 904,169,388</u>	<u>\$ 115,612,532</u>	<u>\$ (92,909,213)</u>	<u>\$ 926,872,707</u>

Business-type activities:

Water	\$17,327,762
Sewer	9,324,451
Bus	3,355,146
Parking	457,789
Storm drain	470,616
Compost	110,445
Airport	719,937
Golf	50,751
Community center	69,163
Total depreciation expense – Business-type activities	<u>\$31,886,060</u>

**C. LONG-TERM DEBT**

Loans Payable

Governmental Activities:

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay costs incurred by the City for the Kiernan Business Park East Project; loan intended to be repaid when the financing mechanism is established. As of June 30, 2019, no payments have been made to the Stanislaus County Economic Development Bank. According to the agreement, the Project will be completed as of the date the City first issues building permits within the Kiernan Business Park East area. To date, no building permits have been issued. Kiernan Business Park East project revenues, mainly CFD special taxes, have been pledged as collateral.

\$500,000

Total Principal Balance – Governmental-Type Activities

\$500,000

Business-Type Activities:

Water Enterprise Fund:

Loan payable to State of California Department of Public Health, also known as ARRA Water Grant. This Agreement constitutes funding in the form of a loan with forgiveness of principal made by the State under the provisions of California Safe Drinking Water State Revolving Fund Law of 1997, and the American Recovery and Reinvestment Act of 2009 (ARRA) Public Law 11 1-5. The purpose of the funding is to assist in financing construction of a project, which will enable the City to meet safe drinking water standards or to address other health concerns, herein referred to as the "Project". The total amount for the project was \$1,136,656, of which 50% was to be repaid as a loan. This original loan amount of \$568,328 has a payment term of 20 years at 2.5017% interest rate. Water Enterprise fund revenues have been pledged as collateral.

The following are significant terms that pertain to the ARRA Water Grant. Acceleration Clause: In event of default, State may declare the Supplier's obligations immediately due and payable. Events of Default: default allows State to alter principal forgiveness, accelerate, terminate further disbursements, file lawsuit. Termination Events: Any funds already disbursed to Supplier under the terms of this Agreement shall be an obligation immediately due and payable to State.

\$400,615

Sewer Enterprise Fund:

Loan payable to California State Water Resources Control Board, State Revolving Fund. The Project, commonly known as Tertiary Treatment Phase 1B Project generally consists of constructing a 12.6 million gallon per day tertiary treatment plant. Completion of construction date was established as June 1, 2016, and project completion date was established as December 1, 2016. The City has agreed to repay all project funds at an interest rate of one and six-tenths percent (1.6%) per annum and an administrative service charge of one percent (1%) per annum. The total loan approved by the State Water Resources Control Board is \$121,829,278, plus \$5,328,665 in Accrued Construction Period Interest. The loan repayment term is 20 years (final payment due on December 1, 2035) and after an initial annual payment of \$7,891,411 in the fiscal year ending June 30, 2017, the annual debt service payment including principal, interest, and administrative service charge is \$8,245,564 beginning in the fiscal year ending June 30, 2018. Sewer Enterprise fund net revenues have been pledged as collateral.

The following are significant terms that pertain to the California State Water Resources Control Board, State Revolving Fund loan payable related to the Tertiary Treatment Phase 1B. Acceleration Clause: upon violation by the City of any material provision of the Project Finance Agreement, the State Water Board may terminate agreement by written notice during construction of the Project, or thereafter at any time prior to complete repayment by the City, upon which the City agrees, upon demand, to immediately repay to the State Water Board an amount equal to Installment Payments due under the Project Finance Agreement, including accrued interest, and all penalty assessments due. In the event of termination, interest shall accrue on all amounts due at the highest legal rate of interest from the date that notice of termination is mailed to the Recipient to the date of full repayment by the Recipient. Events of Default: upon violation by the City of any material provision, State Water Board may terminate agreement which triggers acceleration. Termination Events: upon termination of the agreement by the State Water Board, the City agrees to immediately repay to the State Water Board an amount equal to Installment Payments due under the Project Finance Agreement, including accrued interest, and all penalty assessments due. In the event of termination, interest shall accrue on all amounts due at the highest legal rate of interest from the date that notice of termination is mailed to the Recipient to the date of full repayment by the City.

112,142,733

Loan payable to California State Water Resources Control Board, State Revolving Fund. The Project, commonly known as North Valley Regional Recycled Water Program generally consists of constructing improvements to the City's existing pump station. The City will then distribute the recycled water to the Del Puerto Water District for agricultural use increasing recycled water supplies by 5.4 billion gallons per year within the first 5 years of operation and 9.9 billion gallons per year at build out. Completion of construction date was established as June 30, 2018. Project completion date was established as December 31, 2018. The City agrees to repay all project funds at an interest rate of one percent (1%) per annum and an administrative service charge of zero percent (0%) per annum. The total final loan amount was \$29,747,008, including \$68,857 of approved Construction Period Interest. The loan repayment term is 30 years (final payment due on June 30, 2048) and after an initial payment of \$1,104,284, in the fiscal year ending June 30, 2019, the annual principal and interest payment is \$1,152,162 beginning in the fiscal year ending June 30, 2020. Sewer Enterprise fund net revenues have been pledged as collateral.

The following are significant terms that pertain to the California State Water Resources Control Board, State Revolving Fund loan payable related to the North Valley Regional Recycled Water Program. Acceleration and Termination Events Clauses: the City immediately repays to the State Water Board an amount equal to Project Funds disbursed under the Installment Sale Agreement and Grant, accrued interest, penalty assessments, and Additional Payments. In the event of termination, interest shall accrue on all amounts due at the highest legal rate of interest from the date that notice of termination is mailed to the City to the date all monies due have been received by the State Water Board. Events of Default: default allows State Water Resources Control Board to terminate obligation, which results in acceleration.

28,927,714

Total Principal Balances – Business-Type Activities

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\$141,471,062

Annual debt service requirements to maturity for loans payable are as follows:

Year Ending June 30,	Governmental-Type Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2020	\$500,000	\$-	\$6,219,170	\$2,093,419
2021	-	-	6,367,040	1,998,847
2022	-	-	6,518,616	1,901,955
2023	-	-	6,673,994	1,802,683
2024	-	-	6,833,269	1,700,972
2025-2029	-	-	36,699,069	6,889,380
2030-2034	-	-	41,252,385	3,944,431
2035-2039	-	-	20,979,663	1,033,211
2040-2044	-	-	5,370,762	390,046
2045-2049	-	-	4,557,094	115,445
Total	\$500,000	\$-	\$141,471,062	\$21,870,389

Certificates of Participation:

Business-Type Activities:

Golf Enterprise Fund:

1993 Refunding Certificates of Participation issued to refund earlier certificates for the Creekside Golf Course capital project; issued with an aggregate principal of \$8,130,000, with final maturity in 2023. Annual principal payments are due November 1st and beginning in 2010 range from \$250,000 to \$480,000, ending in 2023. The certificates are repayable from any source of available funds of the City. However, the City has elected to repay the certificates with revenues of the Golf Enterprise Fund.

The following are significant Events of Default terms that pertain to the 1993 Refunding COPs. Trust Agreement: 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, upon written request of >25% of bondholders, initiate lawsuit; Lease Agreement: In an Event of Default under the Lease Agreement, the Authority at its option may terminate the Lease Agreement and re-release all or any portion of the Project, and the City agrees to pay to the Authority all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as provided in the Lease Agreement in the case of payment of Lease payments.

\$2,185,000

Water Enterprise Fund:

2008 Water Refunding Revenue Certificates of Participation issued to refund the 2006 issue, to provide funding for construction of new downstream water facilities and various water distribution system improvements in connection with Modesto Irrigation District's expansion of the regional water treatment plant; variable rate securities maturing October 1, 2036, with interest initially calculated weekly, fluctuating according to market conditions. The Certificates may be converted to a daily, term, flexible, or fixed rate.

While the 2008 COPs are in the Weekly Mode, they are subject to optional tender and mandatory tender for purchase. Funds for the payment of the purchase price of 2008 COPs that are tendered for purchase and that are not remarketed by the Remarketing Agent will be available (subject to certain conditions) under a Standby Certificate Purchase Agreement, dated May 1, 2008 (the "Liquidity Facility"). The Liquidity Facility does not support, secure or guaranty the payments of the principal or interest with respect to the 2008 COPs. Subject to the terms and conditions of the Liquidity Facility, the Liquidity Facility Provider is to provide funds for the payment of the purchase

price on each purchase of 2008 COPS up to \$47,625,000 in principal amount (the "Available Principal Commitment") and \$548,014 an amount equal to 35 days' interest on the Available Principal Commitment at an assumed rate of 12% and accrued interest on 2008 COPS subject to the Weekly Rate tendered or deemed tendered for purchase in the event that remarketing proceeds are not sufficient to pay the purchase price of such 2008 COPS.

The Liquidity Facility will not provide for the payment of principal and interest on any 2008 COPS other than with respect to the purchase price of the 2008 COPS tendered or deemed tendered and not remarketed. Barring an event of default, any such draws on the Letter of Credit will be repaid under the terms of the Reimbursement Agreement. Under the terms of the Reimbursement Agreement, the City will repay the amount drawn in ten equal semi-annual installments of principal, plus monthly interest at the Bank Rate, over a 5 year period. However, the entire balance of the amount drawn shall become due immediately if the 2008 COPS are cancelled or prepaid, are remarketed, or converted to bear interest at a rate other than a daily rate or weekly rate; an alternate credit facility is secured; or an event of default occurs. The Credit Facility and Reimbursement Agreement initially expired May 29, 2011, and were subsequently extended to July 14, 2017 at a commitment fee of 0.875%, then again to June 15, 2020 at a commitment fee of 0.7%.

The City entered into a 30-year interest rate swap agreement as discussed below. The combination of the variable rate 2008 COPS and the floating rate swap creates a synthetic fixed-rate debt for the City. The average synthetic fixed-rate was 3.08% for the fiscal year ending June 30, 2019.

The following are significant terms that pertain to the 2008 COPS. Acceleration Clauses: in the event of late payment, Authority shall accelerate bond payments; in the event of other default, Authority may choose to accelerate bond payments. Events of Default: in the event of nonpayment, insolvency, or loss of bond insurance, the obligation of the Letter of Credit provider shall terminate; in the event of nonpayment of Letter of Credit fees or downgrade of Bonds to below investment grade, the Letter of Credit provider may terminate the Letter of Credit. Termination Events: The termination of the Letter of Credit triggers mandatory tender; termination of swap triggers on-time termination payment.

	44,055,000
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Total Principal Balances – Business-Type Activities	46,240,000
Less:	
Unamortized Bond Discount – 2008 Water Refunding Certificates of Participation	(93,455)
<hr style="border: 0.5px solid black;"/>	
Total Business-Type Activities – Certificates of Participation	<u>\$46,146,545</u>

The City has pledged all Gross Revenues of the Water Utility System to repay the 2008 Certificates of Participation. The City has pledged future Golf Enterprise Fund revenues (net proceeds of the Certificates held in Escrow Fund and certain other moneys held under the Trust Agreement relating to the Golf Course Certificates) to pay the 1993 Certificates of Participation for the Golf Course Refinancing project. The Water and Golf Funds combined total principal and estimated total interest remaining to be paid on the certificates is \$52,115,559. The Water Fund's principal, interest and other debt service cost paid on certificates for the current year, along with payments for the ARRA loan payable and payments to Modesto Irrigation District under the Treatment and Delivery Agreement, totaled \$12,373,480, and net operating revenues of the Fund were \$36,624,379, which represented coverage of 296%. The Golf Fund's principal and interest paid on certificates totaled \$489,167, and net operating revenues of the Fund were \$805,895, which represented coverage of 165%.

Annual debt service requirements to maturity for Certificates of Participation for 2008 Water and 1993 Golf are as follows:

Year Ending June 30,	Business-Type Activities	
	Principal	Interest
2020	\$795,000	\$603,861
2021	805,000	577,692
2022	860,000	551,767
2023	910,000	524,289
2024	2,780,000	480,965
2025-2029	13,035,000	1,905,577
2030-2034	15,910,000	1,067,363
2035-2039	11,145,000	164,045
Total	<u>\$46,240,000</u>	<u>\$5,875,559</u>

Lease Revenue Bonds:

Governmental Activities:

Regularly scheduled payments of principal and interest are supported by an irrevocable, direct pay Letter of Credit (the "Credit Facility") issued by Bank of the West on June 13, 2019, which replaced a Letter of Credit previously issued by Bank of America, N.A. The Trustee can draw funds under the Credit Facility to pay the purchase price of tendered bonds that are not remarketed. Barring an event of default, any such draws on the Letter of Credit will be paid under the terms of the Reimbursement Agreement. Under the terms of the Reimbursement Agreement, the City will repay the amount drawn in equal quarterly installments of principal plus monthly interest, at the Bank Rate, over a 3 year amortization period. However, the entire balance of the amount drawn shall become due immediately if the tendered bonds are remarketed or defeased, or an alternate credit facility is secured, or an event of default occurs. The Credit Facility and Reimbursement Agreement are scheduled to expire June 13, 2023 and contain a commitment fee of 0.375%.

The following are significant terms that pertain to the 2008 Lease Revenue Bonds. Acceleration Clauses: in the event of late payment, Trustee may accelerate bond payments; in the event of an Event of Default occurring under the Lease Agreement, 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 Lease Agreement in order to remedy the default. Events of Default: in Event of Default, Letter of Credit provider may declare all unpaid amounts drawn under the Letter of Credit and the corresponding Bank Bonds, together with all interest accrued and unpaid thereon, and all other amounts payable to the Letter of Credit provider under the Reimbursement Agreement to be immediately due and payable, without presentment, demand, protest or nay notice of any kind. Termination Events: the termination of Letter of Credit triggers mandatory tender; termination of swap triggers on-time termination payment; in the event that the City files a bankruptcy petition or the City makes a general assignment for the benefit of creditors, all amounts drawn under the Letter of Credit and the corresponding Bank Bonds, together with all interest accrued thereon and all other amounts owed to the Bank under the Reimbursement Agreement shall be immediately due and payable, without notice to the City or the Authority and without presentment, demand, protest or further notice of any kind.

\$50,915,000

Annual debt service requirements to maturity for Lease Revenue Bonds are as follows:

Year Ending June 30,	Governmental-Type Activities	
	Principal	Interest
2020	\$2,000,000	\$595,483
2021	2,170,000	565,363
2022	2,390,000	537,132
2023	2,585,000	506,509
2024	2,785,000	474,778
2025-2029	17,245,000	1,779,952
2030-2034	21,740,000	589,479
Total	<u>\$50,915,000</u>	<u>\$5,048,696</u>

Revenue Bonds – Business-Type Activities:

Sewer Enterprise Fund:

Wastewater Revenue Refunding Bonds, Series 2018A; interest payable on November 1 and May 1; principal is payable in annual installments on each November 1, commencing November 1, 2025 and ending November 1, 2036, with interest rates from 4% to 5%. Payment of principal and interest on the Series 2018A Bond is secured by a pledge of Net Revenues of the Sewer Enterprise Fund. The Series 2018A Bond constitutes "Parity Debt" under the Indenture.

On April 19, 2018, the City issued the Series 2018A Bond as a Parity Debt to fully refund the 2006A Wastewater Revenue Bonds. The proceeds were used to refund the 2006A Wastewater Revenue Bonds and pay cost of issuance in connection with the financing. The Series 2006A has been fully redeemed, and the City will realize significant savings from the refunding of the 2006A bonds.

The following are significant terms that pertain to the Wastewater Revenue Refunding Bonds, Series 2018A. Acceleration Clause: in each and every such case during the continuance of an Event of Default (and subject to any rights granted to any insurer of the Bonds with respect to the enforcement of remedies upon an Event of Default pursuant to a Supplemental Indenture), the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds at the time Outstanding shall be entitled, upon notice in writing to the City, to declare the principal of all of the bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding. Events of Default: 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 written request of the Owners of not less than 25% in aggregate amount of Bond Obligation of the Bonds then Outstanding, initiate a lawsuit.

\$11,340,000

Wastewater Revenue Refunding Bond Series 2015 - Direct Placement; interest payable on November 1 and May 1, commencing May 1, 2016. Principal is payable in annual installments on each November 1, commencing November 1, 2016 and ending November 1, 2024. The Series 2015 Bond shall bear interest at a rate equal to 2.42% per annum; The Series 2015 Bond constitutes "Parity Debt" under the Indenture; Payment of principal and interest on the Series 2015 Bond is secured by a pledge of Net Revenues of the Sewer Enterprise Fund (i.e., 1) all fees and charges received by the City for the services of the Enterprise; 2) all other income and revenue howsoever

derived by the City from the ownership; 3) all sums deposited, or required under the Indenture to be deposited, in the Sewer Enterprise Fund; less the amount of Operating Expenses becoming payable during such period).

On October 30, 2015, the City issued the Series 2015 Bond, as a Parity Debt to fully refund the 2005A and partially refund the 2006A Wastewater Revenue Bonds. The proceeds were used to: 1) Refund the Wastewater Revenue Refunding Bonds, Series 2005A, which refinanced the acquisition and construction of improvements to the City's wastewater enterprise, 2) refund a portion of the Wastewater Revenue Bonds, Series 2006A, and 3) pay cost of issuance in connection with the financing. The Series 2005A Bonds have been fully redeemed and the 2023 and 2024 maturities of Series 2006A Bonds were redeemed. The City will realize significant savings from the refunding of the 2005A and 2006A Bonds.

The following are significant terms that pertain to the Wastewater Revenue Refunding Bond Series 2015 - Direct Placement. Acceleration Clauses: in each and every such case during the continuance of an Event of Default (and subject to any rights granted to any insurer of the Bonds with respect to the enforcement of remedies upon an Event of Default pursuant to a Supplemental Indenture), the Owners of not less than a majority in the aggregate amount of Bond Obligation of the Bonds at the time Outstanding shall be entitled, upon notice in writing to the City, to declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding. Events of Default: 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, upon written request of >25% of bondholders, initiate lawsuit.

	12,226,286
Total Principal Balances – Business-Type Activities	23,566,286
Add: Unamortized Bond Premium – 2018 Wastewater Bonds	1,956,612
	\$ 25,522,898

Annual debt service requirements to maturity for the Wastewater Revenue Refunding Bond Series 2015 - Direct Placement are as follows:

Year Ending June 30,	Business-Type Activities	
	Principal	Interest
2020	\$2,521,327	\$265,367
2021	2,577,644	203,671
2022	2,644,114	140,488
2023	2,708,639	75,719
2024	876,795	32,335
2025	897,767	10,862
Total	\$12,226,286	\$728,442

Annual debt service requirements to maturity for total Revenue Bonds are as follows:

Year Ending June 30,	Business-Type Activities	
	Principal	Interest
2020	\$2,521,327	\$820,767
2021	2,577,644	759,071
2022	2,644,114	695,888
2023	2,708,639	631,119
2024	876,795	587,735
2025-2029	3,962,767	2,490,737
2030-2034	4,790,000	1,435,750
2035-2039	3,485,000	249,225
Total	<u>\$23,566,286</u>	<u>\$7,670,292</u>

Notes Payable – Governmental Activities:

On March 26, 2015, the City received notice of a public offering to refinance the existing HUD Section 108 Loan note, with an outstanding balance of \$2,789,000. The City agreed to refinance the note, as it reduced the interest on the HUD Section 108 Loan, a net savings of approximately \$502,908. The public offering date was May 28, 2015. The terms of the new promissory note include semi-annual payments in August and February through the maturity date of August 1, 2024. The interest rates range from 0.28% through 2.85%. No new security provisions were required, as the Contract for Fixed Rate Note incorporates the previous additional security provisions. Housing revenues are pledged as collateral.

The following are significant terms that pertain to the HUD Section 108 Loan.

Acceleration Clause: upon a Default or declaration of Default, the Secretary may accelerate the Note with respect to amounts subject to Optional Redemption. Events of Default: the Secretary may withhold the guarantee of any or all obligations not yet guaranteed on behalf of the Borrower under outstanding commitments, and/or direct the Borrower's financial institution to: refuse to honor any instruments drawn upon, or withdrawals from, the Guaranteed Loan Funds Account or the Loan Repayment Account initiated by the Borrower, and/or refuse to release obligations and assignments by the Borrower from the Guaranteed Loan Funds Investment Account or the Loan Repayment Investment Account.

\$1,834,000

Total Notes Payable

\$1,834,000

Annual debt service requirements to maturity for this Notes Payable are as follows:

Year Ending June 30,	Governmental-Type Activities	
	Principal	Interest
2020	\$269,000	\$41,773
2021	283,000	36,442
2022	297,000	30,150
2023	312,000	22,838
2024	328,000	14,424
2025	345,000	4,916
Total	<u>\$1,834,000</u>	<u>\$150,543</u>

Reimbursement Agreement - Business-Type Activities:

Water Enterprise Fund:

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 2008 Water Revenue Certificates of Participation and the California Safe Drinking Water Act loan (as described previously). 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 City and MID have agreed upon an expansion of the initial Domestic Water Project facilities beyond the existing design capacity of 36 million gallons per day ("mgd") to a design capacity of 72 mgd. In June 2007, the MID issued \$93,190,000 Domestic Water Project revenue bonds pursuant to the terms of the existing treatment and delivery agreement. On August 14, 2013, Modesto Irrigation District Financing Authority refunded the 1998 D Bonds, with 2013 G Bonds. As of June 30, 2019, the total outstanding on the MID bonds is: \$21,575,000 for the 2013 G Bonds and \$93,190,000 for the 2007 F Bonds, for a total of \$114,765,000. For the 2013 G Bonds, the annual principal payments began on September 1, 2014 and mature on September 1, 2022, in amounts from \$3,970,000 to \$5,795,000, with interest rates from 2% to 5%. For the 2007 F Bonds, the annual principal payments begin on September 1, 2023 and mature on September 1, 2037 in amounts from \$4,275,000 to \$11,870,000, with variable interest rates fluctuating according to market conditions.

The following are significant terms that pertain to the 2007 F Bonds. Acceleration Clause: in the event of late payment, Authority shall accelerate bond payments; in the event of other default, Authority may choose to accelerate bond payments. In event of default, Trustee may, with consent of Bond Insurer, and shall, at the direction of Bond Insurer or the owners of >50% of the bonds (with consent of Bond Insurer) accelerate bond payments. Events of Default: in event of default, Trustee may, with consent of Bond Insurer, and shall, at the direction of Bond Insurer or the owners of >50% of the bonds (with consent of Bond Insurer) initiate lawsuit. Termination Events: the termination of swap triggers one-time termination payment.

The following are significant terms that pertain to the 2013 G Bonds. Acceleration and Events of Default Clauses: Trust Agreement - In the event of an Event of Default (as defined in the Trust Agreement or Installment Purchase Contract), and in each and every such case during the continuance of such event of default, the Trustee may, and

shall, at the direction of the Owners of not less than a majority in aggregate principal amount of the Series 2013G Water Bonds then Outstanding, by notice in writing to the Authority, declare the principal of all Series 2013G Water bonds then Outstanding and then interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become due and payable, anything contained in the Trust Agreement or in the Series 2013G Water Bonds to the contrary notwithstanding; Installment Purchase Contract - In the event that default is made in the due and punctual payment of any Domestic Water Installment Payment or any Domestic Water Contract or Domestic Water Bond when and as the same shall be due and payable, then and in each and every such case during the continuance of such Event of Default specified, the Authority shall and for any other Event of Default, the Authority MAY, by notice in writing to the District, declare the entire principal amount of the unpaid Domestic Water Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained in the Installment Purchase Contract notwithstanding. Termination Events: the termination of swap triggers one-time termination payment.

The City has entered into interest-rate swap agreements for the 2007F bonds to synthetically fix the rates that the City pays at 4.38% and 4.44%. Refer to the Interest Rate Swap agreement section below with more information about the debt schedule.

Annual debt service payments to maturity for the Reimbursement Agreement are as follows:

Year Ending June 30,	Business-Type Activities	
	Principal	Interest
2020	\$5,005,000	\$2,853,671
2021	5,260,000	2,591,848
2022	5,515,000	2,325,072
2023	5,795,000	2,042,322
2024	4,275,000	1,836,023
2025-2029	24,435,000	7,758,139
2030-2034	30,605,000	4,939,559
2035-2038	33,875,000	1,368,875
Total	<u>\$114,765,000</u>	<u>\$25,715,509</u>

Interest Rate Swap Agreements:

Objective of the swaps – The primary objective of the swaps is to mitigate the effect of fluctuations in variable interest rates by paying a fixed-rate and receiving a floating rate on the swap. Combining a pay-fixed receive-variable rate swap with variable debt results in what is termed “synthetic” fixed-rate debt. It is called synthetic because the economics are similar to fixed-rate debt, but another instrument is involved unlike regular fixed-rate debt. Each time the City created synthetic fixed-rate debt a comparison and determination was made that the fixed-rate on regular debt would have been higher than the synthetic fixed rate on the swap.

During fiscal year 2007, the City entered into an interest swap agreement in connection with the 2006 Water Revenue Certificates of Participation. This transaction was updated due to the refunding of the 2006 Certificates by the 2008 Water Refunding Revenue Certificates of Participation (COPs). The swap agreement allows the City to create a synthetic fixed-rate on the COPs, protecting it against increases in short-term interest rates.

During fiscal year 2008, the City entered into an interest swap agreement in connection with the 2008 Lease Revenue Bonds. The swap agreement allows the City to create a synthetic fixed rate on the Lease Revenue Bonds, protecting it against increases in short-term interest rates. The terms, fair value and credit risk of these swap agreements are disclosed below.

Additionally, in May 2007, the City approved the issuance of revenue bonds by the Modesto Irrigation District Financing Authority related to the financing of Phase 2 of the Domestic Water Treatment and Delivery System of the Modesto Irrigation District. The MID Water Refunding Bonds were issued with an interest swap feature with Bear Sterns, which

was subsequently acquired by JP Morgan. Under the agreement between MID and JP Morgan, the City must post collateral when our negative position exceeds the Pledgor's Threshold of \$20 million. This negative position represents the present value of declining interest rates to date from issuance of bonds. In June 2010, the City Council authorized the City to post collateral up to \$18 million, which would support a negative position of \$38 million. In July 2010, the City Council increased the City's authorization to post collateral from \$18 million to up to \$20 million. At the end of fiscal year 2019, the City had posted a cumulative total of \$6,008,884 million of collateral posting, which is reported in the Water Enterprise Fund cash with fiscal agent.

Terms – The terms, including the counterparty credit rating of the outstanding swaps, as of June 30, 2019 are shown in the table below. The swap agreements contain scheduled reductions to the outstanding notional amounts that are expected to follow scheduled principal reductions in the associated debt issues.

<u>Related Debt Issue</u>	<u>Current Notional Amount</u>	<u>Effective Date</u>	<u>Counterparty</u>	<u>Credit Rating (S&amp;P)</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Termination Date</u>
2008 Water Refunding Revenue COPs	\$44,055,000	5/30/2008	Bank of America	A+	3.47%	63.7% of USD-LIBOR, plus .154%	10/1/2036
2008 Lease Revenue Refunding and Capital Improvement	50,915,000	8/28/2008	Bank of America	A+	3.61%	63.7% of USD-LIBOR, plus .154%	9/1/2033
2007 MID Domestic Water Revenue Bonds Series 2007F	23,370,000	6/26/2007	JP Morgan Chase Bank	A+	4.38%	67% of 3 Month LIBOR + 0.58%	9/1/2027
2007 MID Domestic Water Revenue Bonds Series 2007F	69,820,000	6/26/2007	JP Morgan Chase Bank	A+	4.44%	67% of 3 Month LIBOR + 0.63%	9/1/2037

Based on the swap agreement the City owes interest calculated at a fixed rate to the counterparty (Bank of America and JP Morgan). In return, the counterparty owes the City interest based on the variable rate that approximates the rate required by the associated COPs and lease revenue bonds. Debt principal is not exchanged; it is only the basis on which the swap receipts and payments are calculated.

GASB Statement 53 (GASB 53) addresses the recognition measurement and disclosure of information regarding derivative instruments entered into by state and local governments. All derivatives are to be reported on the statement of net position at fair value and all hedges must be tested for effectiveness to qualify for hedge accounting. The tests are outlined in GASB 53. Depending on the test results, the changes in fair value are either reported on the statement of net position as a deferral or in the statement of activities as investment revenue or loss.

Fair value – Fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of each transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method, which calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

As of June 30, 2019, the fair value of the swaps was in favor of the counterparty as shown in the following table:

<u>Bond Issue</u>	<u>Fair Value</u>
2008 Water Refunding Rev. Certificates of Participation	(\$8,905,663)
2008 Lease Revenue Bonds	(\$8,428,317)
2007 MID Domestic Water Revenue Bonds	(\$24,996,264)

Credit risk - As of June 30, 2019, the City was not exposed to credit risk on the swaps because the swaps had negative fair value. However, if interest rates increase and the fair value becomes positive, the City would be exposed to credit risk. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

**Basis risk** - Basis risk is the risk that the interest rate paid by the City to the bondholders on the underlying variable rate bonds temporarily differs from the variable swap rates received from the counterparty. The swaps have basis risk since the City receives a percentage of the LIBOR Index to offset the actual variable bond rates the City pays on the underlying certificates of participation. The City is exposed to basis risk should the floating rate that it receives on the swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

A portion of this basis risk is tax risk. The City is exposed to tax risk when the relationship between the taxable LIBOR based swaps and tax-exempt variable rate bonds changes as a result of a reduction in federal and state income tax rates. Should the relationship between LIBOR and the underlying tax-exempt variable rate bonds converge the City is exposed to this basis risk.

**Termination risk** - The City may terminate the swap contracts if the other party fails to perform under the terms of the contracts. The City will be exposed to variable rates if the counterparty defaults or if the swap contract is terminated. A termination of the swap contract may also result in the City's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

**Swap payments and associated debt** - Using rates as of June 30, 2019, debt service requirements of the 2008 Water Refunding Revenue Certificates of Participation, the 2008 Lease Revenue Refunding Bonds, and the 2007 MID Domestic Water Revenue Bonds, including net swap payments and broker fees, are as shown in the following table assuming current interest rates remain the same for their term. The bond interest payments and net swap payments will vary as interest rates vary.

Year Ending	Variable-Rate Bonds		Net Swap Pymts, Letter of Credit, & Remarketing Fees	Total
	Principal	Interest		
June 30,				
2020	\$2,395,000	\$3,000,139	\$4,685,154	\$10,080,293
2021	2,565,000	2,958,903	4,630,600	10,154,503
2022	2,815,000	2,928,470	4,554,533	10,298,003
2023	3,035,000	2,892,745	4,477,120	10,404,865
2024	9,360,000	2,779,767	4,331,632	16,471,399
2025-2029	54,715,000	11,443,668	17,711,401	83,870,069
2030-2034	68,255,000	6,596,400	9,922,518	84,773,918
2035-2038	45,020,000	1,532,920	2,363,622	48,916,542
Total	\$188,160,000	\$34,133,012	\$52,676,580	\$274,969,592

**Changes in Long-Term Obligations**

Long-term obligations activity for the year ended June 30, 2019, was as follows:

<b>Governmental activities:</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Loans Payable	\$500,000	\$ -	\$ -	\$500,000	\$ -
Lease Revenue Bonds	52,775,000	-	1,860,000	50,915,000	2,000,000
Notes Payable	2,090,000	-	256,000	1,834,000	269,000
Obligations under Capital Leases	5,449,379	-	446,498	5,002,881	458,955
<b>Total governmental activities</b>	<b>\$60,814,379</b>	<b>\$-</b>	<b>\$2,562,498</b>	<b>\$58,251,881</b>	<b>\$2,727,955</b>

<b>Business-type activities:</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Loans Payable	\$147,366,700	\$144,227	\$6,039,865	\$141,471,062	\$6,219,170
Certificates of participation	47,015,000	-	775,000	46,240,000	795,000
Unamortized Discount	(98,951)	-	(5,496)	(93,455)	-
Obligations under Capital Leases	73,589	-	54,079	19,510	19,510
Reimbursement Agreement:					
MID Bonds	119,525,000	-	4,760,000	114,765,000	5,005,000
Unamortized Premium	2,853,632	-	570,726	2,282,906	-
Sewer Bonds	11,340,000	-	-	11,340,000	-
Unamortized Premium	2,065,313	-	108,701	1,956,612	-
Sewer Bonds – Direct Placement	14,685,381	-	2,459,095	12,226,286	2,521,327
Developer advances	1,052,226	-	101,085	951,141	92,294
<b>Total business-type activities</b>	<b>\$345,877,890</b>	<b>\$144,227</b>	<b>\$14,863,055</b>	<b>\$331,159,062</b>	<b>\$14,652,301</b>

Principal balances are reported on the government-wide and enterprise funds statements of net position, net of unamortized issuance discounts and premiums. Deferred losses on refundings are reported as deferred outflows of resources. Internal service funds predominantly serve the governmental funds. Accordingly, any long-term liabilities for the internal service funds are included as part of the above totals for governmental activities. At year-end, internal service funds obligations were zero under notes payable, and zero in capital leases.

#### **D. CHANGES IN OTHER LONG-TERM LIABILITIES**

Other long-term liability activity for the year ended June 30, 2019, was as follows:

<b>Governmental activities:</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Compensated Absences	\$7,266,441	\$8,027,136	\$7,563,437	\$7,730,140	\$1,042,624
Claims Liability	24,432,515	6,285,818	7,087,773	23,630,560	4,819,758
<b>Total governmental activities</b>	<b>\$31,698,956</b>	<b>\$14,312,954</b>	<b>\$14,651,210</b>	<b>\$31,360,700</b>	<b>\$5,862,382</b>
<b>Business-type activities:</b>					
Compensated Absences	\$2,687,099	\$3,504,196	\$3,601,805	\$2,589,490	\$2,589,490
<b>Total business-type activities:</b>	<b>\$2,687,099</b>	<b>\$3,504,196</b>	<b>\$3,601,805</b>	<b>\$2,589,490</b>	<b>\$2,589,490</b>

The compensated absences and claims liability balances relate to the internal service funds, and as such they are liquidated by the internal service funds. The predominant contributors for these internal service funds include the General Fund, Water Fund, and Sewer Fund.

## E. OBLIGATIONS UNDER CAPITAL LEASES

### Governmental Activities

As of June 30, 2019, the City has one governmental activities active capital lease agreement with Pierce Manufacturing Inc. for the purchase of five Velocity Pumpers and two Velocity Tillers valued at \$5,883,756, less accumulated depreciation of \$862,414.

The following is a schedule of the future minimum lease payments, as of June 30, 2019:

<u>Year Ending June 30,</u>	
2020	\$598,544
2021	598,544
2022	598,544
2023	598,544
2024	598,544
2025-2028	<u>2,749,846</u>
Total minimum lease payments	5,742,566
Less: amount representing interest	<u>(739,685)</u>
Present value of minimum lease payments	<u>\$5,002,881</u>

### Business-Type Activities

As of June 30, 2019, the City has one business-type activities active capital lease agreement with Envirogen Technologies for the purchase of the Grayson Nitrate Treatment System valued at \$150,538, less accumulated depreciation of \$40,088.

The following is a schedule of the future minimum lease payments, as of June 30, 2019:

<u>Year Ending June 30,</u>	
2020	<u>\$20,000</u>
Total minimum lease payments	20,000
Less: amount representing interest	<u>(490)</u>
Present value of minimum lease payments	<u>\$19,510</u>

## F. 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, 2019, the total outstanding balance due under the agreements is \$951,141. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2019, the amount of \$92,294 due during fiscal year 2020 has been reported as "current portion-developer advances" on the Water Enterprise Fund statement of net position. The remaining \$858,847 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

## G. INTERFUND BALANCES

Interfund balances as of June 30, 2019 consist of the following:

Due to General Fund from:

Other governmental funds	\$2,944,365
Other enterprise funds	<u>286,612</u>
Total Due to General Fund	<u>3,230,977</u>
Total Due to/Due From:	<u>\$ 3,230,977</u>

Advances from General Fund to:

Other governmental funds	\$1,011,618
Other enterprise funds	<u>1,324,704</u>
Advances from General Fund	<u>2,336,322</u>

Advances from Water Fund to other enterprise funds 2,300,000

Advances from Sewer Fund to:

General Fund	1,842,973
Other governmental funds	539,891
Other enterprise funds	<u>820,800</u>

Advances from Sewer Fund 3,203,664

Total Advances from/Advances to \$7,839,986

All balances reported as "due to/due from" are short-term loans to cover temporary fund cash shortages as of June 30, 2019, and were repaid early in fiscal year 2020. 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.

## H. FUND BALANCE

Detailed classifications of the City's Fund Balances, as of June 30, 2019, are provided below:

	General Fund	Housing and Community Development	Transportation Special Tax	Other Governmental	Total Governmental Funds
<b>Nonspendable</b>					
Advances to other funds	\$ 2,336,322	\$ -	\$ -	\$ -	\$ 2,336,322
Prepaid Items	386,710	7,625	1,127	4,538	400,000
<b>Total Nonspendable Fund Balance</b>	<b>2,723,032</b>	<b>7,625</b>	<b>1,127</b>	<b>4,538</b>	<b>2,736,322</b>
<b>Restricted</b>					
Capital Facility Fees	-	-	-	26,314,560	26,314,560
Cash with Fiscal Agent	-	-	-	6,054,226	6,054,226
Community Facilities District	-	-	-	18,728,690	18,728,690
Grants and Donations	-	5,052,552	-	827,517	5,880,069
Notes Receivable	-	25,868,611	-	2,281,179	28,149,790
Deposits	2,209,485	-	-	-	2,209,485
Traffic Fines	-	-	-	4,082,685	4,082,685
<b>Total Restricted Fund Balance</b>	<b>2,209,485</b>	<b>30,921,163</b>	<b>-</b>	<b>58,288,857</b>	<b>91,419,505</b>
<b>Committed</b>					
General Fund Set-Aside	18,397,817	-	-	-	18,397,817
<b>Total Committed Fund Balance</b>	<b>18,397,817</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,397,817</b>
<b>Assigned</b>					
Encumbrances - Vendor Contracts	509,751	-	-	-	509,751
Downtown Improvement District	-	-	-	89,995	89,995
Successor Redevelopment Housing Agency	-	-	-	463,797	463,797
Transportation Tax Funding	-	-	17,498,751	-	17,498,751
Strategic Planning and Development	-	-	-	1,252,294	1,252,294
Debt Service	-	-	-	1,270	1,270
<b>Total Assigned Fund Balance</b>	<b>509,751</b>	<b>-</b>	<b>17,498,751</b>	<b>1,807,356</b>	<b>19,815,858</b>
Unassigned - General Fund	1,742,785	-	-	-	1,742,785
Unassigned - Special Revenue Funds	-	-	-	(1,283,047)	(1,283,047)
Unassigned - Capital Project Funds	-	-	-	(1,527,526)	(1,527,526)
<b>Total Unassigned Fund Balance</b>	<b>1,742,785</b>	<b>-</b>	<b>-</b>	<b>(2,810,573)</b>	<b>(1,067,788)</b>
<b>Total Fund Balance</b>	<b>\$ 25,582,870</b>	<b>\$ 30,928,788</b>	<b>\$ 17,499,878</b>	<b>\$ 57,290,178</b>	<b>\$ 131,301,714</b>

## I. DEFICIT FUND EQUITY

The Operating Grants fund has a fund balance deficit of \$481,882, which will be recovered through future grant revenues and local matches covered through the General Fund or other City funds.

The Special Fund for Capital Outlays fund has a fund balance deficit of \$31,366, which will be recovered through funding from the General Fund associated with the interfund loan payment schedule for the John Thurman scoreboard.

The Capital Grants fund has a fund balance deficit of \$1,496,160, which will be recovered through future grant revenues and local matches covered through the General Fund or other City funds.

The Compost Fund has a net position deficit of \$4,193,616, due to the pollution remediation liability reported for the Carpenter Landfill. The remediation funding has been incorporated into the utility fees related to garbage rates to cover the anticipated cost.

The Golf Enterprise Fund has a net position deficit of \$578,847, 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 has struggled due to competition and lagging revenues. Depreciation expense further contributes to the

deficit. The City is continuing to look at various options to resolve this funding deficit.

The Employee Benefits Management Internal Service Fund has a net position deficit of \$5,407,352. It exists partially because the total compensated absences and other post-employment benefit balance for the employees which reside in this fund 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. 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.

The Insurance Fund has a net position deficit of \$7,405,543, due mainly to the recognition of settlements that were reached both in the current and prior fiscal year which have been reported as liabilities of the Liability Insurance Fund. Both settlements involved matters that represented city-wide policies and practices and therefore are allocable to all of the funds that make annual contributions to the liability insurance program. The liability insurance program will recover the full amount of the settlement from charges to the funds that participate in the liability insurance program over a period of 5 years based on this methodology being factored into the Internal Service Fund allocation that is distributed to City departments.

**J. INTERFUND TRANSFERS**

The following is a schedule of interfund transfers.

Transfers (in) to:	Transfers from (out):									
	General Fund	Housing & Community Development	Transportation Special Tax	Other Governmental	Water	Sewer	Bus	Other Enterprise Funds	Internal Service	Total
General Fund	-	-	-	\$ 398,234	\$ 65,000	\$ 68,640	-	-	\$ 2,353,311	\$ 2,885,185
Housing & Community Dev	-	-	-	-	-	-	-	-	14,356	14,356
Transportation Special Tax	\$ 1,540,105	-	-	-	-	-	-	-	60,928	1,601,033
Other Governmental	5,434,082	\$ 988,338	\$ 9,971,408	196,531	-	-	\$200,316	\$ 18,340	187,049	16,996,064
Water	497	-	-	-	-	-	-	-	144,281	144,778
Sewer	-	-	-	2,509	-	-	-	13,211	164,917	180,637
Bus	28,261	-	327,182	-	-	-	-	-	25,721	381,164
Other Enterprise	1,512,128	-	-	-	700,000	-	-	-	78,685	2,290,813
Internal Service	208,178	-	19,182	133,515	25,859	111,307	7,558	111,788	1,881,744	2,499,131
<b>Grand Total</b>	<b>\$ 8,723,251</b>	<b>\$ 988,338</b>	<b>\$ 10,317,772</b>	<b>\$ 730,789</b>	<b>\$ 790,859</b>	<b>\$ 179,947</b>	<b>\$207,874</b>	<b>\$ 143,339</b>	<b>\$ 4,910,992</b>	<b>\$ 26,993,161</b>

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.

**K. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY**

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (Bill) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City that previously had reported a redevelopment agency blended component unit. The Bill provides that upon dissolution of a redevelopment agency, either the City or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 24, 2012, the City Council elected to become the Successor Agency for the former Redevelopment Agency (RDA) in accordance with the Bill as part of County Resolution number 12-7.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers

is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former RDA due to the City are valid enforceable obligations payable by the Successor Agency trust under the requirements of the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011), all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

After the date of dissolution, as allowed under Section 34176(a) of the Bill, the City elected to retain the housing assets and functions previously performed by the former RDA. The assets and activities for the Successor Agency Housing fund continue to be reported in the City’s governmental fund financial statements. The remaining assets, liabilities, and activities of the dissolved RDA, are reported in the Successor Agency fiduciary fund (private-purpose trust fund) in the financial statements of the City.

State Senate Bill (SB) 107 was then passed in 2015. This bill included many significant changes to the operation of the Successor Agencies. Among these changes were the Annual Recognized Obligation Payment Schedule (ROPS), the Last and Final ROPS, a single Countywide Oversight Board, and the requirement for the County Auditor-Controller to review the obligation payments made by the Successor Agency. Some of these changes like the County Oversight Board and the requirement for the County Auditor-Controller to review the obligation payments made by the Successor Agency become effective July 1, 2018. The Modesto RDA Successor Agency has complied with all aspects of the changes that are specified in SB 107 and all ROPS starting with the ROPS submitted for the Fiscal Year 2019-20 period will now be submitted for approval by the Stanislaus Countywide Successor Agency Oversight Board.

As of June 30, 2019, one of the obligations under the Successor Agency trust is associated with the 10<sup>th</sup> Street Place Project:

Reimbursement agreement with the City totaling \$19,566,862. The original loan is from the City’s 1998 Lease Revenue Bonds and the 2007 Lease Revenue Bonds that pertain to the Successor Agency. On August 28, 2008, the City refinanced the entire outstanding balance of the City’s 1998 Lease Revenue Bonds and the 2007 Lease Revenue Bonds with variable rate 2008 Lease Revenue Bonds. The new balance has been provided as of June 30, 2019 that pertains to the Successor Agency. Additional information related to the 2008 Lease Revenue bonds is provided in Note II-C under the Lease Revenue Bonds – Governmental Activities section.

\$14,765,350

Annual debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2020	\$580,000	\$537,372	\$1,117,372
2021	629,300	513,731	1,143,031
2022	693,100	487,836	1,180,936
2023	749,650	460,053	1,209,703
2024	807,650	431,517	1,239,167
2025-2029	5,001,050	1,617,933	6,618,983
2030-2034	6,304,600	536,707	6,841,307
Total	<u>\$14,765,350</u>	<u>\$4,585,149</u>	<u>\$19,350,499</u>

The reserves for the Reimbursement Agreement are recorded in the Public Financing Authority debt service fund for the City.

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, for the purpose of funding the Kansas Avenue Business Park Project's Master Plan costs. The Agency has no obligation to begin repayment until the Project is completed and revenues begin.

Future debt service requirements to maturity for loans payable, as of June 30, 2019, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 405,000	\$ -	\$ 405,000
Total	\$ 405,000	\$ -	\$ 405,000

As of June 30, 2019, the Successor Agency was obligated for the following long-term debt in conjunction with the Community Center Project:

1993 Refunding Certificates of Participation; serial certificates with annual payments on November 1 in amounts ranging from \$1,090,000 to \$1,610,000 beginning in 2011 with a final maturity in November 2023. \$7,305,000

Future debt service requirements to maturity for the Certificates of Participation, as of June 30, 2019, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	1,320,000	332,250	1,652,250
2021	1,385,000	264,625	1,649,625
2022	1,455,000	193,625	1,648,625
2023	1,535,000	118,875	1,653,875
2024	1,610,000	40,250	1,650,250
Total	\$7,305,000	\$949,625	\$8,254,625

The former RDA also has a few outstanding obligations related to reimbursements for parking expenses with Westland Development Company and payments to the Tenth Street Joint Power Agency for maintenance for common areas in the Tenth Street Place. These amounts are all reported in the Successor Agency in the Fiduciary financial statements under the Private-Purpose Trust Fund.

**L. NOTES AND LOANS RECEIVABLE**

The notes receivable in the Housing and Community Development and Other Governmental Funds of \$54,793,223 net of \$84,305 allowance for doubtful accounts, consist of loans made for low-income housing rehabilitation, first-time homebuyers, property improvement and small business origination. The loans are collateralized by deeds of trust on the improved properties or business assets, and are generally bearing annual interest at 3 or 5 percent. Some direct loans may be subject to forgiveness, some are interest free and require no repayment of principal until the loans reach maturity, and some are subject to residual receipt payment agreements. Loan terms range from 5 to 55 years.

**M. APPROVED LOANS PAYABLE**

The approved loans payable in the Housing and Community Development Special Revenue Fund of \$491,157 consist of amounts being held for housing projects using funds provided by federal grants. This liability is expected to be liquidated in less than a year.

**N. POLLUTION REMEDIATION LIABILITY**

The City reported a liability in the Water and Sewer Enterprise funds, which represents the recoveries the City has

collected less any remediation and 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 initiated litigation with the manufacturers. As of June 30, 2019, the City reported a pollution remediation liability from the Water and Sewer funds in the amount of \$8,179,540 and \$7,230,328, respectively.

In addition, in the Carpenter Road Landfill Fund, a liability was reported related to the Carpenter Road Landfill which is a 39-acre City owned landfill, located on both the east and west sides of Carpenter Road between Kenneth and Robertson Roads and the Tuolumne River, which was in operation from 1956 to 1968. This landfill precedes Subtitle-D and had no liner or leachate collection or removal system. In 1993, six methane gas monitoring wells were installed. In December 2005, there was a spike in the methane gas level at the landfill's Northern boundary. The State required the City to determine the cause and develop a mitigation and monitoring plan to ensure the landfill remained in compliance with the state statutes. In November of 2010, a Corrective Action Plan was proposed for the landfill involving a hydrogen releasing compound injection. In October 2014, a revised Corrective Action Plan and post closure maintenance plan was submitted to the Central Valley Regional Water Quality Control Board (CVRWQCB). In March 2015, a Cleanup and Abatement Order was issued to the City of Modesto for the Carpenter Road Landfill by the California Regional Water Quality Control Board to complete the clean closure correction action plan by January 15, 2017. Construction was to begin in Spring of 2017, however, due to flooding during the Winter of 2016, the groundwater level increased to a level too high to begin construction. The City submitted a request to the CVRWQCB to delay the project until Spring of 2018. The waters did recede and the project went out to bid and was awarded in August 2018. However due to an unanticipated permit delay that created changes to the original bid document the project has been placed on hold, and will need to be rebid in the Fall of 2019 for completion in the Spring and Summer of 2020. As of June 30, 2019, the City reported a pollution remediation liability from Carpenter Road Landfill Fund in the amount of \$4,923,741.

## **O. DEFERRED INFLOWS/OUTFLOWS OF RESOURCES**

Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", the City recognized deferred outflows and inflows of resources in the entity-wide and governmental fund statements. These items are an acquisition of net position by the City that is applicable to a future reporting period. The General Fund, Housing and Community Development, Transportation Special Tax and other governmental funds reported deferred inflows of resources in the amount of \$274,022, \$26,559,128, \$84,448 and \$9,478,580 for unavailable resources related to note and grant receivables not meeting the period of availability. Previous financial reporting standards do not include guidance for reporting these in the financial statements, which are distinct from assets and liabilities. The items relate to outflows and inflows for net pension liability (Note III-G), OPEB liability (Note III-F), swap hedging (Note II-C) and loss on refunding.

## **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/occurrence as follows: workers' compensation \$750,000; liability \$1,000,000. The City purchases commercial insurance for property loss, airport liability, miscellaneous coverage, and for claims in excess of the preceding self-insured limits.

For liability claims, the City is one of thirteen members of the Authority for California Cities Excess Liability (ACCEL) risk pool. This pool covers City claims between \$1,000,000 and \$5,000,000. The purpose of the pool is to spread the adverse effect of losses among the member agencies and leverages buying power in the commercial insurance market for excess coverage. 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 subject to the board approval and current conditions. Commercial insurance covers claims over \$5,000,000 in four excess layers, of \$10,000,000 each and one additional layer of \$5,000,000 above \$45,000,000; for additional total

coverage of \$50,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past five fiscal years. General liability claims are currently self-administered by risk management and litigated claims are defended by the City Attorney.

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, 2019 is \$23,630,560 consisting of \$19,327,311 workers' compensation, \$4,035,487 general liability, \$226,427 dental, and \$41,335 vision. Workers' compensation and general liability claims liabilities are estimated on an actuarial basis, and are reported at their net present value using an expected future investment yield assumption of 3% (general liability) and 3% (workers' compensation). The undiscounted workers' compensation and liability claims totaled \$22,742,530 and \$4,292,936, respectively. The actuarial liability for workers' compensation and general liability were based on 2019 actuarial reports.

The current portion of the total claims liability is estimated to be \$4,819,758 and the balance of \$18,810,802 is reported as a long-term liability on the statement of net position. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2018 through June 30, 2019 were:

	<u>Claims Liability July 1</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Current-Year Claim Payments</u>	<u>Claims Liability June 30</u>
2017-18	\$27,884,781	\$3,964,199	\$(7,416,465)	\$24,432,515
2018-19	24,432,515	6,288,417	(7,090,372)	23,630,560

**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, 2019, the balance of these districts' outstanding debt was as follows:

<u>Issue</u>	<u>Outstanding Amount</u>
Village One #2 Community Facilities District	\$26,450,000
Fairview Village Community Facilities District	3,940,000

**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, 2019, there were two series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing bond issues, issued between 1994 and 2002, was \$6,275,000.

#### 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, as disclosed in Note III-A. The City is a defendant in various matters of litigation.

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 both operating and capital commitments of \$12,224,179 for the City's governmental funds as of June 30, 2019 for contracts awarded but not completed and other outstanding purchase requisitions and orders. This amount consists of \$509,751 in the General Fund, \$773,317 in the Housing and Community Development, and \$10,941,111 in other governmental funds. Commitments of the governmental funds are recorded in one of the classifications of fund balance based on the various funding restrictions on the balance sheet. As of June 30, 2019, there are major contracts for water (Diede Construction - \$14.1 million and Mountain Cascade \$8.6 million)- , sewer system improvements (C OVERAA and Company \$15.4 million and Rolfe Construction \$4.0 million), street improvement projects (California Pavement Maintenance - \$2.1 million), and State Route 132 Project (Dokken Engineering \$7.5 million).

#### 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 \$165,947 for the fiscal year ended June 30, 2019. As of June 30, 2019 the City's investment in this joint venture was \$619,305, and is included in governmental activities on the statement of net position. 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 (prior to July 1, 2018), Oakdale, Ceres, Patterson, Turlock, Riverbank, Hughson, Waterford 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. As of July 1, 2018, the City of Modesto withdrew from SDEA and no longer participates as a partner in this Authority. The City has no equity interest. Financial statements may be obtained by writing to the County of Stanislaus, Auditor Controller, 1010 Tenth Street Place Suite 5100, Modesto, CA 95354.

##### 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 final at the end of June 2003. Starting in July 1, 2010 the County Auditor Controller became the fiscal administrator. For the fiscal year ended June 30, 2019, the City's payments to the Agency were \$848,228 for operations and capital reserve. The City's equity interest in the Agency is \$7,390,800, equal to its capital asset contributions to date net of depreciation, and is reported in governmental activities as investments in joint ventures in the statement of net position. Financial statements of the Agency are prepared by the Stanislaus County Auditor Controller office.

#### 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, 2019, the City has no equity interest. Stanislaus County Treasurer's office prepares the Agency's financial statements.

#### Consolidated Emergency Dispatch Agency

The Modesto/Stanslaus Consolidated Emergency Dispatch Agency (the MSCEDA) was created on September 1, 1999, pursuant to a joint exercise of powers agreement between the City of Modesto and the County of Stanislaus. The MSCEDA is administered by a seven-member commission consisting of one member of the City Council, one member of the County Board of Supervisors, the County Chief Executive Officer, the City Manager, two members from the Dispatch Advisory Board, and one member from the City of Ceres' City Council or one member selected by the City Council of another participating City. The purpose of the MSCEDA is to consolidate the public safety communications system. The responsibilities of the agency include approval of annual budget, claims, liabilities, and the use of MSCEDA property as collateral. Each participant will contribute sufficient funds to pay for all costs and expenses associated with providing Emergency Dispatch Services. Upon termination of the agreement, assets will be distributed equally to the City and County, unless otherwise approved. The financial statements may be obtained by writing to the Modesto/Stanslaus Consolidated Emergency Dispatch, Office Manager, 3705 Oakdale Road, Modesto, California 95357.

#### North County Corridor Transportation Expressway Authority

On April 1, 2008, the City Council approved the establishment of a Joint Powers Authority between the County and the cities of Modesto, Oakdale and Riverbank to create the North County Corridor Transportation Expressway Authority (NCCTEA). The purpose of the Authority is to prepare, identify, and adopt a precise alignment, and prepare and certify environmental documents for a route to improve east/west traffic circulation in the County.

The intent of the NCCTEA is to provide a high capacity high speed east-west roadway to accommodate anticipated traffic growth, alleviate traffic on parallel roads, and to accommodate multi-modal travel. Under the terms of the agreement, the County will incur 40% of the costs of the project while each of the participating cities will be contributing 20%. The preliminary project development costs will be funded by State Transportation Program and Public Facility Fees. The NCCTEA Board of Directors will be comprised of two directors appointed by the County, and one director from each participating city. The board acts autonomously from the respective member agencies. The County of Stanislaus Public Works Director is designated as the NCCTEA's manager. Upon completion of the agreement, all assets will be distributed to the respective parties of the agreement as determined by the Board of Directors of the Authority. Financial statements may be obtained by writing to the County of Stanislaus, Public Works Department, 1716 Morgan Road, Modesto, CA 95358.

#### Stanislaus Animal Services Agency

The Stanislaus Animal Services Agency (SASA) was created October 27, 2009, pursuant to a joint powers agreement among the cities of Ceres, Hughson, Modesto, Patterson, Waterford, and the County of Stanislaus. SASA is administered by a six-member board comprised of the City Manager of each partner agency, and the Chief Executive Officer of the County. The purpose of SASA is to operate a regional agency providing animal services to their respective communities. The SASA Executive Director is responsible for the annual budget which must be approved by the SASA Board of Directors. Each partner agency will contribute sufficient funds to pay for all costs approved in the budget to provide animal services. Upon termination of the agreement, assets will be distributed in accordance with the joint powers agreement. The financial statements may be obtained by writing to the Stanislaus Animal Services Agency, Executive Director, 3647 Cornucopia Way, Modesto, CA 95358.

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.

North Valley Regional Recycled Water Program (NVRWP)

The City participates in the NVRWP, which was established by the City of Modesto and Del Puerto Water District in November 2014. The purpose of this agreement is to develop, construct, operate and maintain water supply facilities and service. Through this agreement all partner agencies will cooperate and collaborate to use their best efforts regarding the submission of grants, loans and other funding resources to cover future cost related to the design and construction on future projects. At the end of the fiscal year June 30, 2019, the City has no equity interest.

F. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

I. Plan Description

In addition to the pension benefits described below in Note III-G, the City participates in an agent multiple-employer plan which provides health care benefits to employees who retire from the City based on certain criteria related to their hired and retirement date, under contractual agreements with all employee groups. All full-time employees hired before January 1, 2011, except firefighters who receive a cash payout, are eligible to set aside a percentage of accumulated sick leaves upon retirement to be used for payment of future health care premiums to a choice of insurance plans (sick leave conversion). The City has no obligation to pay the health insurance allowance for retirees with no accumulated sick leave. All employees hired on or after January 1, 2011 will not be eligible to participate in the sick leave conversion. If an employee elects to receive a buy-out contribution, they will be removed from the City's medical plan and will no longer be allowed to return to the City's medical plan. The plan has no assets accumulated in a qualified OPEB trust that meets the criteria as per GASB Statement No. 75.

II. Employees Covered

As of January 1, 2019, actuarial valuation, the following current and former City employees were covered by the OPEB plan membership:

Inactive employees	372
Active employees	<u>544</u>
Total	916

III. Contributions

The OPEB plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by the agreements between the City and the bargaining units. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2019, the City's cash contributions were \$3,012,214 in payments made by the employer and no estimated subsidy was determined.

IV. Total OPEB Liability

The City's total OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated January 1, 2019 that rolled forward to determine the June 30, 2019 total OPEB liability, based on the following actuarial methods and assumptions:

<b>Actuarial Assumptions:</b>	
Discount Rate	3.87% at June 30, 2018. 3.58% at June 30, 2017 (Bond Buyer 20-Bond Index).
General Inflation	2.75% annually
Salary increases	Aggregate - 3% annually. Merit - CalPERS 1997-2015 Experience Study
Medical Trend	Medicare - 6.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076 Non-Medicare - 7.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076
Mortality, Retirement, Disability, Termination	CalPERS 1997-2015 Experience Study
Mortality Improvement	Post-retirement mortality projected fully generational with Scale MP-2018

V. Discount Rate

The discount rate used to measure the total OPEB liability was 3.87 percent. The projection of the cash flows used to determine the discount rate assumed that the City contributions will be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the OPEB City's net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries based on the 'pay as you go' annual contributions.

VI. Changes in the OPEB Liability

The change in the OPEB Liability is as follows:

	<b>Total OPEB Liability</b>
Balance at June 30, 2018 (Valuation Date June 30, 2017)	\$ 29,398,521
Changes recognized for the measurement period:	
Service cost	\$ 963,490
Interest	1,038,035
Differences between actual and expected experience	(468,009)
Changes of Assumptions	(1,306,633)
Benefit Payments	(2,733,246)
<b>Net Changes</b>	<b>\$ (2,506,363)</b>
Balance at June 30, 2019 (Valuation Date June 30, 2018)	\$ 26,892,158

VII. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the OPEB liability of the Plan as of the measurement date, calculated using the discount rate of 3.87 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1

percentage-point lower (2.87 percent) or 1 percentage-point higher (4.87 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
<b>Total OPEB Liability</b>	<b>2.87%</b>	<b>3.87%</b>	<b>4.87%</b>
Plan's Net Pension Liability/ (Asset)	\$ 29,060,499	\$ 26,892,158	\$ 25,038,165

VIII. Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the OPEB liability of the Plan if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

	1% Decrease	Current Trend	1% Increase
<b>Total OPEB Liability</b>	<b>\$ 25,667,082</b>	<b>\$ 26,892,158</b>	<b>\$ 28,461,214</b>

IV. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

As of the start of the measurement period (July 1, 2017), the OPEB liability was \$ 29,398,521

For the measurement period ended June 30, 2018 (the measurement date), the City incurred an OPEB expense of \$1,452,463.

Components of OPEB Expense	
Service cost	\$ 963,490
Interest	1,038,035
Expensed portion of current-period changes of assumptions or other inputs	(549,062)
<b>OPEB Expense</b>	<b>\$ 1,452,463</b>

As of June 30, 2019, the City has deferred outflows and deferred inflows of resources related to the OPEB liability as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement period	\$ 3,012,214	\$ -
Changes in proportion and differences between employer's contributions and proportionate share of contributions	-	-
Changes of assumptions or other inputs	-	2,170,861
Difference between actual and expected experience in the Total OPEB Liability	-	392,524
<b>Total</b>	<b>\$ 3,012,214</b>	<b>\$ 2,563,385</b>

The amounts above are net of outflows and inflows recognized in the 2017-2018 measurement period expense. The amounts above reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Fiscal Year Ended June 30,	Deferred outflows/inflows of resources related to OPEB expense
2020	\$ (549,062)
2021	(549,062)
2022	(549,062)
2023	(549,062)
2024	(309,887)
2025	(57,250)
Thereafter	\$ -

G. PENSION PLANS

I. General Information about the Pension Plans

**Plan Descriptions**

All City of Modesto qualified employees are eligible to participate in the City of Modesto separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multi-employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by the State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. This report is available online at [www.calpers.ca.gov](http://www.calpers.ca.gov).

The California Legislature passed and the Governor signed the “Public Employees’ Pension Reform Act of 2013” (PEPRA) on September 12, 2012. PEPRA contained a number of provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 2012. Benefit provisions and other requirements are established by State statute.

**Benefits Provided**

The benefits for the Plans are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

The Plans’ provisions and benefits in effect at June 30, 2019 are summarized as follows:

Miscellaneous Plan:

Hire date	Prior to January 17, 2012	January 17, 2012 to December 31, 2012	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 67	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	1.426 to 2.418%	1.092 to 2.418%	1.0 to 2.5%

Safety Plan:

	Prior to September 11, 2012	September 11, 2012 through December 31, 2012	On or after January 1, 2013
Hire date			
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 55	50 to 55	50 to 57
Monthly benefits, as a % of eligible compensation	3.0%	2.4 to 3.0%	2.0 to 2.7%

**Contributions**

Section 20814(c) of the California Public Employees Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the measurement period ended June 30, 2018 (the measurement date) for the Plans, the average active employee contribution rate was 6.755% of annual pay for Miscellaneous and 9.591% for Safety and the employer's contribution rate is 7.922% of annual payroll for Miscellaneous and 20.066% for Safety. The employee and employer contributions made for fiscal year June 30, 2019 was \$13.578 million for the Miscellaneous plan and \$20.137 million for the Safety plan. Employer contribution rates may change if plan contracts are amended.

II. Net Pension Liability

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures.

A summary of principal assumptions and methods used to determine the net pension liability is shown below:

	Miscellaneous Plan	Safety Plan
Actuarial Cost Method	Entry-Age Normal	Entry-Age Normal
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.75%	2.75%
Salary Increases	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return	7.5% <sup>(1)</sup>	7.5% <sup>(1)</sup>
Mortality Rate Table <sup>(2)</sup>	CalPERS Membership Data	CalPERS Membership Data
Post Retirement Benefit Increase	Up to 2.75%	Up to 2.75%

<sup>(1)</sup> Net of Pension Plan Investment and Administrative Expenses; includes inflation

<sup>(2)</sup> The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one-quarter of one percent.

The table below reflects long-term expected real rate of return by asset class as of the target allocation for the June 30, 2018 measurement date. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<b>Asset Class</b>	<b>New Strategic Allocation</b>	<b>Real Return Years 1 – 10<sup>(1)</sup></b>	<b>Real Return Years 11+<sup>(2)</sup></b>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.5	5.13
Infrastructure and Forestland	2.0	4.5	5.09
Liquidity	1.0	(0.55)	(1.05)

(1) An expected inflation of 2.5% used for this period  
(2) An expected inflation of 3.0% used for this period

### III. Changes in the Net Pension Liability

The changes in the Net Pension Liability for each Plan follows:

Miscellaneous Plan	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2017 <sup>(1)</sup>	\$ 447,706,079	\$ 327,575,983	\$ 120,130,096
Changes Recognized for the Measurement Period:			
Service Cost	7,365,767	-	7,365,767
Interest on the Total Pension Liability	31,433,420	-	31,433,420
Changes of Assumptions	(2,477,241)	-	(2,477,241)
Differences between Expected and Actual Experience	2,514,973	-	2,514,973
Plan to Plan Resource Movement	-	(181)	181
Contributions - Employer	-	8,553,955	(8,553,955)
Contributions - Employees	-	3,393,722	(3,393,722)
Net Investment Income	-	27,586,156	(27,586,156)
Benefit Payments, including Refunds of Employee	(23,596,900)	(23,596,900)	-
Administrative Expense	-	(510,454)	510,454
Other Misc Income/(Expense)	-	(969,360)	969,360
Net Change during 2017-18	15,240,019	14,456,938	783,081
Balance at June 30, 2018 <sup>(1)</sup>	\$ 462,946,098	\$ 342,032,921	\$ 120,913,177

<sup>(1)</sup> The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.

Safety Plan	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2017 <sup>(1)</sup>	\$ 575,754,935	\$ 383,468,690	\$ 192,286,245
Changes Recognized for the Measurement Period:			
Service Cost	9,648,518	-	9,648,518
Interest on the Total Pension Liability	40,490,329	-	40,490,329
Changes of Assumptions	(2,434,317)	-	(2,434,317)
Differences between Expected and Actual Experience	2,992,729	-	2,992,729
Plan to Plan Resource Movement	-	(1,551)	1,551
Contributions - Employer	-	14,809,730	(14,809,730)
Contributions - Employees	-	3,400,369	(3,400,369)
Net Investment Income	-	32,428,941	(32,428,941)
Benefit Payments, including Refunds of Employee	(29,678,588)	(29,678,588)	-
Administrative Expense	-	(597,550)	597,550
Other Misc Income/(Expense)	-	(1,134,757)	1,134,757
Net Change during 2017-18	21,018,671	19,226,594	1,792,077
Balance at June 30, 2018 <sup>(1)</sup>	\$ 596,773,606	\$ 402,695,284	\$ 194,078,322

<sup>(1)</sup> The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

Miscellaneous Plan	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan's Net Pension Liability/ (Asset)	\$ 179,498,760	\$ 120,913,177	\$ 72,185,454

Safety Plan	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan's Net Pension Liability/ (Asset)	\$ 276,170,937	\$ 194,078,322	\$ 126,903,709

IV. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of the start of the measurement period (July 1, 2017), the net pension liability was \$120,130,096 for the Miscellaneous Plan and \$192,286,245 for the Safety Plan.

For the measurement period ended June 30, 2017 (the measurement date), the City incurred a pension expense of \$16,708,270 for the Miscellaneous Plan and \$24,781,994 for the Safety Plan.

As of June 30, 2019, the City has deferred outflows and deferred inflows of resources related to pensions as follows:

Miscellaneous Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of Assumptions	\$ 10,722,191	\$ (1,807,716)
Differences between Expected and Actual Experiences	1,835,251	(1,248,962)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	917,354	-
Contributions subsequent to the measurement date	10,138,028	-
<b>Total</b>	<b>\$ 23,612,824</b>	<b>\$ (3,056,678)</b>

Safety Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of Assumptions	\$ 17,013,727	\$ (2,495,768)
Differences between Expected and Actual Experiences	2,280,174	(2,152,700)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	1,095,325	-
Contributions subsequent to the measurement date	16,002,665	-
<b>Total</b>	<b>\$ 36,391,891</b>	<b>\$ (4,648,468)</b>

The amounts above are net of outflows and inflows recognized in the 2017-2018 measurement period expense. The amounts above reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020.

Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in future pension expense (not including contributions subsequent to the measurement date) as follows:

Fiscal Year Ended June 30	Miscellaneous Plan	Safety Plan
2020	10,121,135	11,345,620
2021	4,659,344	8,610,421
2022	(3,427,090)	(3,133,057)
2023	(935,271)	(1,082,226)
Total	\$ 10,418,118	\$ 15,740,758

**H. DEFICIENCY OF EXPENDITURES OVER APPROPRIATIONS**

For the fiscal year ended June 30, 2019, expenditures exceeded appropriations as follows:

**General Fund**

<u>Expenditures</u>	<u>Amount</u>
Parks and recreation – Operations services and maintenance	\$44,420

**Housing and Community Development**

<u>Expenditures</u>	<u>Amount</u>
Interest Expenditures	\$86

**I. PRIOR YEAR ADJUSTMENTS**

A prior period adjustment was made to the Local Transportation Fund in the amount of \$219,198 to restate unearned income from the prior year for Street and Roads Local Transportation funds not yet expended as of fiscal year 2018-2019.

A prior period adjustment was made to the Community Facility Districts Fund to account for a correction to property assessments accounted for in the incorrect fund in the prior fiscal year in the amount of \$159,448.

A prior year adjustment was also made in the Compost Fund to account for a correction to prior year revenue overstated in the amount of \$91,075.

**J. SUBSEQUENT EVENTS**

In September 2019, the Council approved the plans and specifications for State Route 132 West Freeway/Expressway – Phase I project to Bay Cities Paving and Grading Inc. in the amount of \$92 million. The purpose of this phase is to improve regional and interregional circulation, relieve traffic congestion along existing State Route 132, and to enhance safety and operations for the existing and proposed transportation network. The overall project cost for Phase I is estimated at \$117 million. This project is being funded through several federal, state and local grants funds.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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**City of Modesto**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**For the Year Ended June 30<sup>th</sup>**  
**Last Ten Fiscal Years \***

Miscellaneous Plan

Measurement Period	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014
<b>TOTAL PENSION LIABILITY</b>					
Service Cost	\$ 7,365,767	\$ 6,992,542	\$ 6,092,179	\$ 5,768,082	\$ 6,400,912
Interest on Total Pension Liability	31,433,420	30,399,913	29,752,178	28,873,755	28,037,915
Changes of Benefit Terms	-	-	-	-	-
Changes of Assumptions	(2,477,241)	24,124,929	-	(6,709,358)	-
Difference Between Expected and Actual Experience	2,514,973	(1,956,450)	(2,005,545)	(3,177,191)	-
Benefit Payments, Including Refunds of Employee Contributions	(23,596,900)	(22,727,426)	(21,686,131)	(20,945,229)	(20,334,821)
Net Change in Total Pension Liability	15,240,019	36,833,508	12,152,681	3,810,059	14,104,006
Total Pension Liability – Beginning	447,706,079	410,872,571	398,719,890	394,909,831	380,805,825
Total Pension Liability – Ending (a)	\$ 462,946,098	\$ 447,706,079	\$ 410,872,571	\$ 398,719,890	\$ 394,909,831
<b>PLAN FIDUCIARY NET POSITION</b>					
Contributions – Employer	\$ 8,553,955	\$ 8,382,192	\$ 6,920,358	\$ 5,632,179	\$ 4,654,055
Contributions – Employee	3,393,722	3,396,338	3,349,400	3,061,157	2,853,492
Net Investment Income	27,586,156	33,859,910	1,667,540	7,093,159	48,702,803
Benefit Payments, Including Refunds of Employee Contributions	(23,596,900)	(22,727,426)	(21,686,131)	(20,945,229)	(20,334,821)
Plan to Plan Resource Movement	(181)	505	(1,118)	(188)	-
Administrative Expense	(510,454)	(450,482)	(192,011)	(355,544)	-
Other Miscellaneous Income/(Expense) <sup>(1)</sup>	(969,360)	-	-	-	-
Net Change in Fiduciary Net Position	14,456,938	22,461,037	(9,941,962)	(5,514,466)	35,875,529
Plan Fiduciary Net Position – Beginning <sup>(2)</sup>	327,575,983	305,114,946	315,056,908	320,571,374	284,695,845
Plan Fiduciary Net Position – Ending (b)	342,032,921	327,575,983	305,114,946	315,056,908	320,571,374
Plan Net Pension Liability – Ending (a) - (b)	\$ 120,913,177	\$ 120,130,096	\$ 105,757,625	\$ 83,662,982	\$ 74,338,457
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.88%	73.17%	74.26%	79.02%	81.18%
Covered-Employee Payroll	\$ 49,812,447	\$ 46,735,345	\$ 45,207,621	\$ 41,562,776	\$ 44,125,963
Plan Net Pension Liability as a Percentage of Covered-Employee Payroll	242.74%	257.04%	233.94%	201.29%	168.47%

(1) During Fiscal Year 2017-18, as a result of Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions (GASB 75), CalPERS reported its proportionate share of activity related to postemployment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75.

Additionally, CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

(2) Includes any beginning of year adjustment.

\* The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

**City of Modesto**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**For the Year Ended June 30<sup>th</sup>**  
**Last Ten Fiscal Years \***

Safety Plan

Measurement Period	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014
<b>TOTAL PENSION LIABILITY</b>					
Service Cost	\$ 9,648,518	\$ 9,298,519	\$ 8,193,455	\$ 8,633,865	\$ 8,970,868
Interest on Total Pension Liability	40,490,329	39,048,366	38,004,835	36,721,112	35,310,732
Changes of Benefit Terms	-	-	-	-	-
Changes of Assumptions	(2,434,317)	33,217,275	-	(9,188,394)	-
Difference Between Expected and Actual Experience	2,992,729	(3,102,753)	(2,136,836)	(849,707)	-
Benefit Payments, Including Refunds of Employee Contributions	(29,678,588)	(28,147,381)	(26,911,771)	(25,426,619)	(24,313,823)
Net Change in Total Pension Liability	21,018,671	50,314,026	17,101,648	9,890,257	19,967,777
Total Pension Liability – Beginning	575,754,935	525,440,909	508,339,261	498,449,004	478,481,227
Total Pension Liability – Ending (a)	<u>\$ 596,773,606</u>	<u>\$ 575,754,935</u>	<u>\$ 525,440,909</u>	<u>\$ 508,339,261</u>	<u>\$ 498,449,004</u>
<b>PLAN FIDUCIARY NET POSITION</b>					
Contributions – Employer	\$ 14,809,730	\$ 12,812,060	\$ 11,137,899	\$ 10,210,101	\$ 8,963,542
Contributions – Employee	3,400,369	3,165,011	2,962,566	2,800,626	2,939,117
Net Investment Income	32,428,941	39,443,735	1,898,536	8,215,387	56,385,743
Benefit Payments, Including Refunds of Employee Contributions	(29,678,588)	(28,147,381)	(2,136,836)	(25,426,619)	(24,313,823)
Plan to Plan Resource Movement	(1,551)	(505)	1,118	211	-
Administrative Expense	(597,550)	(526,677)	(224,190)	(414,089)	-
Other Miscellaneous Income/(Expense) <sup>(1)</sup>	(1,134,757)	-	-	-	-
Net Change in Fiduciary Net Position	19,226,594	26,746,243	13,639,093	(4,614,383)	43,974,579
Plan Fiduciary Net Position – Beginning <sup>(2)</sup>	383,468,690	356,722,447	367,858,289	372,472,672	328,498,093
Plan Fiduciary Net Position – Ending (b)	402,695,284	383,468,690	356,722,447	367,858,289	372,472,672
Plan Net Pension Liability – Ending (a) - (b)	<u>\$ 194,078,322</u>	<u>\$ 192,286,245</u>	<u>\$ 168,718,462</u>	<u>\$ 140,480,972</u>	<u>\$ 125,976,332</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.48%	66.60%	67.89%	72.36%	74.73%
Covered-Employee Payroll	\$ 32,259,582	\$ 30,608,378	\$ 30,022,552	\$ 31,202,983	\$ 31,090,551
Plan Net Pension Liability as a Percentage of Covered-Employee Payroll	601.61%	628.21%	561.97%	450.22%	405.19%

(1) During Fiscal Year 2017-18, as a result of Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions (GASB 75), CalPERS reported its proportionate share of activity related to postemployment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75.

Additionally, CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

(2) Includes any beginning of year adjustment.

\* The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

**City of Modesto  
Schedule of Plan Contributions <sup>(1)</sup>  
Last Ten Fiscal Years\***

Miscellaneous Plan

Fiscal Year	2018-2019	2017-2018 <sup>(4)</sup>	2016-2017	2015-2016	2014-2015	2013-2014
Actuarially Determined Contribution <sup>(2)</sup>	\$ 10,138,028	\$ 8,553,955	\$ 8,382,192	\$ 6,920,358	\$ 5,632,179	\$ 4,654,055
Contributions in Relation to the Actuarially Determined Contribution <sup>(2)</sup>	(10,138,028)	(8,553,955)	(8,382,192)	(6,920,358)	(5,632,179)	(4,654,055)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll <sup>(3)(4)</sup>	\$ 51,944,130	\$ 49,812,447	\$ 46,735,345	\$ 45,207,621	\$ 41,562,776	\$ 44,125,963
Contributions as a Percentage of Covered-Employee Payroll <sup>(3)</sup>	19.52%	17.17%	17.94%	15.31%	13.55%	10.55%

Safety Plan

Fiscal Year	2018-2019	2017-2018 <sup>(4)</sup>	2016-2017	2015-2016	2014-2015	2013-2014
Actuarially Determined Contribution <sup>(2)</sup>	\$ 16,002,665	\$ 14,809,730	\$ 12,812,060	\$ 11,137,899	\$ 10,210,101	\$ 8,963,542
Contributions in Relation to the Actuarially Determined Contribution <sup>(2)</sup>	(16,002,665)	(14,809,730)	(12,812,060)	(11,137,899)	(10,210,101)	(8,963,542)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll <sup>(3)</sup>	\$ 34,265,626	\$ 32,259,582	\$ 30,608,378	\$ 30,022,552	\$ 31,202,983	\$ 31,090,551
Contributions as a Percentage of Covered-Employee Payroll <sup>(3)</sup>	46.70%	45.91%	41.86%	37.10%	32.72%	28.83%

- (1) Historical information is required only for fiscal year for which GASB 68 is applicable. As prescribed in GASB 68, paragraph 46, the information presented in the Schedule of Plan Contributions should also be determined as of the employer's most recent fiscal year-end. The employer is responsible for determining this information as prescribed by the standard as this data is not available to CalPERS.
- (2) Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.
- (3) Includes one year's payroll growth using 2.75 percent payroll assumption for fiscal year ended June 30, 2018; 3.00 percent payroll assumption for fiscal years ended June 30, 2014-17.
- (4) When reviewing the Covered Employee Payroll for 2018 it was realized that the amount shown in the 2018 report had excluded 2 months' of earnings. The number presented above corrects for the prior omission.

\* The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

**City of Modesto**  
**Schedule of Changes in the OPEB Liability and Related Ratios**  
**Last Ten Fiscal Years \***

<i>Measurement Period</i>	<b>FY 2018-2019</b>	<b>FY 2017-2018</b>
	June 30, 2018	June 30, 2017
<b>Total OPEB liability</b>		
Service cost	\$ 963,490	\$ 935,427
Interest	1,038,035	892,669
Differences between expected and actual experience	(468,009)	-
Changes of assumptions	(1,306,633)	(1,600,635)
Benefit payments	(2,733,246)	(2,430,468)
Net change in total OPEB liability	(2,506,363)	(2,203,007)
Total OPEB liability - beginning	29,398,521	31,601,528
Total OPEB liability - ending (a)	<u>\$ 26,892,158</u>	<u>\$ 29,398,521</u>
Covered-employee payroll	\$ 49,647,245	\$ 55,637,076
Total OPEB liability as a Percentage of Covered-Employee Payroll	54.17%	52.84%

Notes to Schedule

\*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

\*Amounts presented above were determined as of June 30th. Additional years will be presented as they become available.

**City of Modesto  
Schedule of Contributions  
Last Ten Fiscal Years \***

Fiscal Year	2019-2020	2018-2019	2017-2018	2016-2017
Actuarially Determined Contribution (ADC)	\$ 2,377,048	\$ 2,733,246	\$ 2,430,468	\$ 2,527,076
Contributions in Relation to the ADC	(2,377,048)	(2,733,246)	(2,430,468)	(2,527,076)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered-Employee Payroll	\$ 49,647,245	\$ 57,903,435	\$ 55,637,076	\$ 49,552,706
Contributions as a Percentage of Covered-Employee Payroll	4.79%	4.72%	4.37%	5.10%

Notes to schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018-2019 were as follows for June 30, 2018 measurement date actuarial valuations.

Actuarial Cost Method	Entry Age Normal – Couldn't find this in the 2019 report
Discount Rate	3.87% at June 30, 2018. 3.58% at June 30, 2017 (Bond Buyer 20-Bond Index).
Asset Valuation Method	N/A – Couldn't find this in the 2019 report
General Inflation	2.75% annually
Salary Increases	Aggregate - 3% annually Merit - CalPERS 1997-2015 Experience Study
Trend	Medicare - 6.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076 Non-Medicare - 7.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076
Retirement Age	CalPERS 1997-2015 Experience Study
Mortality	CalPERS 1997-2015 Experience Study Post-retirement mortality projected fully generational with Scale MP-2018

\*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES - BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>TAXES</b>				
Utility users tax	\$ 21,118,548	\$ 21,118,548	\$ 19,803,859	\$ (1,314,689)
Property tax	16,846,597	16,846,597	17,316,735	470,138
Transient occupancy tax	2,700,100	2,700,100	2,961,406	261,306
Franchise tax	4,822,834	4,822,834	5,000,174	177,340
Business license tax	12,000,000	12,000,000	14,068,205	2,068,205
<b>Total taxes</b>	<b>57,488,079</b>	<b>57,488,079</b>	<b>59,150,379</b>	<b>1,662,300</b>
<b>LICENSES AND PERMITS</b>	<b>85,257</b>	<b>135,257</b>	<b>295,007</b>	<b>159,750</b>
<b>INTERGOVERNMENTAL</b>				
Sales tax	31,238,582	31,238,582	31,665,700	427,118
Motor vehicle license fees	16,977,272	16,977,272	17,057,003	79,731
State	800,000	800,000	981,472	181,472
County	101,742	101,742	-	(101,742)
Federal	-	-	14,249	14,249
Other intergovernmental	2,308,800	2,308,800	2,778,156	469,356
<b>Total intergovernmental</b>	<b>51,426,396</b>	<b>51,426,396</b>	<b>52,496,580</b>	<b>1,070,184</b>
<b>CHARGES FOR SERVICES</b>				
General government	2,140,155	2,192,946	2,327,208	134,262
Community development	3,000,765	3,000,765	2,600,812	(399,953)
Public works	577,451	548,491	548,018	(473)
Parks and recreation	1,995,933	2,015,535	1,754,191	(261,344)
Public safety	3,195,474	3,250,381	2,912,466	(337,915)
Indirect cost recovery	3,909,072	3,909,072	3,909,072	-
<b>Total charges for services</b>	<b>14,818,850</b>	<b>14,917,190</b>	<b>14,051,767</b>	<b>(865,423)</b>
<b>INTEREST AND RENT</b>	<b>623,610</b>	<b>623,610</b>	<b>1,160,531</b>	<b>536,921</b>
<b>NET INCREASE IN FAIR VALUE OF INVESTMENTS</b>	<b>161,600</b>	<b>161,600</b>	<b>482,347</b>	<b>320,747</b>
<b>FINES AND FORFEITS</b>	<b>670,793</b>	<b>935,793</b>	<b>852,872</b>	<b>(82,921)</b>
<b>MISCELLANEOUS</b>				
Mandated cost recovery	82,750	82,750	176,498	93,748
Other	493,742	493,742	320,578	(173,164)
<b>Total miscellaneous</b>	<b>576,492</b>	<b>576,492</b>	<b>497,076</b>	<b>(79,416)</b>
<b>Total revenues</b>	<b>\$ 125,851,077</b>	<b>\$ 126,264,417</b>	<b>\$ 128,986,559</b>	<b>\$ 2,722,142</b>

The notes to required supplementary information are an integral part of this schedule.

**CITY OF MODESTO**  
**SCHEDULE OF EXPENDITURES BY FUNCTION - BUDGET**  
**(GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance with Final Budget
	Original	Final		
General government:				
City council	\$ 435,407	\$ 434,849	\$ 418,352	\$ 16,497
Human resources	1,624,557	1,637,581	1,473,748	163,833
City manager	2,402,327	2,479,117	2,232,205	246,912
City attorney	2,201,845	2,220,938	1,836,320	384,618
City clerk/auditor	1,215,828	1,341,588	879,436	462,152
Finance	4,841,644	4,974,314	4,622,463	351,851
Other	385,000	385,000	361,987	23,013
Total general government	<u>13,106,608</u>	<u>13,473,387</u>	<u>11,824,511</u>	<u>1,648,876</u>
Community development:	<u>6,301,689</u>	<u>6,709,085</u>	<u>5,982,893</u>	<u>726,192</u>
Public works:				
Administration	477,083	476,978	456,686	20,292
Total public works	<u>477,083</u>	<u>476,978</u>	<u>456,686</u>	<u>20,292</u>
Parks and recreation:				
Administration	690,394	1,359,526	1,271,977	87,549
Planning and development	473,723	551,912	511,383	40,529
Convention visitors bureau	338,277	399,923	397,380	2,543
Operations service and maintenance	5,592,263	5,369,366	5,413,786	(44,420)
Facilities	2,152,164	1,590,786	1,463,726	127,060
Recreation division	2,464,149	2,578,853	2,329,257	249,596
Total parks and recreation	<u>11,710,970</u>	<u>11,850,366</u>	<u>11,387,509</u>	<u>462,857</u>
Public safety:				
Fire protection	31,568,559	32,183,820	31,920,274	263,546
Police protection	65,755,659	64,829,265	62,228,396	2,600,869
Total public safety	<u>97,324,218</u>	<u>97,013,085</u>	<u>94,148,670</u>	<u>2,864,415</u>
Debt service:				
Principal retirement	446,498	446,498	446,498	-
Interest expenditures	152,047	152,047	152,046	1
Total debt service	<u>598,545</u>	<u>598,545</u>	<u>598,544</u>	<u>1</u>
Total expenditures	<u>\$ 129,519,113</u>	<u>\$ 130,121,446</u>	<u>\$ 124,398,813</u>	<u>\$ 5,722,633</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

The notes to required supplementary information are an integral part of this schedule.

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - HOUSING**  
**AND COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental - federal grants	\$ 3,127,448	\$ 3,000,266	\$ 6,225,719	\$ 3,225,453
Charges for services	175,401	945,647	569,872	(375,775)
Interest and rent	15,000	15,000	-	(15,000)
Miscellaneous	19,718	-	-	-
Total revenues	<u>3,337,567</u>	<u>3,960,913</u>	<u>6,795,591</u>	<u>2,834,678</u>
<b>EXPENDITURES:</b>				
Community development	2,829,155	2,929,453	2,312,366	617,087
Debt service:				
Principal retirement	256,000	256,000	256,000	-
Interest	46,003	46,003	46,089	(86)
Total expenditures	<u>3,131,158</u>	<u>3,231,456</u>	<u>2,614,455</u>	<u>617,001</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>206,409</u>	<u>729,457</u>	<u>4,181,136</u>	<u>3,451,679</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	94,356	14,356	(80,000)
Transfers out	(250,000)	(1,401,990)	(988,338)	413,652
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(250,000)</u>	<u>(1,307,634)</u>	<u>(973,982)</u>	<u>333,652</u>
<b>CHANGES IN FUND BALANCE</b>	(43,591)	(578,177)	3,207,154	3,785,331
<b>FUND BALANCE, JULY 1</b>	<u>27,721,634</u>	<u>27,721,634</u>	<u>27,721,634</u>	<u>-</u>
<b>FUND BALANCE, JUNE 30</b>	<u>\$ 27,678,043</u>	<u>\$ 27,143,457</u>	<u>\$ 30,928,788</u>	<u>\$ 3,785,331</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

The notes to required supplementary information are an integral part of this schedule.

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**TRANSPORTATION SPECIALTAX REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental:				
State	\$ 18,165,497	\$ 18,165,497	\$ 19,002,236	\$ 836,739
Taxes	1,000,000	1,000,000	1,392,951	392,951
Licenses and permits	-	-	7,566	7,566
Charges for services	388,547	388,547	740,753	352,206
Interest and rent	-	-	203,798	203,798
Net increase in fair value of investments	-	-	212,955	212,955
Miscellaneous	-	-	77,831	77,831
Total revenues	<u>19,554,044</u>	<u>19,554,044</u>	<u>21,638,090</u>	<u>2,084,046</u>
<b>EXPENDITURES:</b>				
Highway and streets	<u>10,418,615</u>	<u>10,761,234</u>	<u>9,866,446</u>	<u>894,788</u>
<b>EXCESS OF REVENUES (UNDER)</b>				
<b>EXPENDITURES</b>	<u>9,135,429</u>	<u>8,792,810</u>	<u>11,771,644</u>	<u>2,978,834</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	10,278,542	13,463,306	1,601,033	(11,862,273)
Transfers out	<u>(10,277,042)</u>	<u>(30,689,078)</u>	<u>(10,317,772)</u>	<u>20,371,306</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>1,500</u>	<u>(17,225,772)</u>	<u>(8,716,739)</u>	<u>8,509,033</u>
<b>CHANGES IN FUND BALANCE</b>	9,136,929	(8,432,962)	3,054,905	11,487,867
<b>FUND BALANCE, JULY 1</b>	<u>14,444,973</u>	<u>14,444,973</u>	<u>14,444,973</u>	<u>-</u>
<b>FUND BALANCE (DEFICIT), JUNE 30</b>	<u>\$ 23,581,902</u>	<u>\$ 6,012,011</u>	<u>\$ 17,499,878</u>	<u>\$ 11,487,867</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

The notes to required supplementary information are an integral part of this schedule.

**CITY OF MODESTO**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FISCAL YEAR ENDED JUNE 30, 2019**

BUDGETARY INFORMATION - The City follows these procedures annually in establishing the budgetary data reflected in the budgetary comparison schedules for operating, non-capital multi-year, and capital budgets:

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 for operating, non-capital multi-year and capital projects.
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 all proposed budgets to obtain comments from interested persons.
3. Prior to July 1, the budget is legally adopted through adoption of a resolution. 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. Authority to approve any adjustment in the amount of \$25,000 or less is delegated to the Director of Finance.
  - b. Authority to approve any adjustment in an amount between \$25,000 and \$50,000 is delegated to the City Manager.
  - c. Authority for any budget adjustment more than \$50,000 is delegated to the parties described below:
    - a. Items requiring City Council Action – appropriation of undesignated reserves; appropriation of new revenues; transfers of appropriations between funds (inter-fund transfers); creation of inter-fund loans; creation of, or increase in, any multi-year appropriation.
    - b. Items delegated to the City Manager – transfer appropriations between departments within a fund; changing any capital equipment appropriation; appropriation of reserves for litigation on a case-by-case basis; appropriation of developer payments not previously budgeted.
    - c. Items delegated to the Director of Finance – appropriation of grant interest; revise the allocation of Internal Service Fund charges between departments provided that the total allocated amount does not increase; changing any capital improvement budget line item appropriation; make technical budget corrections to implement the intent of Council approved actions and resolutions.
    - d. Items delegated to Department Directors – transfer appropriations within a department, within a single fund.
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.

**CITY OF MODESTO**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONT)**  
**FISCAL YEAR ENDED JUNE 30, 2019**

7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the appropriation unit 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 complete the year within their legally authorized expenditures except the Local Transportation Fund due to a budget error. 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.

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**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

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## **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.

**DOWNTOWN IMPROVEMENT DISTRICT FUND** – To account for the fiscal activities of Business Improvement Area A and Downtown Modesto Community Benefit District of the City of Modesto.

**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.

**SECURITIES FOR FUTURE IMPROVEMENTS FUND** – To account for the collection of impact fees for approved development projects to construct facilities needed for future development.

**CAPITAL GRANTS** – To account for receipts and disbursements of a variety of Governmental Fund capital grants.

**COMMUNITY FACILITIES DISTRICTS FUND** – To account for the construction of public improvements deemed to benefit properties against which special taxes are levied.

**SUCCESSOR REDEVELOPMENT HOUSING AGENCY FUND** – To account for the housing redevelopment capital projects financed by the Successor Redevelopment Housing Agency of the City of Modesto.

## **Nonmajor Capital Projects Funds (cont'd)**

**CAPITAL FACILITY FEES FUND** – To account for special fees collected on new building permits to be used for construction of certain growth related projects. The fees and related capital projects include police department expansion, fire department expansion, expressway loop, street lights, street improvements, parks, new traffic signals, City downtown, wastewater treatment, public transportation, and air quality improvements.

**TRANSPORTATION SPECIAL TAX CAPITAL FUND** – To account for receipts and disbursements of Governmental Fund capital projects funded through locally-shared gas tax, 25 year, ½ cent sales tax Measure L, and SB-1 (Road Repair and Accountability Act of 2017) monies.

## **Nonmajor Debt Service Fund**

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 Fund includes:

**PUBLIC FINANCING AUTHORITY FUND** – To account for payment of debt issued to finance projects authorized by the Modesto Public Financing Authority.

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**CITY OF MODESTO**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2019**

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 1,651,818	\$ -	\$ 89,757	\$ 1,247,039
Receivables:					
Accounts, net	82,722	-	-	-	2,371
Interest	5,308	4,820	-	418	3,857
Taxes	91,816	-	-	14,644	-
Due from governments	3,789,461	-	3,102	-	-
Prepaid expenditures	3,660	-	-	-	-
Restricted assets:					
Cash and cash equivalents	-	1,775	4,043,684	-	-
Cash and cash equivalents with fiscal agent	727,326	-	-	-	-
Interest receivable	-	-	-	-	-
Due from governments	-	-	39,001	-	-
Notes receivable, net	70,179	-	-	-	-
<b>Total assets</b>	<b>\$ 4,770,472</b>	<b>\$ 1,658,413</b>	<b>\$ 4,085,787</b>	<b>\$ 104,819</b>	<b>\$ 1,253,267</b>
<b>LIABILITIES AND AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 159,936	\$ -	\$ -	\$ 14,824	\$ 973
Accrued salaries and benefits	83,276	-	3,102	-	-
Interest payable	-	-	-	-	-
Due to other funds	855,698	-	-	-	-
Unearned revenue	-	1,656,638	-	-	-
Refundable deposits	112,805	-	-	-	-
Advances from other funds	-	-	-	-	-
<b>Total liabilities</b>	<b>1,211,715</b>	<b>1,656,638</b>	<b>3,102</b>	<b>14,824</b>	<b>973</b>
Deferred inflows of resources:					
Unavailable revenue	4,040,639	-	-	-	-
Fund balances:					
Nonspendable	3,660	-	-	-	-
Restricted	797,505	1,775	4,082,685	-	-
Assigned	-	-	-	89,995	1,252,294
Unassigned	(1,283,047)	-	-	-	-
<b>Total fund balances</b>	<b>(481,882)</b>	<b>1,775</b>	<b>4,082,685</b>	<b>89,995</b>	<b>1,252,294</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,770,472</b>	<b>\$ 1,658,413</b>	<b>\$ 4,085,787</b>	<b>\$ 104,819</b>	<b>\$ 1,253,267</b>

Capital Projects							
Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Capital Grants	Community Facilities Districts	Successor Redevelopment Housing Agency	Capital Facility Fees	Transportation Special Tax Capital
\$ 632,291	\$ -	\$ -	\$ 5,546	\$ 116,431	\$ -	\$ -	\$ 1,286,780
-	-	-	-	-	-	600	-
-	897	-	-	78,611	-	84,239	-
-	-	-	-	36,160	-	-	-
-	-	-	1,631,779	3,432	1,192,004	8,842,105	-
-	-	-	-	524	-	-	-
-	771,354	66,397	-	18,728,690	-	25,954,561	-
-	-	-	-	-	-	13,696	-
-	1,687	-	-	-	-	-	-
-	-	-	-	-	-	346,303	-
-	-	-	-	-	2,211,000	-	-
<u>\$ 632,291</u>	<u>\$ 773,938</u>	<u>\$ 66,397</u>	<u>\$ 1,637,325</u>	<u>\$ 18,963,848</u>	<u>\$ 3,403,004</u>	<u>\$ 35,241,504</u>	<u>\$ 1,286,780</u>
\$ 122,060	\$ 897	\$ -	\$ 938,329	\$ 144,844	\$ -	\$ 3,314,806	\$ 1,286,780
-	-	-	-	10,066	-	-	-
-	-	-	-	16,319	2,413	-	-
-	-	-	1,508,600	-	580,067	-	-
-	-	-	-	-	-	-	-
-	-	-	-	59,973	-	-	-
539,891	-	-	-	-	145,727	865,891	-
661,951	897	-	2,446,929	231,202	728,207	4,180,697	1,286,780
1,706	-	-	686,556	3,432	-	4,746,247	-
-	-	-	-	524	-	-	-
-	773,041	66,397	-	18,728,690	2,211,000	26,314,560	-
-	-	-	-	-	463,797	-	-
(31,366)	-	-	(1,496,160)	-	-	-	-
(31,366)	773,041	66,397	(1,496,160)	18,729,214	2,674,797	26,314,560	-
<u>\$ 632,291</u>	<u>\$ 773,938</u>	<u>\$ 66,397</u>	<u>\$ 1,637,325</u>	<u>\$ 18,963,848</u>	<u>\$ 3,403,004</u>	<u>\$ 35,241,504</u>	<u>\$ 1,286,780</u>

**CITY OF MODESTO**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (continued)**  
**JUNE 30, 2019**

	Debt Service Public Financing Authority	Total
<u>ASSETS</u>		
Cash and cash equivalents	\$ 150,371	\$ 5,180,033
Receivables:		
Accounts, net	-	85,693
Interest	-	178,150
Taxes	-	142,620
Due from governments	-	15,461,883
Prepaid expenditures	354	4,538
Restricted assets:		
Cash and cash equivalents	-	49,566,461
Cash and cash equivalents with fiscal agent	5,313,204	6,054,226
Interest receivable	-	1,687
Due from governments	-	385,304
Notes receivable, net	-	2,281,179
	\$ 5,463,929	\$ 79,341,774
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable	\$ 149,101	\$ 6,132,550
Accrued salaries and benefits	-	96,444
Interest payable	-	18,732
Due to other funds	-	2,944,365
Unearned revenue	-	1,656,638
Refundable deposits	-	172,778
Advances from other funds	-	1,551,509
	149,101	12,573,016
Total liabilities		
Deferred inflows of resources:		
Unavailable revenue	-	9,478,580
	-	9,478,580
Fund balances:		
Nonspendable	354	4,538
Restricted	5,313,204	58,288,857
Assigned	1,270	1,807,356
Unassigned	-	(2,810,573)
	5,314,828	57,290,178
Total fund balances		
	5,314,828	57,290,178
Total liabilities and fund balances	\$ 5,463,929	\$ 79,341,774

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**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development
<b>REVENUES:</b>					
Taxes	\$ 368,976	\$ -	\$ -	\$ 202,014	\$ -
Licenses and permits	42,282	-	-	-	-
Intergovernmental	4,461,768	271,669	-	-	-
Charges for services	3,767,943	-	300,651	-	220,201
Special assessments levied	66,719	-	-	712,277	-
Interest and rent	25,147	18,753	-	1,650	16,671
Net increase (decrease) in fair value of investments	21,147	8,659	-	1,459	15,711
Fines and forfeits	-	-	290,634	-	-
Miscellaneous	123,495	-	-	-	-
<b>Total revenues</b>	<b>8,877,477</b>	<b>299,081</b>	<b>591,285</b>	<b>917,400</b>	<b>252,583</b>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
General government	498,345	-	-	-	-
Community development	1,622,726	-	-	911,634	293,272
Highways and streets	-	934	-	-	-
Public works	2,560,561	-	-	-	-
Parks and recreation	1,782,441	303,802	-	-	-
Public safety	3,104,067	-	210,074	-	-
<b>Capital outlay:</b>					
Community development	-	-	-	-	-
Highways and streets	-	-	-	-	-
Public works	38,778	-	-	-	-
Parks and recreation	-	-	-	-	-
Public safety	337,106	-	41,420	-	-
<b>Debt service:</b>					
Principal retirement	-	-	-	-	-
Interest	-	-	-	-	-
Other	-	-	-	-	-
<b>Total expenditures</b>	<b>9,944,024</b>	<b>304,736</b>	<b>251,494</b>	<b>911,634</b>	<b>293,272</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,066,547)</b>	<b>(5,655)</b>	<b>339,791</b>	<b>5,766</b>	<b>(40,689)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	1,116,676	9,077	2,025	-	-
Transfers out	(433,326)	(4,507)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>683,350</b>	<b>4,570</b>	<b>2,025</b>	<b>-</b>	<b>-</b>
<b>CHANGES IN FUND BALANCES</b>	<b>(383,197)</b>	<b>(1,085)</b>	<b>341,816</b>	<b>5,766</b>	<b>(40,689)</b>
FUND BALANCES, JULY 1	(98,685)	222,058	3,740,869	84,229	1,292,983
PRIOR PERIOD ADJUSTMENTS	-	(219,198)	-	-	-
<b>FUND BALANCES, JUNE 30</b>	<b>\$ (481,882)</b>	<b>\$ 1,775</b>	<b>\$ 4,082,685</b>	<b>\$ 89,995</b>	<b>\$ 1,252,294</b>

Capital Projects

Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Capital Grants	Community Facilities Districts	Successor Redevelopment Housing Agency	Capital Facility Fees	Transportation Special Tax Capital
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	3,713,137	8,432	-	8,697,820	-
-	3,890	-	-	822,392	-	2,749,245	-
-	-	-	-	3,481,285	-	-	-
(2,905)	9,690	-	(1,301)	271,995	24,002	375,264	-
(683)	10,544	-	-	224,450	(10,196)	328,150	-
-	-	-	-	-	-	-	-
-	19,854	-	-	4,406	-	-	-
<u>(3,588)</u>	<u>43,978</u>	<u>-</u>	<u>3,711,836</u>	<u>4,812,960</u>	<u>13,806</u>	<u>12,150,479</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	-	-	2,686,436	-	-	-
-	-	-	149,037	-	-	100,911	-
-	-	-	-	-	-	-	-
239,832	-	-	-	-	-	136,757	-
19,985	-	-	-	-	-	-	-
-	-	-	970,016	52,476	-	-	-
-	-	-	4,802,678	-	-	19,909,336	9,581,731
-	-	-	-	-	-	-	-
567,981	52,805	-	76,399	-	-	291,289	44,860
1,589,927	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>2,417,725</u>	<u>52,805</u>	<u>-</u>	<u>5,998,130</u>	<u>2,738,912</u>	<u>-</u>	<u>20,438,293</u>	<u>9,626,591</u>
<u>(2,421,313)</u>	<u>(8,827)</u>	<u>-</u>	<u>(2,286,294)</u>	<u>2,074,048</u>	<u>13,806</u>	<u>(8,287,814)</u>	<u>(9,626,591)</u>
1,626,611	-	-	1,516,956	12,561	-	77,221	9,579,792
(45,802)	28,826	-	-	(1,438)	-	(274,542)	-
<u>1,580,809</u>	<u>28,826</u>	<u>-</u>	<u>1,516,956</u>	<u>11,123</u>	<u>-</u>	<u>(197,321)</u>	<u>9,579,792</u>
(840,504)	19,999	-	(769,338)	2,085,171	13,806	(8,485,135)	(46,799)
809,138	753,042	66,397	(726,822)	16,484,595	2,660,991	34,799,695	46,799
-	-	-	-	159,448	-	-	-
<u>\$ (31,366)</u>	<u>\$ 773,041</u>	<u>\$ 66,397</u>	<u>\$ (1,496,160)</u>	<u>\$ 18,729,214</u>	<u>\$ 2,674,797</u>	<u>\$ 26,314,560</u>	<u>\$ -</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (continued)**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Debt Service Public Financing Authority	Total
<b>REVENUES:</b>		
Taxes	\$ -	\$ 570,990
Licenses and permits	-	42,282
Intergovernmental	1,297,478	18,450,304
Charges for services	-	7,864,322
Special assessments levied	-	4,260,281
Interest and rent	115,987	854,953
Net increase (decrease) in fair value of investments	-	599,241
Fines and forfeits	-	290,634
Miscellaneous	-	147,755
Total revenues	1,413,465	33,080,762
<b>EXPENDITURES:</b>		
Current:		
General government	-	498,345
Community development	-	5,514,068
Highways and streets	-	250,882
Public works	-	2,560,561
Parks and recreation	-	2,462,832
Public safety	-	3,334,126
Capital outlay:		
Community development	-	1,022,492
Highways and streets	-	34,293,745
Public works	-	38,778
Parks and recreation	-	1,033,334
Public safety	-	1,968,453
Debt service:		
Principal retirement	1,860,000	1,860,000
Interest	1,699,249	1,699,249
Other	506,333	506,333
Total expenditures	4,065,582	57,043,198
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER)</b>		
<b>EXPENDITURES</b>	(2,652,117)	(23,962,436)
<b>OTHER FINANCING SOURCES (USES):</b>		
Transfers in	3,055,145	16,996,064
Transfers out	-	(730,789)
TOTAL OTHER FINANCING SOURCES (USES)	3,055,145	16,265,275
<b>CHANGES IN FUND BALANCES</b>		
FUND BALANCES, JULY 1	403,028	(7,697,161)
PRIOR PERIOD ADJUSTMENTS	4,911,800	65,047,089
FUND BALANCES, JUNE 30	-	(59,750)
	\$ 5,314,828	\$ 57,290,178

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (GAAP BASIS) AND ACTUAL - OPERATING GRANTS SPECIAL REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 400,000	\$ 400,000	\$ 368,976	\$ (31,024)
Licenses and permits	50,000	50,000	42,282	(7,718)
Intergovernmental	9,402,688	10,833,244	4,461,768	(6,371,476)
Charges for services	3,294,668	3,294,668	3,767,943	473,275
Special assessments	69,500	69,500	66,719	(2,781)
Interest and rent	7,718	16,998	25,147	8,149
Net increase in fair value of investments	-	-	21,147	21,147
Miscellaneous	26,083	26,083	123,495	97,412
<b>Total revenues</b>	<u>13,250,657</u>	<u>14,690,493</u>	<u>8,877,477</u>	<u>(5,813,016)</u>
<b>EXPENDITURES:</b>				
General government	536,311	536,536	498,345	38,191
Community development	2,078,555	2,036,807	1,622,726	414,081
Public works	6,217,433	6,514,079	2,599,339	3,914,740
Parks and recreation	2,351,711	2,351,711	1,782,441	569,270
Public safety	5,131,939	6,323,563	3,441,173	2,882,390
<b>Total expenditures</b>	<u>16,315,949</u>	<u>17,762,696</u>	<u>9,944,024</u>	<u>7,818,672</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(3,065,292)</u>	<u>(3,072,203)</u>	<u>(1,066,547)</u>	<u>2,005,656</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,554,138	1,683,543	1,116,676	(566,867)
Transfers out	-	(138,681)	(433,326)	(294,645)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>1,554,138</u>	<u>1,544,862</u>	<u>683,350</u>	<u>(861,512)</u>
<b>CHANGES IN FUND BALANCE</b>	(1,511,154)	(1,527,341)	(383,197)	1,144,144
<b>FUND BALANCE, JULY 1</b>	(98,685)	(98,685)	(98,685)	-
<b>FUND BALANCE (DEFICIT), JUNE 30</b>	<u>\$ (1,609,839)</u>	<u>\$ (1,626,026)</u>	<u>\$ (481,882)</u>	<u>\$ 1,144,144</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (GAAP BASIS) AND ACTUAL - LOCAL TRANSPORTATION SPECIAL REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Original	Final	Actual	Variance with Final Budget
<b>REVENUES:</b>				
Intergovernmental	\$ -	\$ -	\$ 271,669	\$ 271,669
Interest and rent	-	-	18,753	18,753
Net increase in fair value of investments	-	-	8,659	8,659
Total revenues	<u>-</u>	<u>-</u>	<u>299,081</u>	<u>299,081</u>
<b>EXPENDITURES:</b>				
Highways and streets	-	1,000	934	66
Parks and recreation	-	327,095	303,802	23,293
Total expenditures	<u>-</u>	<u>328,095</u>	<u>304,736</u>	<u>23,359</u>
EXCESS (DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	<u>-</u>	<u>(328,095)</u>	<u>(5,655)</u>	<u>322,440</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	9,077	9,077
Transfers out	(167,572)	(590,074)	(4,507)	585,567
TOTAL OTHER FINANCING SOURCES (USES)	<u>(167,572)</u>	<u>(590,074)</u>	<u>4,570</u>	<u>594,644</u>
CHANGES IN FUND BALANCE	<u>(167,572)</u>	<u>(918,169)</u>	<u>(1,085)</u>	<u>917,084</u>
FUND BALANCE, JULY 1	222,058	222,058	222,058	-
PRIOR PERIOD ADJUSTMENT	(219,198)	(219,198)	(219,198)	-
FUND BALANCE, JUNE 30	<u>\$ (164,712)</u>	<u>\$ (915,309)</u>	<u>\$ 1,775</u>	<u>\$ 917,084</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (GAAP BASIS) AND ACTUAL - TRAFFIC SAFETY SPECIAL REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Charges for services	\$ 171,347	\$ 171,347	\$ 300,651	\$ 129,304
Fines and forfeits	408,760	408,760	290,634	(118,126)
Total revenues	<u>580,107</u>	<u>580,107</u>	<u>591,285</u>	<u>11,178</u>
EXPENDITURES:				
Public safety	426,572	453,097	251,494	201,603
EXCESS OF REVENUES OVER EXPENDITURES	<u>153,535</u>	<u>127,010</u>	<u>339,791</u>	<u>212,781</u>
OTHER FINANCING SOURCES:				
Transfers in	-	2,025	2,025	-
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>2,025</u>	<u>2,025</u>	<u>-</u>
CHANGES IN FUND BALANCE	153,535	129,035	341,816	212,781
FUND BALANCE, JULY 1	<u>3,740,869</u>	<u>3,740,869</u>	<u>3,740,869</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 3,894,404</u>	<u>\$ 3,869,904</u>	<u>\$ 4,082,685</u>	<u>\$ 212,781</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - DOWNTOWN**  
**IMPROVEMENT DISTRICT SPECIAL REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 185,000	\$ 185,000	\$ 202,014	\$ 17,014
Special assessments levied	-	743,000	712,277	(30,723)
Interest and rent	-	-	1,650	1,650
Net increase in fair value of investments	-	-	1,459	1,459
Total revenues	<u>185,000</u>	<u>928,000</u>	<u>917,400</u>	<u>(10,600)</u>
<b>EXPENDITURES:</b>				
Current:				
Community development	<u>203,258</u>	<u>946,258</u>	<u>911,634</u>	<u>34,624</u>
Total expenditures	<u>203,258</u>	<u>946,258</u>	<u>911,634</u>	<u>34,624</u>
<b>CHANGES IN FUND BALANCE</b>	(18,258)	(18,258)	5,766	24,024
<b>FUND BALANCE, JULY 1</b>	<u>84,229</u>	<u>84,229</u>	<u>84,229</u>	<u>-</u>
<b>FUND BALANCE, JUNE 30</b>	<u>\$ 65,971</u>	<u>\$ 65,971</u>	<u>\$ 89,995</u>	<u>\$ 24,024</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**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 169,391	\$ 664,391	\$ 220,201	\$ (444,190)
Interest and rent	100	100	16,671	16,571
Net increase in fair value of investments	(65)	(65)	15,711	15,776
Total revenues	<u>169,426</u>	<u>664,426</u>	<u>252,583</u>	<u>(411,843)</u>
<b>EXPENDITURES:</b>				
Community development	<u>1,468,547</u>	<u>1,963,547</u>	<u>293,272</u>	<u>1,670,275</u>
Total expenditures	<u>1,468,547</u>	<u>1,963,547</u>	<u>293,272</u>	<u>1,670,275</u>
 (DEFICIENCY) OF REVENUES (UNDER)	 (1,299,121)	 (1,299,121)	 (40,689)	 1,258,432
CHANGES IN FUND BALANCE	(1,299,121)	(1,299,121)	(40,689)	1,258,432
FUND BALANCE, JULY 1	<u>1,292,983</u>	<u>1,292,983</u>	<u>1,292,983</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ (6,138)</u>	<u>\$ (6,138)</u>	<u>\$ 1,252,294</u>	<u>\$ 1,258,432</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

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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.

**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.

**ABATEMENT AND PUBLIC NUISANCE FUND** – To account the activity for expenses and recovery for the cost for both dangerous and unsafe building and property abatements.

**CITY OF MODESTO**  
**COMBINING STATEMENT OF NET POSITION - NONMAJOR ENTERPRISE FUNDS**  
**JUNE 30, 2019**

	Parking	Storm Drain	Compost
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 744,673	\$ 10,938,580	\$ 7,219,658
Receivables:			
Accounts	2,923	860	1,043,495
Interest	2,321	36,305	29,943
Utilities, net	-	524,665	412,428
Prepaid expenses	83	27,316	1,935
Due from governments	-	4,538	74,215
Inventories	-	-	-
	750,000	11,532,264	8,781,674
Total current assets			
Noncurrent assets:			
Restricted cash and cash equivalents with fiscal agent	-	-	-
Land and construction in progress	3,131,804	2,212,585	1,140,000
Other capital assets, net of accumulated depreciation	4,227,000	13,078,974	1,156,372
Total noncurrent assets	7,358,804	15,291,559	2,296,372
Total assets	8,108,804	26,823,823	11,078,046
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred OPEB	18,915	11,680	114,564
Deferred pensions	157,638	239,972	1,401,211
Total deferred outflows of resources	176,553	251,652	1,515,775
Total assets and deferred outflows of resources	\$ 8,285,357	\$ 27,075,475	\$ 12,593,821
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 29,837	\$ 120,331	\$ 82,585
Accrued salaries and benefits	10,614	12,061	75,637
Interest payable	-	-	3,789
Due to other funds	-	-	-
Unearned revenue	683	250	23,023
Current portion - long-term debt	-	-	-
Total current liabilities	41,134	132,642	185,034
Noncurrent liabilities:			
Pollution remediation liability	-	-	4,923,741
Certificates of participation	-	-	-
Advances from other funds	-	1,324,704	3,120,800
Net OPEB liability	179,539	166,688	1,103,523
Net pension liability	758,786	1,234,646	7,207,837
Total noncurrent liabilities	938,325	2,726,038	16,355,901
Total liabilities	979,459	2,858,680	16,540,935
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred OPEB	16,833	13,266	102,781
Deferred pensions	9,247	16,633	143,721
Total deferred inflows of resources	26,080	29,899	246,502
<u>NET POSITION</u>			
Net investment in capital assets	7,358,804	15,291,559	2,296,372
Unrestricted	(78,986)	8,895,337	(6,489,988)
Total net position	7,279,818	24,186,896	(4,193,616)
Total liabilities, deferred inflows of resources, and net position	\$ 8,285,357	\$ 27,075,475	\$ 12,593,821

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$ 1,290,083	\$ 1	\$ 65,055	\$ 562,641	\$ 20,820,691
35,273	403,068	89,772	490,404	2,065,795
3,846	32,740	-	1,807	106,962
-	-	-	-	937,093
3,354	23,000	229	-	55,917
2,890	-	-	-	81,643
-	46,987	-	-	46,987
<u>1,335,446</u>	<u>505,796</u>	<u>155,056</u>	<u>1,054,852</u>	<u>24,115,088</u>
-	650,481	-	-	650,481
4,537,375	275,741	3,667,020	-	14,964,525
7,529,473	1,062,230	2,749,477	-	29,803,526
<u>12,066,848</u>	<u>1,988,452</u>	<u>6,416,497</u>	<u>-</u>	<u>45,418,532</u>
<u>13,402,294</u>	<u>2,494,248</u>	<u>6,571,553</u>	<u>1,054,852</u>	<u>69,533,620</u>
-	-	13,188	-	158,347
144,165	-	122,760	-	2,065,746
144,165	-	135,948	-	2,224,093
<u>\$ 13,546,459</u>	<u>\$ 2,494,248</u>	<u>\$ 6,707,501</u>	<u>\$ 1,054,852</u>	<u>\$ 71,757,713</u>
\$ 26,427	\$ 63,430	\$ 37,909	\$ 18,947	\$ 379,466
7,343	10,745	10,854	-	127,254
-	39,291	-	-	43,080
-	286,612	-	-	286,612
10,770	488,017	20,131	486,527	1,029,401
-	400,000	-	-	400,000
<u>44,540</u>	<u>1,288,095</u>	<u>68,894</u>	<u>505,474</u>	<u>2,265,813</u>
-	-	-	-	4,923,741
-	1,785,000	-	-	1,785,000
-	-	-	-	4,445,504
-	-	145,404	-	1,595,154
721,921	-	676,275	-	10,599,465
<u>721,921</u>	<u>1,785,000</u>	<u>821,679</u>	<u>-</u>	<u>23,348,864</u>
<u>766,461</u>	<u>3,073,095</u>	<u>890,573</u>	<u>505,474</u>	<u>25,614,677</u>
-	-	12,776	-	145,656
(7,648)	-	23,863	-	185,816
<u>(7,648)</u>	<u>-</u>	<u>36,639</u>	<u>-</u>	<u>331,472</u>
12,066,848	(196,548)	6,416,497	-	43,233,532
720,798	(382,299)	(636,208)	549,378	2,578,032
<u>12,787,646</u>	<u>(578,847)</u>	<u>5,780,289</u>	<u>549,378</u>	<u>45,811,564</u>
<u>\$ 13,546,459</u>	<u>\$ 2,494,248</u>	<u>\$ 6,707,501</u>	<u>\$ 1,054,852</u>	<u>\$ 71,757,713</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET POSITION - NONMAJOR ENTERPRISE FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 1,519,954	\$ 6,133,801	\$ 10,080,306
Miscellaneous	-	-	10,356
Total operating revenues	<u>1,519,954</u>	<u>6,133,801</u>	<u>10,090,662</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	480,435	493,968	3,430,494
Contractual services	344,773	1,116,359	462,957
Utilities	142,975	27,861	26,387
Maintenance and supplies	72,540	2,326,645	1,407,499
Insurance	73,473	8,830	178,229
Employee benefits	211,487	244,819	2,109,507
Administration services	47,702	2,305,902	440,118
Allocated indirect administrative costs	39,906	151,343	324,809
Depreciation	457,789	470,616	110,445
Total operating expenses	<u>1,871,080</u>	<u>7,146,343</u>	<u>8,490,445</u>
OPERATING INCOME (LOSS)	<u>(351,126)</u>	<u>(1,012,542)</u>	<u>1,600,217</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Gain on disposition of capital assets	-	11,020	1,658
Operating grants	-	-	329,114
Tax revenue	-	-	-
Tax expense	(24,600)	-	-
Interest income	9,612	138,679	104,355
Net increase in fair value of investments	8,362	143,940	89,102
Rental income	-	-	12,666
Interest expense	-	-	-
Trustee fees	-	-	-
Total nonoperating revenues (expenses)	<u>(6,626)</u>	<u>293,639</u>	<u>536,895</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(357,752)</u>	<u>(718,903)</u>	<u>2,137,112</u>
Capital contributions	-	-	-
Transfers in	6,950	706,765	45,812
Transfers out	-	(2,226)	(140,374)
CHANGES IN NET POSITION	<u>(350,802)</u>	<u>(14,364)</u>	<u>2,042,550</u>
NET POSITION (DEFICIT), JULY 1	7,630,620	24,201,260	(6,145,091)
PRIOR PERIOD ADJUSTMENTS	-	-	(91,075)
NET POSITION (DEFICIT), JUNE 30	<u>\$ 7,279,818</u>	<u>\$ 24,186,896</u>	<u>\$ (4,193,616)</u>

	Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$	736,726	\$ 2,366,403	\$ 280,188	\$ 231,167	\$ 21,348,545
	<u>346</u>	<u>53,535</u>	<u>5,497</u>	<u>-</u>	<u>69,734</u>
	<u>737,072</u>	<u>2,419,938</u>	<u>285,685</u>	<u>231,167</u>	<u>21,418,279</u>
	269,430	-	590,158	-	5,264,485
	205,980	2,382,335	245,867	47,546	4,805,817
	103,102	53,580	240,176	-	594,081
	69,699	275,699	132,029	-	4,284,111
	25,858	23,363	28,854	-	338,607
	185,074	-	186,766	-	2,937,653
	36,679	92,656	48,789	18,711	2,990,557
	33,383	50,141	-	-	599,582
	<u>719,937</u>	<u>50,751</u>	<u>69,163</u>	<u>-</u>	<u>1,878,701</u>
	<u>1,649,142</u>	<u>2,928,525</u>	<u>1,541,802</u>	<u>66,257</u>	<u>23,693,594</u>
	<u>(912,070)</u>	<u>(508,587)</u>	<u>(1,256,117)</u>	<u>164,910</u>	<u>(2,275,315)</u>
	3,373	-	(2,113)	-	13,938
	297,280	-	-	-	626,394
	201,931	-	-	-	201,931
	(2,881)	-	-	-	(27,481)
	9,718	40,975	-	6,799	310,138
	10,686	60,160	-	5,732	317,982
	135,765	101,989	584,011	-	834,431
	-	(115,583)	-	-	(115,583)
	<u>-</u>	<u>(3,245)</u>	<u>-</u>	<u>-</u>	<u>(3,245)</u>
	<u>655,872</u>	<u>84,296</u>	<u>581,898</u>	<u>12,531</u>	<u>2,158,505</u>
	(256,198)	(424,291)	(674,219)	177,441	(116,810)
	174,113	-	-	-	174,113
	15,399	981,616	534,271	-	2,290,813
	<u>(384)</u>	<u>-</u>	<u>(355)</u>	<u>-</u>	<u>(143,339)</u>
	(67,070)	557,325	(140,303)	177,441	2,204,777
	12,854,716	(1,136,172)	5,920,592	371,937	43,697,862
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(91,075)</u>
\$	<u>12,787,646</u>	<u>(578,847)</u>	<u>5,780,289</u>	<u>549,378</u>	<u>45,811,564</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 1,517,031	\$ 6,080,243	\$ 10,034,908
Payments to suppliers	(429,726)	(2,012,257)	(1,082,679)
Payments to employees	(658,776)	(694,580)	(5,208,052)
Payments for interfund services used	(313,014)	(3,938,629)	(2,919,348)
Net cash provided (used) by operating activities	<u>115,515</u>	<u>(565,223)</u>	<u>824,829</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating grants received	-	-	329,114
Taxes received	-	-	-
Transfers in	6,950	706,765	45,812
Transfers out	-	(2,226)	(140,374)
Payments on advances from other funds	-	-	2,265,800
Net cash provided (used) by noncapital financing activities	<u>6,950</u>	<u>704,539</u>	<u>2,500,352</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	-	(899,294)	(11,510)
Proceeds from sale of capital assets	-	11,020	1,658
Principal repayments	-	-	-
Interest paid	-	-	-
Trustee fees	-	-	-
Capital contributions	-	-	-
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>(888,274)</u>	<u>(9,852)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received (paid)	9,325	140,581	91,244
Net increase in the fair value of investments	8,362	143,940	89,102
Rental income received	-	-	12,666
Net cash provided (used) by investing activities	<u>17,687</u>	<u>284,521</u>	<u>193,012</u>
Net increase (decrease) in cash and cash equivalents	140,152	(464,437)	3,508,341
CASH AND CASH EQUIVALENTS, JULY 1	<u>604,521</u>	<u>11,403,017</u>	<u>3,711,317</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 744,673</u>	<u>\$ 10,938,580</u>	<u>\$ 7,219,658</u>
<b>RECONCILIATION TO STATEMENT OF NET POSITION:</b>			
Cash and cash equivalents	\$ 744,673	\$ 10,938,580	\$ 7,219,658
Restricted cash and cash equivalents with fiscal agent	-	-	-
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 744,673</u>	<u>\$ 10,938,580</u>	<u>\$ 7,219,658</u>

	Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$	945,332	\$ 2,237,621	\$ 281,871	\$ 244,866	\$ 21,341,872
	(280,987)	(2,666,340)	(514,667)	(28,599)	(7,015,255)
	(416,177)	-	(746,330)	-	(7,723,915)
	(247,637)	(229,265)	(167,901)	(18,711)	(7,834,505)
	<u>531</u>	<u>(657,984)</u>	<u>(1,147,027)</u>	<u>197,556</u>	<u>(1,231,803)</u>
	297,280	-	-	-	626,394
	201,931	-	-	-	201,931
	15,399	981,616	534,271	-	2,290,813
	(384)	-	(355)	-	(143,339)
	-	-	-	-	2,265,800
	<u>514,226</u>	<u>981,616</u>	<u>533,916</u>	<u>-</u>	<u>5,241,599</u>
	(229,207)	-	-	-	(1,140,011)
	-	-	77	-	12,755
	-	(380,000)	-	-	(380,000)
	-	(76,292)	-	-	(76,292)
	-	(3,245)	-	-	(3,245)
	<u>174,113</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>174,113</u>
	<u>(55,094)</u>	<u>(459,537)</u>	<u>77</u>	<u>-</u>	<u>(1,412,680)</u>
	9,505	(2,525)	-	5,940	254,070
	10,686	60,160	-	5,732	317,982
	135,765	101,989	584,011	-	834,431
	<u>155,956</u>	<u>159,624</u>	<u>584,011</u>	<u>11,672</u>	<u>1,406,483</u>
	615,619	23,719	(29,023)	209,228	4,003,599
	<u>674,464</u>	<u>626,763</u>	<u>94,078</u>	<u>353,413</u>	<u>17,467,573</u>
\$	<u><u>1,290,083</u></u>	<u><u>650,482</u></u>	<u><u>65,055</u></u>	<u><u>562,641</u></u>	<u><u>21,471,172</u></u>
\$	1,290,083	\$ 1	\$ 65,055	\$ 562,641	\$ 20,820,691
	-	650,481	-	-	650,481
\$	<u><u>1,290,083</u></u>	<u><u>650,482</u></u>	<u><u>65,055</u></u>	<u><u>562,641</u></u>	<u><u>21,471,172</u></u>

(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS (Continued)**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (351,126)	\$ (1,012,542)	\$ 1,600,217
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	457,789	470,616	110,445
Taxes paid	(24,600)	-	-
Change in assets, liabilities, and deferred resources:			
Decrease in accounts receivable	(2,923)	(860)	(101,687)
(Increase) in utilities receivable	-	(52,948)	(98,142)
Decrease in due from other governments	-	-	131,622
Increase (decrease) in accounts payable	2,840	(2,924)	(1,044,242)
(Increase) in inventories	-	-	-
(Increase) decrease in prepaid expenses	389	(11,022)	482
Increase (decrease) in accrued salaries and benefits	244	(1,063)	407
Decrease in net pension liability and deferred resources	42,660	50,810	390,504
(Increase) in net OPEB liability and deferred resources	(9,758)	(5,540)	(58,962)
(Decrease) pollution remediation	-	-	(118,268)
(Decrease) in due to other funds	-	-	-
Increase in unearned revenue	-	250	12,453
Total adjustments	<u>466,641</u>	<u>447,319</u>	<u>(775,388)</u>
Net cash provided (used) by operating activities	<u>\$ 115,515</u>	<u>\$ (565,223)</u>	<u>\$ 824,829</u>

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Abatement and Public Nuisance Fund</u>	<u>Total</u>
\$ <u>(912,070)</u>	\$ <u>(508,587)</u>	\$ <u>(1,256,117)</u>	\$ <u>164,910</u>	\$ <u>(2,275,315)</u>
719,937	50,751	69,163	-	1,878,701
(2,881)	-	-	-	(27,481)
(11,608)	(76,828)	(20,049)	(269,218)	(483,173)
-	-	-	-	(151,090)
214,808	-	-	-	346,430
(50,200)	9,706	13,147	18,947	(1,052,726)
-	(31,455)	-	-	(31,455)
(842)	1,295	-	-	(9,698)
1,037	2,622	(164)	-	3,083
37,290	-	37,387	-	558,651
-	-	(6,629)	-	(80,889)
-	-	-	-	(118,268)
-	(162,654)	-	-	(162,654)
5,060	57,166	16,235	282,917	374,081
<u>912,601</u>	<u>(149,397)</u>	<u>109,090</u>	<u>32,646</u>	<u>1,043,512</u>
\$ <u><u>531</u></u>	\$ <u><u>(657,984)</u></u>	\$ <u><u>(1,147,027)</u></u>	\$ <u><u>197,556</u></u>	\$ <u><u>(1,231,803)</u></u>

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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.

**CITY OF MODESTO**  
**COMBINING STATEMENT OF NET POSITION - INTERNAL SERVICE FUNDS**  
**JUNE 30, 2019**

	Fleet Management	Central Services	Information & Technology Services
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 7,586,828	\$ 24,851	\$ 5,173,870
Receivables:			
Accounts	58,126	-	-
Interest	24,960	128	17,176
Prepaid expenses	15,873	1,092	336,492
Due from governments	-	-	-
Inventories	-	19,022	-
Total current assets	7,685,787	45,093	5,527,538
Noncurrent assets:			
Advances to other funds	-	-	-
Restricted assets - cash and cash equivalents	-	-	-
Restricted assets - cash from fiscal agent	-	-	-
Land and construction in progress	1,247,620	-	1,938,019
Other capital assets, net of accumulated depreciation	10,584,534	-	3,378,923
Total noncurrent assets	11,832,154	-	5,316,942
Total assets	19,517,941	45,093	10,844,480
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred OPEB	68,595	-	112,825
Deferred pensions	699,246	-	1,105,615
Total deferred outflows of resources	767,841	-	1,218,440
Total assets and deferred outflows of resources	\$ 20,285,782	\$ 45,093	\$ 12,062,920
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 511,021	\$ 40	\$ 92,337
Accrued salaries and benefits	35,458	1,732	62,210
Unearned revenue	57,498	-	-
Current portion - compensated absences	-	-	-
Current portion - claims liability	-	-	-
Total current liabilities	603,977	1,772	154,547
Noncurrent liabilities:			
Compensated absences	-	-	-
Claims liability	-	-	-
Net OPEB liability	645,343	-	957,725
Net pension liability	3,592,043	-	5,879,713
Total liabilities	4,841,363	1,772	6,991,985
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred OPEB	60,749	-	94,582
Deferred pensions	96,935	-	227,806
Total deferred inflows of resources	157,684	-	322,388
<u>NET POSITION</u>			
Net investment in capital assets	11,832,154	-	5,316,942
Restricted	-	-	-
Unrestricted	3,454,581	43,321	(568,395)
Total net position	15,286,735	43,321	4,748,547
Total liabilities, deferred inflows of resources, and net position	\$ 20,285,782	\$ 45,093	\$ 12,062,920

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 15,356,750	\$ -	\$ 851,884	\$ 28,994,183
1,795,635	33,750	9,064	1,896,575
202,218	86,725	3,315	334,522
11,430	570	1,206	366,663
-	-	10,364	10,364
-	-	-	19,022
<u>17,366,033</u>	<u>121,045</u>	<u>875,833</u>	<u>31,621,329</u>
-	-	-	-
-	5,383,308	-	5,383,308
149,126	-	-	149,126
-	-	-	3,185,639
-	-	76,019	14,039,476
<u>149,126</u>	<u>5,383,308</u>	<u>76,019</u>	<u>22,757,549</u>
<u>17,515,159</u>	<u>5,504,353</u>	<u>951,852</u>	<u>54,378,878</u>
-	-	7,557	188,977
142,256	55,091	179,298	2,181,506
<u>142,256</u>	<u>55,091</u>	<u>186,855</u>	<u>2,370,483</u>
\$ <u>17,657,415</u>	\$ <u>5,559,444</u>	\$ <u>1,138,707</u>	\$ <u>56,749,361</u>
\$ 599,169	\$ 254,918	\$ 29,483	\$ 1,486,968
4,572	2,798	12,312	119,082
109,010	-	1,483	167,991
-	3,632,114	-	3,632,114
<u>4,819,758</u>	<u>-</u>	<u>-</u>	<u>4,819,758</u>
<u>5,532,509</u>	<u>3,889,830</u>	<u>43,278</u>	<u>10,225,913</u>
-	6,687,516	-	6,687,516
18,810,802	-	-	18,810,802
-	-	63,568	1,666,636
<u>697,118</u>	<u>369,480</u>	<u>823,912</u>	<u>11,362,266</u>
<u>25,040,429</u>	<u>10,946,826</u>	<u>930,758</u>	<u>48,753,133</u>
-	-	6,305	161,636
22,529	19,970	(9,100)	358,140
<u>22,529</u>	<u>19,970</u>	<u>(2,795)</u>	<u>519,776</u>
-	-	76,019	17,225,115
-	5,383,308	-	5,383,308
<u>(7,405,543)</u>	<u>(10,790,660)</u>	<u>134,725</u>	<u>(15,131,971)</u>
<u>(7,405,543)</u>	<u>(5,407,352)</u>	<u>210,744</u>	<u>7,476,452</u>
\$ <u>17,657,415</u>	\$ <u>5,559,444</u>	\$ <u>1,138,707</u>	\$ <u>56,749,361</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION - INTERNAL SERVICE FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	<u>Fleet Management</u>	<u>Central Services</u>
<b>OPERATING REVENUES:</b>		
Charges for services	\$ 7,111,911	\$ 204,772
Miscellaneous	-	-
Total operating revenues	<u>7,111,911</u>	<u>204,772</u>
<b>OPERATING EXPENSES:</b>		
Salaries and wages	1,342,185	74,955
Cost of sales	-	-
Contractual services	264,847	43,368
Utilities	3,966	-
Maintenance and supplies	3,211,675	93,962
Insurance	86,229	1,006
Claims	-	-
Employee benefits	867,320	47,872
Administration services	1,030,027	-
Allocated indirect administrative costs	271,618	-
Depreciation	2,321,293	97
Total operating expenses	<u>9,399,160</u>	<u>261,260</u>
OPERATING INCOME (LOSS)	<u>(2,287,249)</u>	<u>(56,488)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Gain (loss) on disposition of capital assets	(13,724)	-
Interest income	111,700	335
Net increase in fair value of investments	105,480	1,500
Total nonoperating revenues (expenses)	<u>203,456</u>	<u>1,835</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(2,083,793)	(54,653)
Capital contributions	11,533	-
Transfers in	209,441	2,521
Transfers out	<u>(1,852,952)</u>	<u>(37,154)</u>
CHANGES IN NET POSITION	(3,715,771)	(89,286)
NET POSITION (DEFICIT), JULY 1	<u>19,002,506</u>	<u>132,607</u>
NET POSITION (DEFICIT), JUNE 30	<u>\$ 15,286,735</u>	<u>\$ 43,321</u>

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ 7,091,074	\$ 27,944,404	\$ 18,752,597	\$ 2,511,704	\$ 63,616,462
-	-	135,000	100	135,100
<u>7,091,074</u>	<u>27,944,404</u>	<u>18,887,597</u>	<u>2,511,804</u>	<u>63,751,562</u>
2,675,196	308,294	121,186	486,933	5,008,749
-	-	-	-	-
299,439	2,137,340	504,729	1,675,094	4,924,817
111,022	236	440	159,049	274,713
1,181,516	5,554	17,650	57,848	4,568,205
40,249	17,168,458	1,484	7,564	17,304,990
-	7,087,773	2,599	-	7,090,372
1,502,346	268,000	20,363,514	241,231	23,290,283
1,071	158,092	242,672	32,440	1,464,302
-	-	-	-	271,618
666,941	-	-	2,913	2,991,244
<u>6,477,780</u>	<u>27,133,747</u>	<u>21,254,274</u>	<u>2,663,072</u>	<u>67,189,293</u>
<u>613,294</u>	<u>810,657</u>	<u>(2,366,677)</u>	<u>(151,268)</u>	<u>(3,437,731)</u>
-	-	-	-	(13,724)
71,189	947,210	490,554	14,230	1,635,218
<u>66,209</u>	<u>902,105</u>	<u>450,595</u>	<u>12,514</u>	<u>1,538,403</u>
<u>137,398</u>	<u>1,849,315</u>	<u>941,149</u>	<u>26,744</u>	<u>3,159,897</u>
750,692	2,659,972	(1,425,528)	(124,524)	(277,834)
-	-	-	-	11,533
172,696	2,011,387	102,956	130	2,499,131
<u>(142,360)</u>	<u>-</u>	<u>(2,878,156)</u>	<u>(370)</u>	<u>(4,910,992)</u>
781,028	4,671,359	(4,200,728)	(124,764)	(2,678,162)
<u>3,967,519</u>	<u>(12,076,902)</u>	<u>(1,206,624)</u>	<u>335,508</u>	<u>10,154,614</u>
<u>\$ 4,748,547</u>	<u>\$ (7,405,543)</u>	<u>\$ (5,407,352)</u>	<u>\$ 210,744</u>	<u>\$ 7,476,452</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Fleet Management	Central Services	Information & Technology Services
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 8,671	\$ -	\$ -
Receipts from interfund services provided	7,111,911	204,772	7,091,074
Payments to suppliers	(2,585,546)	(127,253)	(1,800,077)
Payment of insurance claims	-	-	-
Payments to employees	(2,059,877)	(122,867)	(3,891,575)
Payments for interfund services used	(1,968,803)	(20,693)	(100,090)
Net cash provided (used) by operating activities	506,356	(66,041)	1,299,332
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	209,441	2,521	172,696
Transfers out	(1,852,952)	(37,154)	(142,360)
Advances to other funds	-	-	-
Net cash provided (used) by noncapital financing activities	(1,643,511)	(34,633)	30,336
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(1,335,529)	-	(1,531,674)
Proceeds from sale of capital assets	104,252	52,842	-
Net cash provided (used) by capital and related financing activities	(1,231,277)	52,842	(1,531,674)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	112,404	3,683	67,885
Net increase in the fair value of investments	105,480	1,500	66,209
Net cash provided by investing activities	217,884	5,183	134,094
Net increase (decrease) in cash and cash equivalents	(2,150,548)	(42,649)	(67,912)
CASH AND CASH EQUIVALENTS, JULY 1	9,737,376	67,500	5,241,782
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 7,586,828	\$ 24,851	\$ 5,173,870
<b>RECONCILIATION TO STATEMENT OF NET POSITION:</b>			
Cash and cash equivalents	\$ 7,586,828	\$ 24,851	\$ 5,173,870
Restricted cash and cash equivalents	-	-	-
Restricted cash and cash equivalents with fiscal agent	-	-	-
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 7,586,828</b>	<b>\$ 24,851</b>	<b>\$ 5,173,870</b>

	Insurance	Employee Benefits Management	Building Services	Total
\$	-	\$ -	\$ 7,390	\$ 16,061
	27,944,404	18,887,597	2,511,704	63,751,462
	(19,721,163)	(246,086)	(1,701,793)	(26,181,918)
	(7,889,728)	-	-	(7,889,728)
	(541,327)	(20,105,571)	(676,428)	(27,397,645)
	(195,471)	(271,968)	(257,261)	(2,814,286)
	<u>(403,285)</u>	<u>(1,736,028)</u>	<u>(116,388)</u>	<u>(516,054)</u>
	2,011,387	102,956	130	2,499,131
	-	(2,878,156)	(370)	(4,910,992)
	-	88,647	-	88,647
	<u>2,011,387</u>	<u>(2,686,553)</u>	<u>(240)</u>	<u>(2,323,214)</u>
	-	-	-	(2,867,203)
	-	-	-	157,094
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,710,109)</u>
	910,563	460,140	13,342	1,568,017
	902,105	450,595	12,514	1,538,403
	<u>1,812,668</u>	<u>910,735</u>	<u>25,856</u>	<u>3,106,420</u>
	3,420,770	(3,511,846)	(90,772)	(2,442,957)
	<u>12,085,106</u>	<u>8,895,154</u>	<u>942,656</u>	<u>36,969,574</u>
\$	<u>15,505,876</u>	<u>5,383,308</u>	<u>851,884</u>	<u>34,526,617</u>
\$	15,356,750	\$ -	\$ 851,884	\$ 28,994,183
	-	5,383,308	-	5,383,308
	149,126	-	-	149,126
\$	<u>15,505,876</u>	<u>5,383,308</u>	<u>851,884</u>	<u>34,526,617</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Fleet Management	Central Services
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (2,287,249)	\$ (56,488)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	2,321,293	97
Change in assets, liabilities, and deferred resources:		
(Increase) in accounts receivable	(10,620)	-
Increase in due from governments	-	-
(Increase) decrease in prepaid expenses	(2,700)	67
(Increase) in inventories	-	(9,675)
Increase (decrease) in accounts payable	316,713	(2)
Increase (decrease) in accrued salaries and benefits	(8,417)	(40)
Increase in compensated absences	-	-
(Increase) decrease in net OPEB liability and deferred resources	(35,437)	-
(Increase) decrease in net pension liability and deferred resources	193,482	-
Increase in unearned revenue	19,291	-
(Decrease) in claims liability	-	-
Total adjustments	2,793,605	(9,553)
Net cash provided (used) by operating activities	\$ 506,356	\$ (66,041)

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ 613,294	\$ 810,657	\$ (2,366,677)	\$ (151,268)	\$ (3,437,731)
666,941	-	-	2,913	2,991,244
-	(587,792)	-	(9,064)	(607,476)
-	-	-	14,871	14,871
(205,586)	(10,385)	2,098	(324)	(216,830)
-	-	-	-	(9,675)
(61,284)	133,009	249,422	(26,735)	611,123
360	(3,561)	(319)	1,587	(10,390)
-	-	366,090	-	366,090
344,796	-	-	(3,970)	305,389
(59,189)	38,528	13,358	54,119	240,298
-	18,214	-	1,483	38,988
-	(801,955)	-	-	(801,955)
686,038	(1,213,942)	630,649	34,880	2,921,677
\$ 1,299,332	\$ (403,285)	\$ (1,736,028)	\$ (116,388)	\$ (516,054)

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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.

**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, Riverbank, 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. As of July 1, 2018, the City of Modesto withdrew from SDEA and no longer participates as a partner in this Authority

**MODESTO-CERES FIRE PROTECTION AGENCY** - To record and distribute the special assessments for fire protection that were established under the Industrial Fire District. This is a joint powers agency between the Modesto Regional Fire Authority, the City of Ceres, and the Industrial Fire District. Cash and investments of the Agency are invested in the City's investment pool.

**CITY/COUNTY JOINT POWERS FINANCING AUTHORITY** - 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 builds 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.

**CITY OF MODESTO**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

Special Districts	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,733,274	\$ 14,512,824	15,415,434	\$ 830,664
Cash and cash equivalents with fiscal agent	2,981,237	5,289,365	5,280,894	2,989,708
	<u>\$ 4,714,511</u>	<u>\$ 19,802,189</u>	<u>\$ 20,696,328</u>	<u>\$ 3,820,372</u>
<u>LIABILITIES</u>				
Due to special district bondholders	<u>\$ 4,714,511</u>	<u>\$ 19,802,189</u>	<u>\$ 20,696,328</u>	<u>\$ 3,820,372</u>
<u>Tuolumne River Regional Park</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 82,951	\$ 2,600,769	\$ 2,555,779	\$ 127,941
<u>LIABILITIES</u>				
Deposits held as agent for others	<u>\$ 82,951</u>	<u>\$ 2,600,769</u>	<u>\$ 2,555,779</u>	<u>\$ 127,941</u>
<u>Stanislaus Drug Enforcement Agency</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,937,655	\$ 210,615	\$ 2,148,270	\$ -
<u>LIABILITIES</u>				
Deposits held as agent for others	<u>\$ 1,937,655</u>	<u>\$ 210,615</u>	<u>\$ 2,148,270</u>	<u>\$ -</u>
<u>Modesto-Ceres Fire Protection Agency</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 230,673	\$ 617,598	\$ 605,927	\$ 242,344
<u>LIABILITIES</u>				
Deposits held as agent for others	<u>\$ 230,673</u>	<u>\$ 617,598</u>	<u>\$ 605,927</u>	<u>\$ 242,344</u>
<u>City/County Joint Powers Financing Authority</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 20,423	\$ 552	\$ -	\$ 20,975
<u>LIABILITIES</u>				
Deposits held as agent for others	<u>\$ 20,423</u>	<u>\$ 552</u>	<u>\$ -</u>	<u>\$ 20,975</u>
<u>Totals - All Agency Funds</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 4,004,976	\$ 17,942,358	\$ 20,725,410	\$ 1,221,924
Cash and cash equivalents with fiscal agent	2,981,237	5,289,365	5,280,894	2,989,708
	<u>\$ 6,986,213</u>	<u>\$ 23,231,723</u>	<u>\$ 26,006,304</u>	<u>\$ 4,211,632</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 4,714,511	\$ 19,802,189	\$ 20,696,328	\$ 3,820,372
Deposits held as agent for others	2,271,702	3,429,534	5,309,976	391,260
	<u>\$ 6,986,213</u>	<u>\$ 23,231,723</u>	<u>\$ 26,006,304</u>	<u>\$ 4,211,632</u>

## **STATISTICAL SECTION**

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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 Position by Component
2. Changes in Net Position
3. Fund Balances of Governmental Funds
4. Changes in Fund Balances of Governmental Funds

### Revenue Capacity

This schedule gives information on the City's most significant local revenue source, the water usage 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 Debt Margin
4. Revenue Bond Coverage, Wastewater 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
3. Principal Property Taxpayers

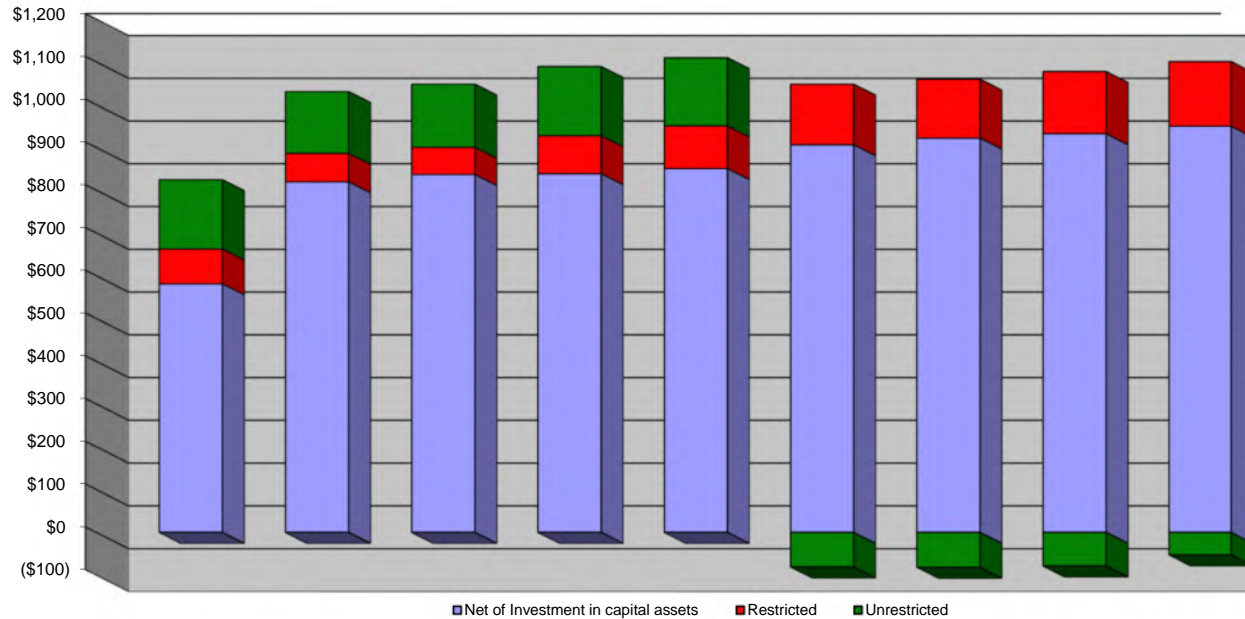
### Operating Information

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 City Government Employees by Function
2. Operating Indicators by Function
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.

**CITY OF MODESTO**  
**NET POSITION BY COMPONENT <sup>(1)</sup>**  
**LAST TEN FISCAL YEARS**  
**(ACCRUAL BASIS OF ACCOUNTING)**



	2010	2011	2012	2013	2014	2015 <sup>(2)</sup>	2016	2017	2018	2019
<b>Governmental activities</b>										
Net investment in capital assets	\$329,592,169	\$338,010,133	\$362,755,958	\$361,582,237	\$347,647,419	\$378,145,625	\$381,887,289	\$376,743,556	\$377,529,238	\$401,515,805
Restricted	81,528,516	66,570,581	63,498,187	63,381,356	77,564,677	121,105,182	115,619,807	123,851,082	130,192,278	127,885,787
Unrestricted	14,399,778	6,540,870	(4,326,456)	(1,102,658)	9,167,253	(179,570,210)	(173,275,294)	(191,483,628)	(182,197,396)	(191,345,565)
Total governmental activities net position	<u>\$425,520,463</u>	<u>\$411,121,584</u>	<u>\$421,927,689</u>	<u>\$423,860,935</u>	<u>\$434,379,349</u>	<u>\$319,680,597</u>	<u>\$324,231,802</u>	<u>\$309,111,010</u>	<u>\$325,524,120</u>	<u>\$338,056,027</u>
<b>Business-type activities</b>										
Net investment in capital assets	\$251,025,494	\$481,186,894	\$473,757,198	\$476,681,835	\$502,684,950	\$527,784,338	\$539,821,175	\$555,163,217	\$571,811,118	\$607,813,261
Restricted	-	-	-	25,571,860	22,398,957	20,622,619	22,052,595	21,525,961	21,071,542	15,569,107
Unrestricted	147,661,517	138,033,147	152,003,655	162,882,299	150,187,831	99,450,370	92,324,550	113,595,981	130,146,975	148,005,231
Total business-type activities net position	<u>\$398,687,011</u>	<u>\$619,220,041</u>	<u>\$625,760,853</u>	<u>\$665,135,994</u>	<u>\$675,271,738</u>	<u>\$647,857,327</u>	<u>\$654,198,320</u>	<u>\$690,285,159</u>	<u>\$723,029,635</u>	<u>\$771,387,599</u>
<b>Primary government</b>										
Net investment in capital assets	\$580,617,663	\$819,197,027	\$836,513,156	\$838,264,072	\$850,332,369	\$905,929,963	\$921,708,464	\$931,906,773	\$949,340,356	\$1,009,329,066
Restricted	81,528,516	66,570,581	63,498,187	88,953,216	99,963,634	141,727,801	137,672,402	145,377,043	151,263,820	143,454,894
Unrestricted	162,061,295	144,574,017	147,677,199	161,779,641	159,355,084	(80,119,840)	(80,950,744)	(77,887,647)	(52,050,421)	(43,340,334)
Total primary government net position	<u>\$824,207,474</u>	<u>\$1,030,341,625</u>	<u>\$1,047,688,542</u>	<u>\$1,088,996,929</u>	<u>\$1,109,651,087</u>	<u>\$967,537,924</u>	<u>\$978,430,122</u>	<u>\$999,396,169</u>	<u>\$1,048,553,755</u>	<u>\$1,109,443,626</u>

1) Accounting standards require that net position be reported in three components in the financial statements: net investment in capital assets; restricted; and unrestricted. Net position is considered restricted when a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

2) The significant decrease in net position was due to the implementation of GASB 68 related to the City's net pension liability.

**CITY OF MODESTO**  
**CHANGES IN NET POSITION**  
**LAST TEN FISCAL YEARS**  
**(ACCRUAL BASIS OF ACCOUNTING)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Expenses</b>										
<b>Governmental activities:</b>										
General government	\$12,093,091	\$12,473,794	\$14,236,573	\$12,041,953	\$11,221,704	\$12,085,051	\$12,838,583	\$13,945,824	\$15,432,617	\$13,973,768
Community development	18,912,766	28,301,160	14,206,876	25,162,533	13,002,466	11,888,475	12,552,115	15,419,529	17,268,926	15,720,280
Highways and streets	23,668,779	24,114,799	21,009,521	20,525,496	21,316,315	21,269,704	20,149,011	22,481,002	22,997,140	23,937,423
Public works	6,759,562	7,393,809	6,780,882	4,064,497	3,241,135	9,810,989	10,749,465	13,169,149	8,674,538	3,472,405
Parks and recreation	13,268,871	10,310,549	11,741,352	13,036,579	11,659,816	4,641,611	3,493,743	3,947,898	4,456,508	15,680,980
Public safety	80,254,834	83,381,310	83,568,633	83,857,207	72,301,682	86,782,741	86,907,876	104,348,464	120,629,673	111,059,794
Interest on long-term debt	5,766,421	3,609,345	3,066,897	3,193,997	2,958,471	3,204,203	2,691,894	2,500,849	2,510,224	2,402,299
<b>Total governmental activities expenses</b>	<b>160,724,324</b>	<b>169,584,766</b>	<b>154,610,734</b>	<b>161,882,262</b>	<b>135,701,589</b>	<b>149,682,774</b>	<b>149,382,687</b>	<b>175,812,715</b>	<b>191,969,626</b>	<b>186,246,949</b>
<b>Business-type activities:</b>										
Water	1,826,401	1,518,955	1,482,640	1,252,660	1,605,829	54,718,239	59,127,625	63,008,231	56,526,729	62,745,688
Sewer	43,619,704	36,305,860	53,730,665	48,656,862	63,498,896	30,281,361	33,093,921	36,248,877	41,444,220	41,216,914
Bus	28,055,056	28,497,430	29,366,025	24,155,935	31,895,568	18,614,175	19,709,745	21,979,360	20,538,934	24,276,760
Parking	5,201,741	7,619,939	6,674,100	4,239,567	6,372,418	1,513,185	1,625,943	1,628,226	1,553,258	1,899,479
Storm drain	1,480,068	4,112,837	4,426,031	4,350,079	4,951,441	3,913,204	5,312,896	6,119,472	5,202,444	7,157,290
Compost	1,918,113	2,157,180	1,640,733	1,534,242	2,291,222	7,841,048	11,998,345	9,648,481	9,652,175	8,477,947
Airport	15,671,731	16,064,104	16,944,803	18,025,010	19,618,547	2,025,146	1,787,081	1,744,557	1,578,654	1,646,800
Golf	2,473,968	2,366,052	2,279,650	2,197,368	2,845,109	2,998,505	3,130,536	2,871,167	2,616,077	3,052,785
Community center	2,346,175	2,284,082	2,352,173	1,864,996	2,031,928	1,852,585	1,981,307	1,934,179	1,780,010	1,541,592
Abatement and public nuisance	-	-	34,609	42,879	31,877	93,067	84,152	51,624	351,557	63,312
<b>Total business-type activities expenses</b>	<b>102,592,957</b>	<b>100,926,439</b>	<b>118,931,429</b>	<b>106,319,598</b>	<b>135,142,835</b>	<b>123,850,515</b>	<b>137,851,551</b>	<b>145,234,174</b>	<b>141,244,058</b>	<b>152,078,567</b>
<b>Total primary government expenses</b>	<b>\$263,317,281</b>	<b>\$270,511,205</b>	<b>\$273,542,163</b>	<b>\$268,201,860</b>	<b>\$270,844,424</b>	<b>\$273,533,289</b>	<b>\$287,234,238</b>	<b>\$321,046,889</b>	<b>\$333,213,684</b>	<b>\$338,325,516</b>
<b>Program revenues</b>										
<b>Governmental activities:</b>										
<b>Charges for services:</b>										
General government	\$6,323,865	\$6,804,398	\$6,799,202	\$6,262,963	\$5,825,407	\$5,912,157	\$6,539,908	\$5,082,405	\$6,544,581	\$6,387,743
Community development	2,941,932	4,730,263	4,430,690	4,123,811	4,537,984	3,385,050	6,885,850	10,378,999	16,049,727	12,106,237
Highway and streets	2,801,213	3,179,788	4,178,567	761,394	873,566	1,744,505	1,154,290	1,101,813	758,952	748,319
Public works	3,344,967	2,909,677	2,936,299	3,565,048	4,146,641	6,621,704	5,469,419	5,908,332	1,637,024	2,779,546
Parks and recreation	6,038,468	3,105,490	3,221,072	3,623,647	3,004,001	1,344,923	771,733	1,614,443	2,346,211	2,450,965
Public safety	4,325,231	4,977,440	3,338,783	3,668,302	3,123,758	4,218,000	3,868,346	4,847,914	5,127,433	4,502,546
Operating grants and contributions	14,559,357	19,861,492	10,270,642	16,477,474	5,868,684	5,862,566	3,630,185	5,050,771	5,802,634	6,591,435
Capital grants and contributions	10,876,018	7,334,967	9,509,584	9,046,762	8,206,154	5,878,550	1,708,602	2,117,867	3,062,292	8,831,664
<b>Total governmental activities program revenues</b>	<b>\$51,211,051</b>	<b>\$52,903,515</b>	<b>\$44,684,839</b>	<b>\$47,529,401</b>	<b>\$35,586,195</b>	<b>\$34,967,455</b>	<b>\$30,028,333</b>	<b>\$36,102,544</b>	<b>\$41,328,854</b>	<b>\$44,398,455</b>
<b>Business-type activities:</b>										
<b>Charges for services:</b>										
Water	\$1,239,995	\$1,274,482	\$1,291,401	\$1,169,293	\$1,092,347	\$59,800,535	\$55,992,533	\$69,075,873	\$74,842,451	\$76,806,740
Sewer	54,670,041	55,345,414	57,534,190	61,474,235	60,254,110	46,193,997	47,859,680	49,905,078	52,799,102	57,562,619
Bus	37,310,731	39,142,045	41,825,928	43,414,773	46,046,304	3,424,662	3,352,615	3,253,046	3,305,910	3,176,134
Parking	5,428,291	6,152,211	5,783,694	5,780,644	5,831,133	1,239,439	1,289,211	1,284,269	1,434,311	1,519,954
Storm drain	1,706,189	4,490,110	4,672,517	8,012,611	4,853,133	5,874,349	5,588,169	5,910,988	6,004,682	6,133,801
Compost	675,565	1,019,177	619,689	619,904	634,530	7,191,145	7,352,767	8,903,917	8,934,075	10,090,662
Airport	2,769,814	2,877,492	2,892,539	2,946,937	2,989,504	551,373	622,383	596,152	651,693	737,072
Golf	1,924,015	1,647,400	1,759,818	1,568,532	2,196,280	2,574,496	2,431,904	2,236,100	2,485,688	2,419,938
Community center	489,562	433,460	420,059	263,581	230,801	257,991	326,839	305,436	294,524	285,685
Abatement and public nuisance	-	-	71,567	302,563	201,825	128,636	166,641	117,677	112,199	231,167
Operating grants and contributions	13,706,512	12,629,219	12,694,058	13,766,061	13,721,179	14,223,954	14,153,568	15,975,703	17,858,762	25,668,280
Capital grants and contributions	2,898,489	4,856,649	12,021,793	4,282,549	4,971,940	13,820,127	4,753,223	19,617,513	7,196,698	5,198,721
<b>Total business-type activities program revenue</b>	<b>122,819,204</b>	<b>129,867,659</b>	<b>141,587,253</b>	<b>143,601,683</b>	<b>143,023,086</b>	<b>155,280,704</b>	<b>143,889,533</b>	<b>177,181,752</b>	<b>175,920,095</b>	<b>189,830,773</b>
<b>Total primary government program revenues</b>	<b>\$174,030,255</b>	<b>\$182,771,174</b>	<b>\$186,272,092</b>	<b>\$191,131,084</b>	<b>\$178,609,281</b>	<b>\$190,248,159</b>	<b>\$173,917,866</b>	<b>\$213,284,296</b>	<b>\$217,248,949</b>	<b>\$234,229,228</b>
<b>Net (Expense)/Revenue</b>										
Governmental activities	(\$109,513,273)	(\$116,681,251)	(\$109,925,895)	(\$114,352,861)	(\$100,115,394)	(\$114,715,319)	(\$119,354,354)	(\$139,710,171)	(\$150,640,772)	(\$141,848,494)
Business-type activities	20,226,247	28,941,220	22,655,824	37,282,085	7,880,251	31,430,189	6,037,982	31,947,578	34,676,037	37,752,206
<b>Total primary government net expense</b>	<b>(\$89,287,026)</b>	<b>(\$87,740,031)</b>	<b>(\$87,270,071)</b>	<b>(\$77,070,776)</b>	<b>(\$92,235,143)</b>	<b>(\$83,285,130)</b>	<b>(\$113,316,372)</b>	<b>(\$107,762,593)</b>	<b>(\$115,964,735)</b>	<b>(\$104,096,288)</b>

**City of Modesto**  
**CHANGES IN NET POSITION**  
**LAST TEN FISCAL YEARS**  
**(ACCRUAL BASIS OF ACCOUNTING)**

	2010	2011 <sup>(1)</sup>	2012	2013	2014	2015 <sup>(5)</sup>	2016	2017	2018	2019
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Utility users tax	\$ 19,117,518	\$ 19,119,037	\$ 19,230,879	\$ 20,399,116	\$ 20,153,653	\$ 19,591,170	\$ 19,564,921	\$ 20,113,023	\$ 20,609,874	\$ 19,803,859
Property taxes, levied for general purposes <sup>(2)</sup>	12,306,702	12,107,226	11,863,902	11,618,481	12,304,010	13,551,827	14,552,304	15,384,518	16,356,095	17,316,735
Property taxes, generated by and allocated to the airport	6,521,515	5,750,235	2,884,357	-	-	-	-	-	-	-
Transient occupancy tax	1,460,613	1,639,761	1,769,106	1,884,188	1,879,825	2,097,952	2,523,087	2,669,484	2,826,160	2,961,406
Franchise tax	3,962,159	3,940,364	4,236,705	5,785,355	5,003,130	5,768,146	6,194,733	6,431,223	6,433,869	6,762,101
Business license tax, levied for general purposes	9,068,219	9,339,077	9,694,722	10,176,791	10,573,820	11,421,759	11,944,291	12,255,062	13,053,199	14,068,205
Business license tax, levied for downtown improvement district	169,471	172,520	177,026	170,222	181,689	188,247	186,123	192,540	189,070	202,014
Grants and contributions not restricted to specific programs:										
Sales tax (state appropriation)	22,301,060	24,110,596	25,958,263	27,110,911	27,651,939	28,437,594	29,878,815	30,204,125	31,302,950	31,665,700
Motor vehicle license fee	13,945,172	13,419,232	13,072,804	12,038,983	12,494,642	13,871,248	14,548,427	15,385,069	16,206,760	17,057,003
Gas tax funding	-	-	-	-	-	5,924,101	4,533,572	3,968,029	5,672,563	19,002,236
Community facilities district fees	-	-	-	-	-	4,570,403	3,829	1,830	274,494	8,432
Special assessments, levied	-	-	-	-	-	1,924,623	3,168,260	3,014,768	5,715,030	4,260,281
Proceeds from Modesto Regional Fire Authority dissolution	-	-	-	-	-	2,500,721	-	-	-	-
Other	1,286,466	9,718,308	11,794,261	12,844,926	15,269,250	25,866,105	13,101,149	15,842,047	17,469,209	13,832,686
Unrestricted investment earnings	1,211,702	696,848	(411,571)	52,893	441,383	564,314	582,565	362,856	726,199	5,753,083
Miscellaneous	2,502,397	1,630,466	1,821,336	1,861,660	5,402,480	2,281,008	2,440,696	515,206	818,542	3,421,783
Transfers	402,303	1,503,170	2,838,873	1,055,670	(41,312)	(775,377)	(567,177)	(1,750,401)	(354,287)	(1,675,373)
Total government activities	<u>94,255,297</u>	<u>103,146,840</u>	<u>104,930,663</u>	<u>104,999,196</u>	<u>111,314,509</u>	<u>137,783,841</u>	<u>122,655,595</u>	<u>124,589,379</u>	<u>137,299,727</u>	<u>154,440,151</u>
Business-type activities:										
Taxes:										
Property taxes, generated by and allocated to the airport	265,587	309,699	253,974	257,687	254,200	237,546	206,854	199,124	207,849	201,931
Business license tax, generated by and allocated to the airport	-	-	-	-	-	-	-	-	-	-
Unrestricted investment earnings	3,155,954	1,947,417	2,095,947	1,184,422	2,726,148	554,180	2,247,061	872,935	1,047,604	7,290,802
Connection fees <sup>(3)</sup>	-	-	-	1,200,800	524,914	-	-	-	-	-
Miscellaneous	-	-	-	-	-	1,214,729	1,368,761	1,316,801	1,472,809	1,528,727
Settlements	(402,303)	(1,503,170)	(2,838,873)	(1,055,670)	41,317	13,851	-	-	-	-
Transfers, net	447,102	187,096	222,379	116,711	110,376	775,377	567,177	1,750,401	354,287	1,675,373
Special item <sup>(4)</sup>	(1,326,309)	(727,310)	(826,133)	(1,143,257)	(1,356,418)	-	-	-	-	-
Total business-type activities	<u>2,140,031</u>	<u>213,732</u>	<u>(1,092,706)</u>	<u>560,693</u>	<u>2,300,537</u>	<u>2,795,683</u>	<u>4,389,853</u>	<u>4,139,261</u>	<u>3,082,549</u>	<u>10,696,833</u>
Total primary government	<u>\$ 96,395,328</u>	<u>\$ 103,360,572</u>	<u>\$ 103,837,957</u>	<u>\$ 105,559,889</u>	<u>\$ 113,615,046</u>	<u>\$ 140,579,524</u>	<u>\$ 127,045,448</u>	<u>\$ 128,728,640</u>	<u>\$ 140,382,276</u>	<u>\$ 165,136,984</u>
Change in Net Position										
Governmental activities	\$ (15,257,976)	\$ (13,534,411)	\$ (4,995,232)	\$ (9,353,665)	\$ 11,199,115	\$ 23,068,522	\$ 3,301,241	\$ (15,120,792)	\$ (13,341,045)	\$ 12,591,657
Business-type activities	22,366,278	29,154,952	21,563,118	37,842,778	10,180,788	34,225,872	10,427,835	36,086,839	37,758,586	48,449,039
Total primary government	<u>\$ 7,108,302</u>	<u>\$ 15,620,541</u>	<u>\$ 16,567,886</u>	<u>\$ 28,489,113</u>	<u>\$ 21,379,903</u>	<u>\$ 57,294,394</u>	<u>\$ 13,729,076</u>	<u>\$ 20,966,047</u>	<u>\$ 24,417,541</u>	<u>\$ 61,040,696</u>

(1) The amount reported under utility users taxes and property taxes were keyed backwards in 2011. The amounts have been fixed to reflect the correct numbers in these two categories.

(2) Due to the dissolution of the Redevelopment agencies, no tax increments will be reported on the entity-wide statements.

(3) Starting in 2015, connection fee revenues were reported as part of program revenues for the Water fund.

(4) Starting in 2015, the special item related to pollution remediation has been reported as a liability. Any expenses incurred will be accounted for as a reduction to the liability.

(5) Starting in 2015, general revenues for grants and contributions not restricted to specific programs other related governmental activities were reclassified to provide more specific category revenue types.

**CITY OF MODESTO  
FUND BALANCES OF GOVERNMENTAL FUNDS  
LAST TEN FISCAL YEARS  
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	2010	2011 <sup>(b)</sup>	2012	2013	2014	2015	2016	2017	2018	2019
General Fund										
Reserved	\$ 2,871,715	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	10,103,645	-	-	-	-	-	-	-	-	-
Nonspendable	-	-	123,061	126,603	102,152	2,770,844	2,647,692	2,515,146	2,881,523	2,723,032
Restricted	-	4,313,287	3,998,539	3,713,640	3,718,682	1,341,972	2,092,126	1,970,622	2,674,200	2,209,485
Committed	-	-	-	-	3,000,000	3,000,000	3,000,000	15,800,000	18,397,817	18,397,817
Assigned	-	458,415	519,051	1,173,377	1,024,149	3,119,753	6,503,769	4,854,307	1,096,566	509,751
Unassigned	-	10,215,682	10,806,111	11,758,746	12,069,864	14,586,931	12,822,134	4,509,693	1,695,476	1,742,785
Total General Fund	<u>\$ 12,975,360</u>	<u>\$ 14,987,384</u>	<u>\$ 15,446,762</u>	<u>\$ 16,772,366</u>	<u>\$ 19,914,847</u>	<u>\$ 24,819,500</u>	<u>\$ 27,065,721</u>	<u>\$ 29,649,768</u>	<u>\$ 26,745,582</u>	<u>\$ 25,582,870</u>
All Other Governmental Funds										
Reserved	\$ 39,686,892	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	6,867,750	-	-	-	-	-	-	-	-	-
Capital project funds	54,341,594	-	-	-	-	-	-	-	-	-
Nonspendable	-	-	119	746	3,907	88,057	86,242	81,007	23,816	13,290
Restricted	-	118,919,268	109,145,041	106,724,809	108,672,378	79,643,971	80,563,574	85,531,411	91,786,367	89,210,020
Assigned	-	3,647,941	2,604,281	3,965,851	3,700,733	14,962,522	10,063,058	7,975,865	17,126,893	19,304,837
Unassigned	-	(23,614,308)	(18,852,239)	(32,965,286)	(34,656,617)	(3,866,450)	(724,841)	(3,156,679)	(1,723,380)	(2,809,303)
Total all other governmental funds	<u>\$ 100,896,236</u>	<u>\$ 98,952,901</u>	<u>\$ 92,897,202</u>	<u>\$ 77,726,120</u>	<u>\$ 77,720,401</u>	<u>\$ 90,828,100</u>	<u>\$ 89,988,033</u>	<u>\$ 90,431,604</u>	<u>\$ 107,213,696</u>	<u>\$ 105,718,844</u>

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 ten years of data for this schedule.

(b) The City implemented the provisions of GASB Statement 54 in fiscal year 2011.

**CITY OF MODESTO**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**LAST TEN FISCAL YEARS**  
**(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues										
Taxes	\$52,606,197	\$52,068,220	\$49,856,697	\$50,034,153	\$50,096,127	\$52,619,101	\$54,965,459	\$57,045,850	\$59,468,267	\$61,114,320
Licenses and permits	138,811	139,073	131,302	175,720	174,734	149,888	186,624	201,445	153,226	344,855
Intergovernmental	61,551,617	74,242,596	68,682,778	75,737,161	67,426,885	88,906,770	76,317,229	72,069,739	85,629,758	96,174,839
Charges for services	23,509,170	22,638,801	19,897,159	19,800,718	19,457,298	22,337,357	20,429,860	24,454,286	25,467,795	23,226,714
Special assessments levied	38,520	1,852,529	1,860,905	1,781,896	2,063,784	1,924,623	3,168,260	3,014,768	5,715,030	4,260,281
Interest and rent	1,322,005	838,178	1,145,251	835,994	1,019,357	957,846	1,297,734	1,402,387	1,574,347	2,219,282
Net increase (decrease) in fair value of investments	399,322	(89,608)	(452,987)	(584,090)	(423,827)	(320,398)	102,422	(572,616)	(645,593)	1,294,543
Fines and forfeits	2,253,014	2,929,182	2,169,482	2,004,133	1,844,607	1,171,076	904,802	1,263,407	1,127,877	1,143,506
Miscellaneous	2,502,397	1,630,467	1,821,336	2,081,776	4,653,746	2,784,295	2,286,597	516,844	818,542	722,662
Total Revenues	144,321,053	156,249,438	145,111,923	151,867,461	146,312,711	170,530,558	159,658,987	159,396,110	179,309,249	190,501,002
Expenditures										
Current:										
General government	11,482,240	10,879,751	12,411,413	11,169,669	11,643,579	11,334,202	12,414,982	11,542,131	11,837,635	12,262,797
Community development	18,536,120	26,077,905	12,831,734	23,673,373	12,589,817	11,511,154	12,453,678	13,264,050	13,234,820	13,796,154
Highways and streets	8,102,327	11,530,856	8,434,681	8,560,717	8,744,899	9,672,790	8,498,783	9,240,654	8,936,163	10,102,646
Public works	6,124,685	6,035,524	5,283,123	2,993,702	3,088,701	9,228,780	10,393,169	10,919,102	6,509,418	3,017,247
Parks and recreation	12,138,077	8,722,311	9,756,888	11,299,979	11,947,862	4,212,301	3,385,484	3,269,360	3,420,453	13,843,885
Public safety	75,081,791	73,207,608	72,131,852	74,094,399	74,595,533	81,353,131	84,022,670	86,475,891	92,341,706	97,411,634
Capital outlay	16,655,242	11,219,489	20,839,517	26,616,638	12,901,002	30,339,677	19,817,025	21,431,186	19,037,250	38,522,334
Debt service:										
Principal retirement	2,045,000	2,234,000	2,397,000	1,451,000	1,596,000	1,789,335	2,345,362	2,535,093	2,849,343	2,562,498
Interest	4,032,612	3,620,851	3,229,440	2,330,962	2,159,672	2,417,840	2,043,278	2,075,202	2,114,488	1,897,384
Other	1,408,771	57,557	48,738	932,460	872,350	783,264	697,405	430,779	396,686	506,333
Total Expenditures	155,606,865	153,585,852	147,364,386	163,122,899	140,139,415	162,642,474	156,071,836	161,183,448	160,677,962	193,922,912
Excess of revenues over (under) expenditures	(11,285,812)	2,663,586	(2,252,463)	(11,255,438)	6,173,296	7,888,084	3,587,151	(1,787,338)	18,631,287	(3,421,910)
Other Financing Sources (Uses)										
Transfers in	12,346,246	10,557,218	11,384,460	18,230,774	7,962,817	8,157,278	6,960,425	5,559,720	10,707,217	21,496,638
Transfers out	(12,402,937)	(13,069,195)	(14,223,663)	(18,417,413)	(11,164,994)	(10,682,539)	(10,572,346)	(6,659,759)	(13,568,675)	(20,760,150)
Capital leases	-	-	-	-	-	1,070,472	330,947	5,883,756	-	-
Sale of assets	-	-	-	72,489	200,838	94,489	106,582	31,239	154,458	87,608
Total other financing sources (uses)	(56,691)	(2,511,977)	(2,839,203)	(114,150)	(3,001,339)	(1,360,300)	(3,174,392)	4,814,956	(2,707,000)	824,096
Extraordinary Items:										
RDA dissolution transactions	-	-	(403,850)	-	-	-	-	-	-	-
RDA advance receivable elimination	-	-	(966,127)	-	-	-	-	-	-	-
Total extraordinary items	-	-	(1,369,977)	-	-	-	-	-	-	-
Change in fund balances	(11,342,503)	151,609	(6,461,643)	(11,369,588)	3,171,957	6,527,784	412,759	3,027,618	15,924,287	(2,597,814)
FUND BALANCES, July 1	125,888,535	113,871,596	113,940,285	108,343,964	94,498,486	97,635,248	115,647,600	117,053,754	120,081,372	133,959,278
PRIOR PERIOD ADJUSTMENTS	(674,436)	(82,920)	865,322	(2,475,890)	(35,195)	11,484,568	993,395	-	(2,046,381)	(59,750)
FUND BALANCES, June 30	\$113,871,596	\$113,940,285	\$108,343,964	\$94,498,486	\$97,635,248	\$115,647,600	\$117,053,754	\$120,081,372	\$133,959,278	\$131,301,714
Debt service as a percentage of noncapital expenditures	4.62%	4.29%	4.66%	2.87%	3.06%	3.30%	3.35%	3.42%	3.64%	2.96%

The debt service percentage was revised to only include principal and interest.

**CITY OF MODESTO**  
**REVENUE CAPACITY - MOST SIGNIFICANT LOCAL REVENUE SOURCE**  
**WATER UTILITY SYSTEM**  
**(YEAR ENDED JUNE 30, 2019)**

Ten Largest Customers of Water Utility System, Year Ended 06/30/2019

<u>Customer</u>	<u>Usage (ccf) <sup>(1)</sup></u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) Modesto City Schools	398,593	1.86%	\$ 1,022,725	1.52%
2) Stanislaus Food Products	471,926	2.20%	\$ 919,894	1.37%
3) City of Modesto-Stores	312,111	1.45%	\$ 912,307	1.36%
4) Foster Farms	344,731	1.61%	\$ 663,025	0.98%
5) Modesto Irrigation District	200,456	0.93%	\$ 442,570	0.66%
6) Stanislaus Housing Authority	142,602	0.66%	\$ 412,328	0.61%
7) Sunopta	184,653	0.86%	\$ 366,061	0.54%
8) Yosemite Community College	108,670	0.51%	\$ 294,383	0.44%
9) STANCO	80,397	0.37%	\$ 274,653	0.41%
10) Memorial	102,532	0.48%	\$ 235,630	0.35%
Total Top Ten	<u>2,346,671</u>	<u>10.93%</u>	<u>\$ 5,543,576</u>	<u>8.24%</u>

Total Flat/Metered Revenues (Water Sales)

\$ 67,318,644

(1) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 06/30/2019

Residential - Flat Rates

\$ 4,385,017

Commercial, Industrial and Municipal - Metered Rates

\$ 62,933,627

Total Water Sales <sup>(2)</sup>

\$ 67,318,644

Water Rates and Charges as of 07/01/2018

The average monthly flat rate service charge for residential customers is:

\$ 60.89

Commercial Accounts:

<u>Meter Size</u>	
3/4"	\$ 23.34
1"	\$ 33.48
1 1/2"	\$ 58.83
2"	\$ 89.25
3"	\$ 185.59
4"	\$ 327.55
6"	\$ 667.24
8"	\$ 1,224.95
10"	\$ 1,934.76
12"	\$ 2,543.16

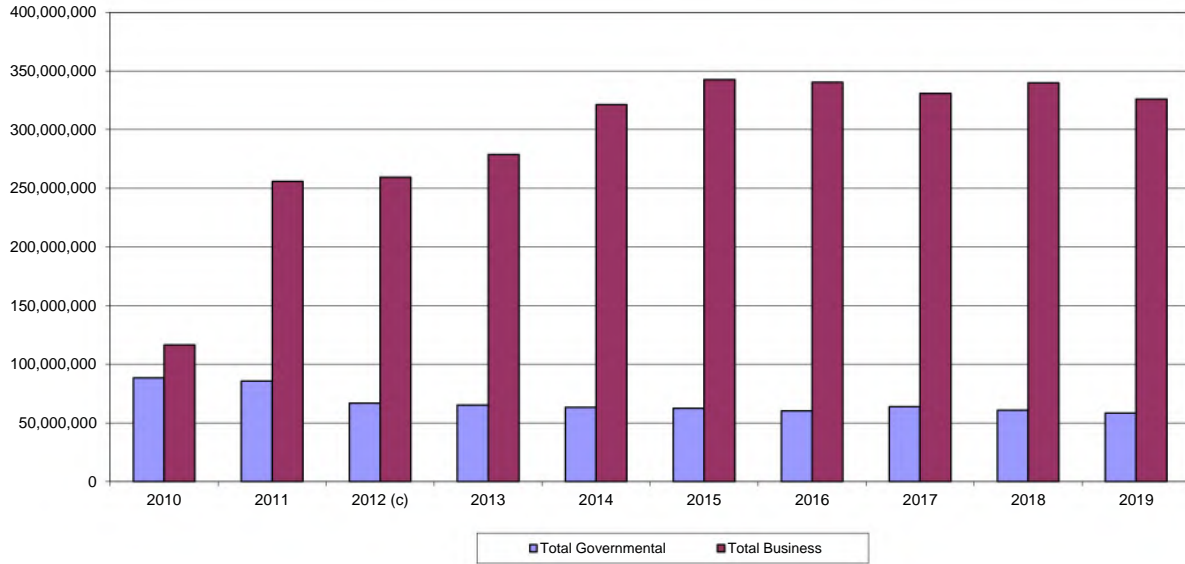
In addition to these minimum charges, commercial accounts are charged \$1.93 per 100 cubic feet of water used.

(2) Water sales only reflect the revenues in the Water Operating Fund and do not include revenue generated from developer fees and fleet replacement revenues.

Source:

City of Modesto-Utilities Division

**CITY OF MODESTO**  
**RATIO OF OUTSTANDING DEBT BY TYPE**  
**Last Ten Fiscal Years**



**Governmental Activities**

Fiscal Year	Loans Payable <sup>(h)</sup>	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	Total
2010	905,000	18,015,000	64,275,000	3,802,436	1,221,553	88,218,989
2011	905,030	16,975,000	63,255,000	3,594,658	975,955	85,705,643
2012 <sup>(c)</sup>	500,000	-	62,130,000	3,392,000	742,937	66,764,937
2013	500,000	-	60,870,000	3,201,000	502,622	65,073,622
2014	500,000	-	59,475,000	3,000,000	256,945	63,231,945
2015	500,000	-	57,970,000	2,789,000	1,070,472	62,329,472
2016	500,000	-	56,305,000	2,568,000	942,057	60,315,057
2017	500,000	-	54,470,000	2,335,000	6,358,720	63,663,720
2018	500,000	-	52,775,000	2,090,000	5,449,379	60,814,379
2019	500,000	-	50,915,000	1,834,000	5,002,881	58,251,881

**Business-Type Activities**

Fiscal Year	Loans Payable	Certificates of Participation	Reimbursement Agreement related to MID <sup>(e)</sup>	Revenue Bonds <sup>(b)</sup>	Obligations Under Capital Leases	Total <sup>(f)</sup>	Total Primary Government	Percentage of Personal Income <sup>(a) (e)</sup>	Per Capita <sup>(a) (e)</sup>
2010	1,326,174	67,066,213	-	48,050,000	-	116,442,387	\$ 204,661,376	3.66%	968
2011 <sup>(d)</sup>	6,522,243	50,757,779	-	198,654,489	-	255,934,511	341,640,154	6.51%	1,698
2012 <sup>(d)</sup>	16,098,866	50,237,067	-	193,098,177	-	259,434,110	326,199,047	5.18%	1,617
2013	41,921,784	49,681,357	-	187,251,865	-	278,855,006	343,928,628	7.53%	1,670
2014	88,922,403	49,634,062	-	182,792,914	-	321,349,379	384,581,324	8.15%	1,860
2015	117,690,257	48,989,556	137,055,810	39,057,561	-	342,793,184	405,122,656	8.63%	1,937
2016 <sup>(g)</sup>	125,787,342	48,330,053	132,375,084	33,945,516	-	340,437,995	400,753,052	8.21%	1,891
2017	124,280,500	47,630,552	127,484,358	31,605,936	-	331,001,346	394,665,066	8.13%	1,859
2018	147,366,699	47,015,000	119,525,000	26,025,381	73,589	340,005,669	400,820,048	7.22%	1,871
2019	141,471,062	46,240,000	114,765,000	23,566,286	19,510	326,061,858	384,313,739	7.12%	1,787

- (a) See Demographic and Economic Statistics for personal income and population data.
- (b) The MID Treatment and Delivery issued by MID on behalf of the City has been reported as a City liability.
- (c) The Certificates of Participation bonds for the Governmental Activities due to the dissolution of the Redevelopment Agency.
- (d) In 2011, the OPEB was reported in the Certificates of Participation in error. In 2012 the Loans payable increase from the bond reimbursements related to the State Revolving loan approved for the construction of a new tertiary treatment plant.
- (e) In 2015, the Reimbursement agreement with MID was reclassified from revenue bonds payable to reimbursement agreement related to MID since this long-term debt is listed under MID but is the City's liability due to nature of the treatment and delivery agreement.
- (f) The total for Business-Type Activities did not include the capital leases in error. The total has been updated to account for this debt.
- (g) Starting in 2016, the amounts presented include net of unamortized premiums or discounts.

**CITY OF MODESTO**  
**COMPUTATION OF DIRECT AND OVERLAPPING DEBT**  
**JUNE 30, 2019**

<u>Jurisdiction</u>	<u>Net Debt Outstanding <sup>(1)</sup></u>	<u>Percentage Applicable to City of Modesto <sup>(2)</sup></u>	<u>Amount Applicable to City of Modesto</u>
Direct debt:			
City of Modesto	\$ <u>60,814,379</u>	100%	\$ <u>60,814,379</u>
Overlapping General Obligation debt - school districts:			
Ceres Unified School District	93,103,785	4.15%	3,863,807
Hart-Ransom Union School District	3,670,225	31.06%	1,139,972
Modesto Elementary School District	33,908,870	77.43%	26,255,638
Modesto High School District	28,176,385	67.52%	19,024,695
Paradise Elementary School District	330,000	0.00%	-
Salida Union Elementary District	2,715,000	28.23%	766,445
Stanislaus Union School District	19,627,238	78.76%	15,458,413
Sylvan School District	33,858,646	78.08%	26,436,831
Yosemite Community College District	<u>270,173,899</u>	24.51%	<u>66,219,623</u>
Total overlapping debt	<u>485,564,048</u>		<u>159,165,424</u>
Total direct and overlapping debt	\$ <u><u>546,378,427</u></u>		\$ <u><u>219,979,803</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.

**CITY OF MODESTO**  
**COMPUTATION OF LEGAL DEBT MARGIN**  
**JUNE 30, 2019**

Net assessed value <sup>(1)(3)</sup>	\$ 16,308,358,058
Plus homeowners' exemption <sup>(1)(3)</sup>	<u>201,430,177</u>
Gross assessed value <sup>(1)(3)</sup>	<u>\$ 16,509,788,235</u>

Debt limit - 15% of gross assessed value (2) \$ 2,476,468,235

Amount of debt applicable to debt limit:

Total general bonded debt, including special assessment debt \$ \_\_\_\_\_ -

Less: Assets in debt service funds available for payment of principal \$ \_\_\_\_\_ -

Other deductions: Special assessment debt \_\_\_\_\_ -

Total deductions \_\_\_\_\_ -

Total amount of debt applicable to debt limit \_\_\_\_\_ -

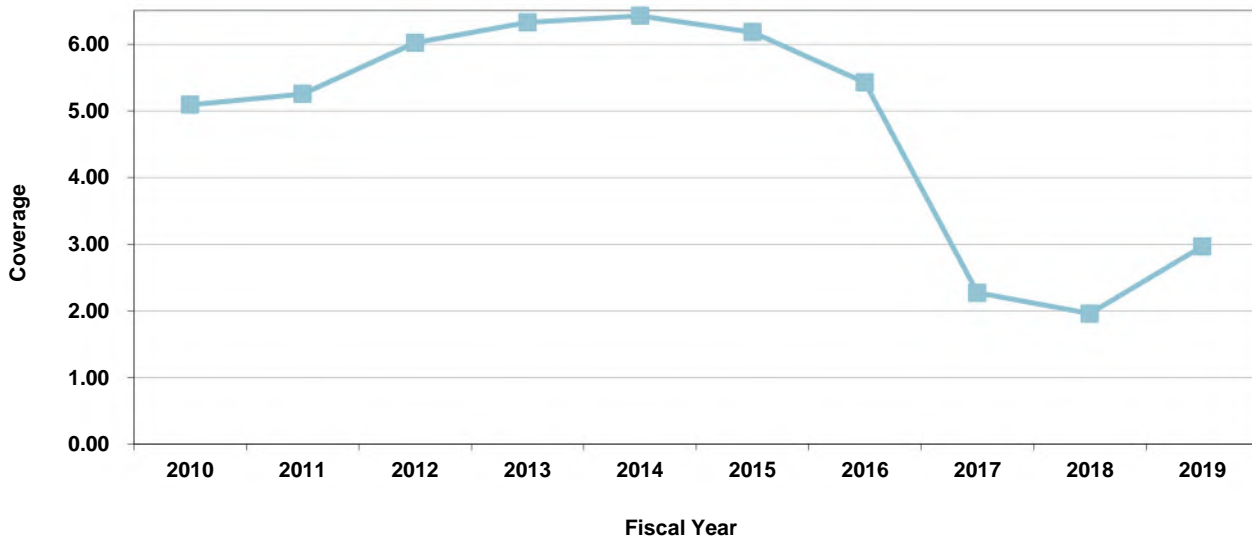
Legal debt margin \$ 2,476,468,235

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a Percentage of Debt Limit
2010	1,945,371,241	-	1,945,371,241	0%
2011	1,856,710,771	-	1,856,710,771	0%
2012	1,823,551,939	-	1,823,551,939	0%
2013	1,724,049,678	-	1,724,049,678	0%
2014	1,825,518,342	-	1,825,518,342	0%
2015	2,017,621,335	-	2,017,621,335	0%
2016	2,120,160,392	-	2,120,160,392	0%
2017	2,232,042,092	-	2,232,042,092	0%
2018	2,476,468,235	-	2,476,468,235	0%
2019	2,476,468,235	-	2,476,468,235	0%

Note: The City has elected to show ten years worth of data for this schedule.

- (1) Source: Stanislaus County Auditor
- (2) Section 43605 California Government Code.
- (3) Figures are based on Stanislaus County

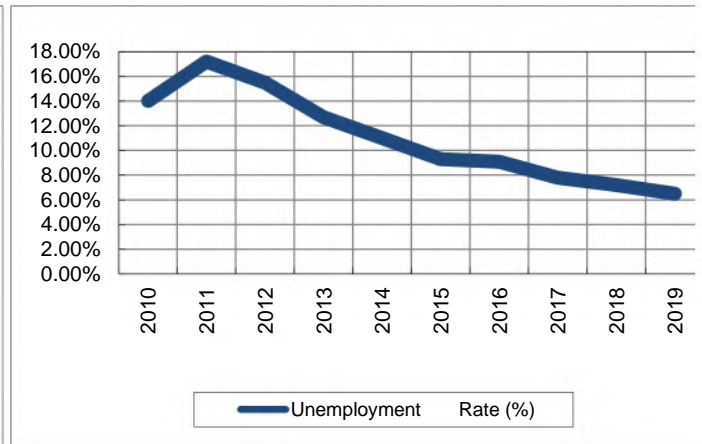
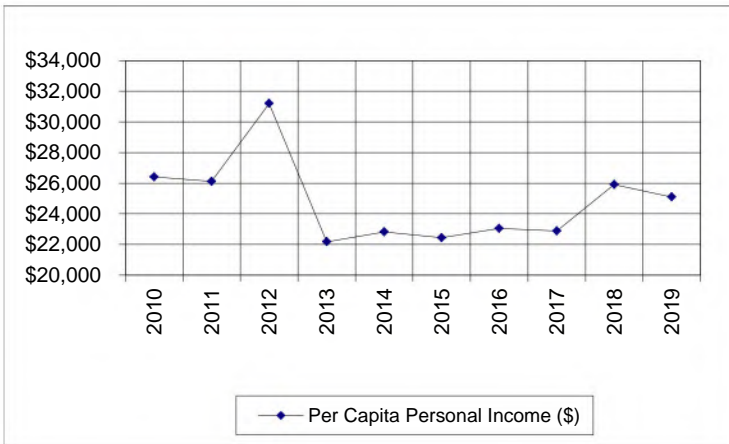
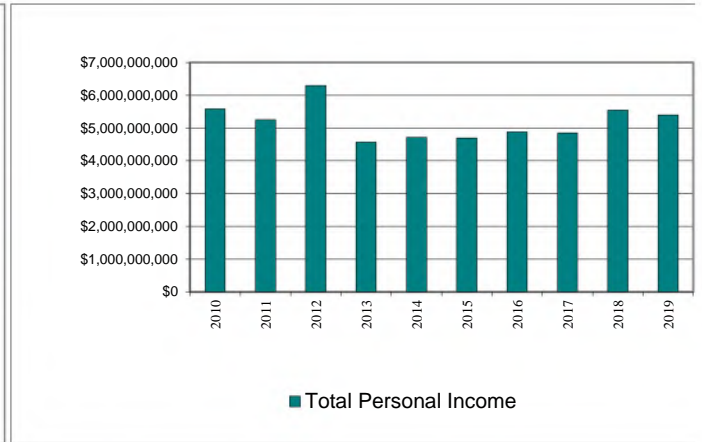
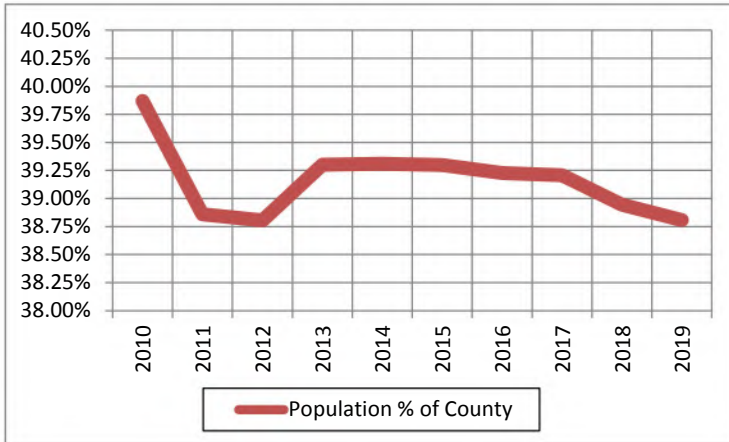
**CITY OF MODESTO**  
**REVENUE BOND COVERAGE**  
**WASTEWATER REVENUE BONDS**  
**LAST TEN FISCAL YEARS <sup>(4)</sup>**



<u>Fiscal Year</u>	<u>Gross Revenue <sup>(1)</sup></u>	<u>Operating Expenses <sup>(2)(4)</sup></u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements <sup>(3)</sup></u>	<u>Coverage</u>
2010	39,086,504	18,161,292	20,925,212	4,110,221	5.09
2011	39,844,523	18,722,729	21,121,794	4,021,108	5.25
2012	43,453,216	19,287,894	24,165,322	4,014,808	6.02
2013	45,018,125	19,586,799	25,431,326	4,019,558	6.33
2014	47,233,028	19,860,430	27,372,598	4,261,980	6.42
2015	46,853,368	21,207,025	25,646,343	4,150,322	6.18
2016	50,207,559	25,418,140	24,789,419	4,570,286	5.42
2017	50,907,228	25,212,214	25,695,014	11,311,098	2.27
2018	53,770,230	27,227,948	26,542,282	13,536,703	1.96
2019	62,618,527	27,144,632	35,473,895	11,958,407	2.97

- Notes:
- (1) Consists of all receipts of the Sewer fund not dedicated to capital spending purposes and including charges for services, connection fees, interest and rental income.
  - (2) Reflects total sewer fund operating expenses less depreciation; also includes certain transfers out that are made for operational costs incurred in other funds.
  - (3) Includes total principal and interest of Wastewater Refunding Revenue Bonds Series 2005 A and 2005 B and 2006 Wastewater Revenue Bonds. In fiscal year 2016-17, began repaying State Revolving Fund loan for Phase 2 - Tertiary Treatment Project debt service.
  - (4) The amount reported in 2014 was corrected from \$28,203,399 to \$19,860,430. The former amount included \$8.4 million for the State Revolving Fund loan which should not have been included in the calculation.

**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
2010	211,536	5,586,877,296	26,411	14.02%	530,584	39.87%
2011	201,165	5,251,613,490	26,106	17.20%	517,685	38.86%
2012	201,761	6,294,337,917	31,197	15.50%	519,940	38.80%
2013	205,987	4,566,113,829	22,167	12.70%	524,124	39.30%
2014	206,785	4,719,247,270	22,822	11.00%	526,042	39.31%
2015	209,186	4,693,924,654	22,439	9.30%	532,297	39.30%
2016	211,903	4,880,973,702	23,034	9.10%	540,214	39.23%
2017	212,287	4,856,701,986	22,878	7.80%	541,466	39.21%
2018	214,181	5,549,643,891	25,911	7.20%	549,976	38.94%
2019	215,030	5,396,177,850	25,095	6.50%	554,108	38.81%

Source: State of California, Department of Finance (population)  
 State of California, Employment Development Department (unemployment rate)  
 U.S. Department of Commerce, Census Bureau (income)

**CITY OF MODESTO  
PRINCIPAL EMPLOYERS**

Employer	2018/19			2010/11		
	Number of (1) Employees	Rank	Percentage of Total City Employment	Number of (1) Employees	Rank	Percentage of Total City Employment
E & J Gallo Winery	6,700	1	3.41%	3,308	1	3.17%
Stanislaus County	4,048	2	2.06%			
Modesto City Schools	3,200	3	1.63%	3,113	2	2.98%
Dotors Medical Center	2,600	4	1.33%	1,984	5	1.90%
Memorial Medical Ctr	2,400	5	1.22%	3,013	3	2.89%
Foster Farms Poultry	2,200	6	1.12%			
Del Monte Foods Inc	2,010	7	1.02%	1,700	6	1.63%
Stanislaus Food Products	1,875	8	0.96%	1,500	8	1.44%
Save Mart Supermarkets	1,650	9	0.84%			
Turlock Unified School District	1,500	10	0.76%			
Seneca				2,100	4	2.01%
Modesto Junior College				1,643	7	1.58%
Kaiser Permanete Modesto				1,500	9	1.44%
City of Modesto				1,187	10	1.14%
Subtotal	<u>28,183</u>		<u>14.36%</u>	<u>21,048</u>		<u>20.18%</u>
Total Labor Force	196,200					
Total City Population	215,030					

Source: Stanislaus County Final Budget 2018-2019/2019-2020  
(1) The number of employees include both part-time and full time.

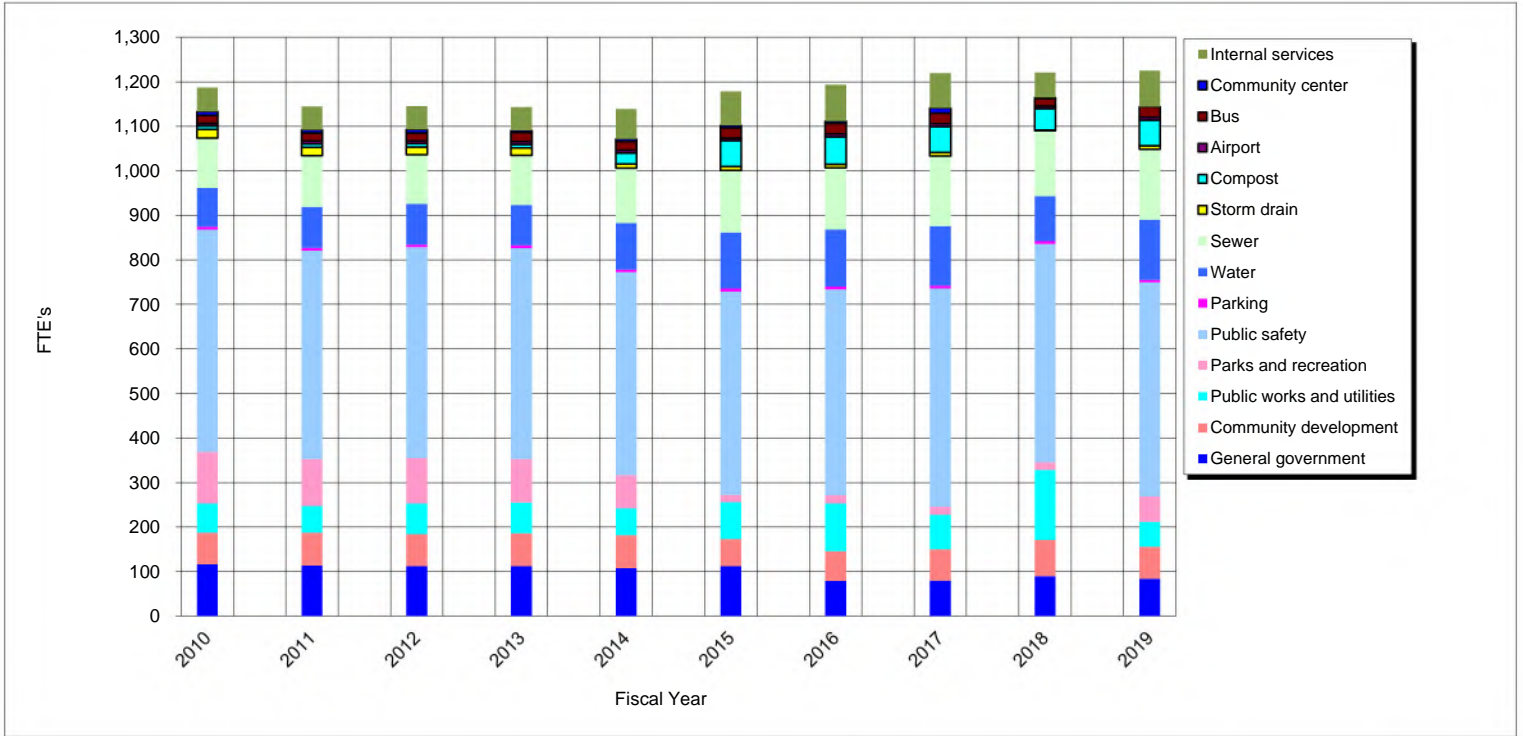
**CITY OF MODESTO  
PRINCIPAL PROPERTY TAXPAYERS**

Employer	2018/19			2010/11		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Pacific Gas & Electric Company	\$ 370,154,285	1	2.24%	\$ 165,879,478	4	0.47%
Gallo Glass Co	360,532,219	2	2.18%	233,194,981	2	0.59%
World International LLC	22,917,418	3	0.14%	18,467,607	1	0.69%
Gallo E & J Winery	310,792,474	4	1.88%	201,206,757	3	0.51%
E & J Gallo Winery	196,586,720	5	1.19%			
Frito Lay Inc	163,761,720	6	0.99%	108,562,980	8	0.27%
Excel Monte Vista LP	143,579,507	7	0.87%			
WR Griffin Patterson LLC	104,246,116	8	0.63%			
Bronco Wine Company	147,644,067	9	0.89%			
Doctors Medical Center	137,496,750	10	0.83%	122,103,700	6	0.30%
Fresno Farming LLC				85,530,809	9	0.27%
AT&T California				113,657,178	5	0.32%
Hunt Wesson Foods, Inc				112,983,862	7	0.29%
Foster Dairy Farms				106,846,247	10	0.27%
Subtotal	<u>\$ 1,957,711,276</u>		<u>11.87%</u>	<u>\$ 1,268,433,599</u>		<u>3.99%</u>
Total assessed value of \$	\$ 16,509,788,235			\$ 12,378,071,806		

Source: Stanislaus County Treasurer-Tax Collector

Note: Information based on entire Stanislaus County

**CITY OF MODESTO**  
**FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION**  
**LAST TEN FISCAL YEARS**



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Function</b>										
General government	116.60	113.60	112.00	112.00	108.00	112.10	79.00	80.00	90.00	84.00
Community development	71.20	74.20	72.20	74.00	73.80	60.75	67.00	70.00	81.00	72.00
Public works and utilities	65.00	59.00	69.00	69.00	60.00	83.00	107.00	78.00	157.00	56.00
Parks and recreation	116.00	106.23	101.48	97.50	75.38	16.50	18.50	17.50	17.50	56.75
Public safety	499.00	467.75	473.75	474.00	455.00	456.50	462.50	490.50	490.50	480.50
Parking	7.00	6.00	6.00	6.00	6.00	7.00	6.00	6.00	6.00	6.00
Water	87.00	92.00	91.00	91.00	104.00	126.00	128.00	134.00	101.00	135.00
Sewer	112.00	115.00	111.00	111.00	124.00	139.00	139.00	157.00	146.80	158.00
Storm drain	19.00	19.00	17.00	17.00	9.00	9.00	8.00	8.00	2.00	8.00
Compost	8.00	8.00	8.00	8.00	24.80	57.80	61.80	58.80	48.00	57.80
Airport	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Bus	18.00	18.00	18.00	20.00	20.00	23.00	24.00	24.00	16.00	24.00
Community center	8.50	7.25	7.25	5.50	5.50	6.00	5.00	11.00	3.00	0.00
Internal services	54.00	53.00	53.00	52.00	67.30	76.00	82.00	79.00	56.00	81.00
<b>Total</b>	<b>1,187.30</b>	<b>1,145.03</b>	<b>1,145.68</b>	<b>1,143.00</b>	<b>1,138.78</b>	<b>1,178.65</b>	<b>1,193.80</b>	<b>1,219.80</b>	<b>1,220.80</b>	<b>1,225.05</b>

Source: City of Modesto

**CITY OF MODESTO  
OPERATING INDICATORS BY FUNCTION**

<b>Function/Program</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Public safety:</b>										
<b>Fire:</b>										
Fire calls for service <sup>(1)</sup>	20,888	20,400	20,970	22,846	24,281	24,712	21,135	26,288	28,444	30,341
Primary fire inspections conducted	1,012	1,214	1,618	818	989	1,050	764	1,060	1,509	2,011
<b>Police:</b>										
Communication Center calls answered										
Police calls for service	167,576	154,549	168,242	174,113	123,357	122,270	129,439	129,802	194,931	181,430
<b>Law violations:</b>										
Part I and Part II crimes	52,182	49,914	47,175	52,272	53,032	50,729	53,609	53,142	53,543	47,141
Physical arrests (adult and juvenile)	15,105	11,872	11,536	12,418	15,039	18,634	12,303	11,760	13,247	12,388
Traffic violations	30,941	24,278	16,330	14,761	15,477	12,700	11,451	15,428	16,930	17,098
Parking violations	18,041	20,452	15,772	12,150	12,327	5,493	6,139	10,841	9,414	7,443
<b>Public works</b>										
<b>Streets:</b>										
Street resurfacing ( lane miles)	7	6	-	6	12	8	4	12	4	8
Potholes repaired (square miles)	39,705	27,724	38,290	13,282	12,573	14,515	24,059	8,745	25,004	36,709
Water utility customer repaired (sq. ft)	6,990	58,044	112,136	81,261	29,108	611	-	-	-	-
Crack sealing (lane miles)	16	23	-	20	33	12	37	29	48	29
<b>Airport:</b>										
Number of passengers enplaned <sup>(2)</sup>	25,640	22,514	19,188	16,532	11,703	-	-	-	-	-
Number of tenant aircraft	190	183	184	184	172	162	173	162	153	167
Number of hangars	118	118	118	118	118	119	119	119	119	119
Number of runways	2	2	2	2	2	2	2	2	2	2
Annual fuel consumption in gallons	639,971	311,500	645,283	653,153	682,769	582,473	443,272	582,602	580,383	631,891
<b>Bus service:</b>										
Number of buses	56	63	55	65	55	56	60	59	57	61
Number of routes	20	20	20	20	20	21	21	21	17	17
Total route miles	362	362	362	362	362	362	362	362	245	245
Average weekday number of passengers	12,524	10,688	11,553	11,616	12,538	11,598	12,441	10,523	9,354	8,869
Total number of passengers carried	3,478,120	3,145,400	3,413,421	3,434,409	3,666,824	3,416,314	3,664,689	3,108,307	2,762,922	2,589,049
<b>Community development</b>										
<b>Building safety &amp; NPU:</b>										
Permits issued	3,733	3,801	3,288	3,566	3,871	4,511	4,939	4,973	5,033	4,335
Estimated cost of construction	\$ 67,488,906	\$ 73,397,148	\$ 76,362,371	\$ 81,095,370	\$ 58,850,241	\$ 137,453,763	\$ 92,768,634	\$ 118,527,812	\$ 172,595,385	\$ 112,433,029
Building Inspections made	32,846	29,034	25,549	27,816	30,034	31,571	23,187	36,158	42,891	39,086
<b>Traffic electrical:</b>										
Street lights	13,765	13,765	13,765	13,765	13,761	13,764	13,764	13,764	13,764	13,764
Traffic signals	149	143	143	144	144	147	151	153	155	155
Lighted ped walks	28	28	30	28	29	28	28	28	24	26
Beacons	12	5	8	8	11	11	11	11	3	4
Four way flashers	9	9	9	10	10	10	10	10	5	3
School flashers	22	22	22	22	22	22	23	24	16	13
CCTV	38	38	38	41	41	41	41	41	30	24
Hubs	5	5	5	6	6	6	6	6	2	6
<b>Culture and recreation:</b>										
Recreation class participants	3,171	2,297	2,072	264,670	150,514	151,323	150,091	150,500	154,000	160,656
<b>Solid waste:</b>										
Recyclables processed (tons per year)	47,170	50,789	67,317	37,647	46,936	55,020	56,493	71,155	62,701	60,947
Yard waste	48,856	60,408	58,650	55,147	39,117	48,832	58,730	62,859	64,873	66,017
Commercial food waste	667	814	735	765	827	817	845	914	1,550	1,145
Waste tires	3,683	2,388	1,247	1,674	4,969	4,152	4,497	4,931	4,285	4,320

(1) FY13 Fire calls for service was originally reported incorrectly due to duplicate entries found on the NFIRS reports. This figure was corrected 10/24/2014.

Source: City of Modesto - Various Departments

(2) The enplanements subsided with the loss of commercial service in FY 2014.

**CITY OF MODESTO**  
**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<b>Function/Program</b>										
Public safety:										
Fire stations	11	11	11	11	11	11	11	11	11	11
Police stations	1	1	1	1	1	1	1	1	1	1
Police patrol units	100	98	98	105	105	105	105	104	104	100
Public works										
Streets:										
Miles of streets <sup>(1)</sup>	675	676	684	684	691	691	692	692	692	693
Water:										
Miles of water mains	1,008	1,008	1,008	1,009	1,009	914	887	887	908	908
Fire hydrants	7,516	7,536	7,566	7,584	7,596	7,748	7,845	7,859	7,921	7,974
Storage capacity (thousands of gallons)	13,100,000	12,300,000	12,300,000	12,300,000	12,300,000	12,300,000	18,300,000	18,300,000	18,300,000	22,300,000
Wastewater:										
Miles of sanitary sewers	642	642	642	639	639	639	639	655	656	656
Miles of storm sewers	183	183	183	183	183	183	183	170	170	170
Number of treatment plants <sup>(2)</sup>	2	2	2	2	2	2	2	2	2	2
Treatment capacity (millions of gallons) <sup>(5)</sup>	72	72	72	70	70	70	70	19	19	19
Community services:										
City parks <sup>(3)</sup>	76	76	76	76	76	76	76	76	76	76
City parks acreage	1,088	1,088	1,088	1,110	1,110	1,110	1,240	1,240	1,240	1,240
Playgrounds	55	55	55	55	55	58	58	58	58	58
City trails	4	4	7	7	7	6	6	6	6	6
City trails miles	12	12	14	14	14	15	15	15	16	16
Regional park acreage	324	324	324	324	324	375	375	375	375	375
Regional park facilities:										
Golf courses (18 holes)	2	2	2	2	2	2	2	2	2	2
Golf courses (9 holes)	1	1	1	1	1	1	1	1	1	1
Clubhouse and banquet facility	8	8	8	8	8	8	8	8	8	8
Historic house <sup>(4)</sup>	4	4	4	4	4	4	3	3	3	3
Community gardens	2	2	2	2	2	2	2	1	1	1
Community centers	7	6	6	7	7	7	7	7	7	7
Senior centers	1	1	1	1	1	1	1	1	1	1
Sports centers	1	1	1	1	1	1	1	1	1	1
Performing arts centers	1	1	1	1	1	1	1	1	1	1
Swimming pools	13	4	4	4	4	4	4	1	1	1
Tennis courts	37	37	37	37	37	37	37	37	37	37
Baseball/softball diamonds	24	24	24	24	24	24	24	24	24	24
Soccer/football fields	22	22	22	29	29	29	29	29	29	29
Splash play in Existing parks	-	-	10	10	10	10	10	10	10	9

(1) Information reported from the City's GIS system.

(2) The City has both a Primary and a Secondary treatment facility.

(3) The number of parks for fiscal years 2013, 2014, 2015 was reported incorrectly as 77. Figures have been corrected to reflect accurately since FY 2016.

(4) The number of historic houses was reduced by one due to the Crismon House burning down. There are no plans to rebuild.

(5) The City has a new process and permit. Previous permit was 70 MGD seasonal Oct. through May. Current permit is 19 MGD year round.

Source: City of Modesto - Various Departments

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**CONTINUING DISCLOSURE  
SECTION**

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### **Continuing Disclosure Section**

This part of the Comprehensive Annual Financial Report provides information in order to comply with the City's contractual commitment established by certain continuing disclosure undertaking of the City, entered into in accordance with Securities and Exchange Commission Rule 15c2-12 (the "Rule") for the City's bond obligations listed below. In contrast to the financial section, the continuing disclosure section information is not subject to independent audit.

1. Wastewater Revenue Refunding Bonds, Series 2015
2. Wastewater Revenue Refunding Bonds, Series 2018A
3. Water Revenue Refinancing Certificates of Participation, 2008 Series A
4. Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G
5. Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION**  
**YEAR ENDED JUNE 30, 2019**

Wastewater Revenue Refunding Bonds, Series 2018 A <sup>(a)</sup>, and  
Wastewater Revenue Refunding Bonds, Series 2015

Connection charge information: The Sewer Enterprise imposes connection fees on an on-time basis to new users of the sewer system and to users who significantly expand their usage. The fees have three components:

Capacity charge: \$2,643 per Equivalent Dwelling Unit for residential units. Commercial and industrial property charged based on type of business.  
 Sub-trunk sewer charge: \$645 per acre  
 Connection (lateral) charge: \$33 per linear foot of lot frontage adjacent to the sewer line.

<u>Category</u>	<u>Customer Base by Type of Account</u>		
	<u>Number of Accounts</u>	<u>% of Total Accounts</u>	<u>% of Sewer Fee Operating Revenue</u>
Residential	58,421	94.65%	45.56%
Commercial	3,258	5.28%	9.61%
Industrial	45	0.07%	27.39%
Total	61,724	100.00%	82.56%

Ten Largest Users of Sewer Facilities, Year Ended 6/30/19

<u>User</u>	<u>Sewer Fee Revenue</u>	<u>% of Sewer Fee Operating Revenue</u>
1) Stanislaus Food Products	\$ 2,008,408	3.46%
2) E & J Gallo Winery	\$ 1,957,871	3.44%
3) City of Ceres	\$ 1,537,966	3.43%
4) Foster Farms	\$ 1,309,839	2.60%
5) Del Monte Foods	\$ 1,308,196	2.26%
6) Frito-Lay, Inc	\$ 1,171,939	2.11%
7) Sunopta	\$ 612,485	1.03%
8) Nestle Food Company	\$ 524,244	0.95%
9) Rizo Lopez Foods	\$ 481,833	0.90%
10) Memorial Hospital	\$ 335,392	0.79%
Total (Top Ten Customers)	\$ 11,248,173	20.97%
Total (All Customers)	\$ 52,179,822	

The average single-family residence monthly sewer charge is: \$35.78

<u>Commercial Group</u>	<u>Charge Per 1,000 Gallons</u>	<u>Fixed Charge</u>
Group 1 (no food, just toilets or working facilities)	\$3.29	\$4.46
Group 2 (commercial laundromats, service stations, hotels without food)	\$4.40	\$4.46
Group 3 (industrial laundromats, hotels with food)	\$5.50	\$4.46
Group 4 (restaurants, bakeries, auto steam, markets)	\$6.83	\$4.46

Industrial users pay a minimum account charge of \$4.46 with additional charges of: \$3,212.00 per million gallons of flow, \$238.00 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$471.00 per 1,000 pounds of Total Suspended Solids (TSS).

Industrial users on the Cannery Segregation line pay a minimum account charge of \$4.46 with additional charges of: \$3,012.00 per \$1.57 per 1,000 pounds of biochemical oxygen demand (BOD), and \$4.46 per 1,000 pounds of Total Suspended Solids (TSS) while in production during the months of July, August and September.

(a) In the Fiscal Year ending June 30, 2018, the 2018A Wastewater bonds were issued, refunding the 2006A bonds.

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 Position	Page 27	
Principal Amount of Bonds and Other Parity Debt	Page 52-53	(Note III-C)
Historical Debt Service Coverage	Page 145	
	(continued)	

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**YEAR ENDED JUNE 30, 2019**

**WASTEWATER COMPARISON INFORMATION**

Residential, commercial and industrial rates have increased according to the following approved schedule.

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Ten Year History of Rate Increases**

<b><u>Fiscal Year</u></b>	<b><u>Percent Increase</u></b>
2009-10	0.00
2010-11	3.00
2011-12	8.00
2012-13	6.00
2013-14	6.00
2014-15	2.00
2015-16	3.00
2016-17	6.00
2017-18	6.00
2018-19	6.00

***Comparative Monthly Wastewater Service Charges.***

The City's residential charges as of July 1, 2018 are set forth below with a comparison to other Central Valley and Northern California cities.

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Monthly Sewer Charge Comparison**  
**Residential Service**  
**As of July 1, 2018**

<b><u>City</u></b>	<b><u>Monthly Residential Charge</u></b>
Fresno	\$31.80
Lodi	\$25.40
<b>Modesto</b>	<b>\$37.85</b>
Stockton	\$44.10
Tracy	\$34.00
Turlock	\$28.95

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**YEAR ENDED JUNE 30, 2019**

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Wastewater Connection Fees Comparison**  
**As of July 1, 2018**

<u>City</u>	<u>Connection Fee</u>
Fresno <sup>(1)</sup>	\$2,241.00
Lodi <sup>(2)</sup>	\$3,071.00
<b>Modesto</b>	<b>\$2,643.00</b>
Stockton	\$2,264.41
Tracy	\$7,624.00
Turlock	\$2,820.71

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(1) Connection fees are based on the size of the lot & location.

(2) Connection fees are based on the size of the water meter.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**YEAR ENDED JUNE 30, 2019**

Water Revenue Refinancing Certificates of Participation, 2008 Series A  
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G<sup>(1)</sup>  
Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F<sup>(1)</sup>

Reserve Account Requirement as of 6/30/19	\$ 4,011,410
Surety Policy Value:	\$ (2,082,513)
Balance in Parity Reserve Account as of 6/30/19	<u>\$ (1,968,260)</u>
Shortfall/(Excess) Reserve Coverage:	<u>\$ (39,363)</u>

Ten Largest Customers of Water Utility System, Year Ended 6/30/19

Customer	Business Type	Usage <sup>(ccf)</sup> (2)	% of Total Usage	Water Sales Revenue (\$)	% of Total Water Sales Revenue
1) Modesto City Schools	Education	398,593	1.86%	\$1,022,725	1.56%
2) Stanislaus Food Products	Cannery	471,926	2.20%	\$919,894	1.40%
3) City of Modesto - Stores	Local Government	312,111	1.45%	\$912,307	1.39%
4) Foster Farms	Dairy Processor	344,731	1.61%	\$663,025	1.01%
5) Modesto Irrigation District	Power Company	200,456	0.93%	\$442,570	0.67%
6) Stanislaus Housing Authority	Housing Authority	142,602	0.66%	\$412,328	0.63%
7) Sunpota	Cannery	184,653	0.86%	\$366,061	0.56%
8) Yosemite Community College	Education	108,670	0.51%	\$294,383	0.45%
9) STANCO	Local Government	80,397	0.37%	\$274,653	0.42%
10) Memorial Hospital	Hospital	102,532	0.48%	\$235,630	0.36%
Total Top Ten		<u>2,346,671</u>	<u>10.93%</u>	<u>\$5,543,576</u>	<u>8.45%</u>

Total Flat/Metered Revenues (Water Sales)	<u>\$65,619,235</u>
(1) Grover Landscaping maintains City parks	
(2) "ccf" means "hundred cubic feet"	

Water Sales Revenue, Year Ended 6/30/2019

Residential - flat rates	\$ 4,385,017
Commercial, industrial and municipal - metered rates	<u>\$62,933,627</u>
Total Water Sales	<u>\$67,318,644</u>
The average monthly flat rate service charge for residential customers is:	<u>\$ 60.89</u>

Current Water Rates as of 07/01/2018- Commercial Accounts

Meter Size	
3/4"	\$ 23.34
1"	\$ 33.48
1 1/2"	\$ 58.83
2"	\$ 89.25
3"	\$ 185.59
4"	\$ 327.55
6"	\$ 667.24
8"	\$ 1,224.95
10"	\$ 1,934.76
12"	\$ 2,543.16

In addition to these minimum charges, commercial accounts are charged \$1.82 per 100 cubic feet of water used.

The Annual Budget of the City of Modesto is available from the City of Modesto Finance Department.

(1) Water Fund parity debt obligations, 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. On August 14, 2013 Modesto Irrigation District Financing Authority refunded the 1998 D Bond, with the 2013 G Bond. As of 6/30/2019, the balance of the 2013 G Bond was \$21,575,000 and the balance of the 2007 F Bond was \$93,190,000.

(2) Water sales only reflect the revenues in the Water Operating Fund and do not include revenue generated from developer fees and fleet replacement revenues.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**CITY WATER- HISTORICAL DEBT SERVICE COVERAGE**  
**LAST TEN FISCAL YEARS**

CITY WATER UTILITY SYSTEM  
Historical Debt Service Coverage

	2010	2011 <sup>(10)</sup>	2012	2013 <sup>(11)</sup>	2014 <sup>(13)</sup>	2015 <sup>(11)</sup>	2016 <sup>(12)</sup>	2017	2018 <sup>(17)</sup>	2019 <sup>(18)</sup>
Charges for services	\$ 51,572,801	\$ 51,876,505	\$ 53,453,708	\$ 56,906,488	\$ 56,940,812	\$ 54,779,417	\$ 51,489,077	\$ 63,253,114	\$ 68,928,504	\$ 71,952,653
Connection charges	647,579	452,021	516,839	295,632	357,432	1,024,626	935,987	1,435,654	1,661,151	1,081,913
Refunds, damages & recoveries	428,083	460,766	166,522	260,802	215,271	20,988	511,063	57,533	(121,929)	95,591
Interest and rental income	1,006,611	588,917	670,046	174,224	235,246	353,305	535,823	574,899	689,500	999,269
Service credits <sup>(2)</sup>	2,170,367	2,562,986	2,966,465	3,201,951	2,678,999	3,033,487	3,026,911	3,304,911	3,408,238	3,309,703
Miscellaneous	25,782	58,083	118,203	150,949	154,700	365,808	2,979,500	231,134	1,117,571	1,120,960
<b>Total gross operating revenues</b>	<b>55,851,223</b>	<b>55,999,278</b>	<b>57,891,783</b>	<b>60,990,046</b>	<b>60,582,460</b>	<b>59,577,631</b>	<b>59,478,361</b>	<b>68,857,245</b>	<b>75,683,035</b>	<b>78,560,089</b>
Operating expenses <sup>(3)(16)</sup>	30,219,002	26,638,348	30,755,822	28,530,554	36,598,298	33,773,198	38,722,320	35,508,887	35,685,576	38,806,127
Operating transfers <sup>(4)(5)</sup>	765,000	776,000	1,257,406	838,421	765,000	765,000	765,954	765,000	1,239,943	3,129,583
CIP expenses moved to operating <sup>(6)</sup>	1,127,185	-	-	-	-	-	-	-	-	-
<b>Total operating expenses<sup>(7)</sup></b>	<b>32,111,187</b>	<b>27,414,348</b>	<b>32,013,228</b>	<b>29,368,975</b>	<b>37,363,298</b>	<b>34,538,198</b>	<b>39,488,274</b>	<b>36,273,887</b>	<b>36,925,519</b>	<b>41,935,710</b>
<b>Net operating revenues</b>	<b>\$ 23,740,036</b>	<b>\$ 28,584,930</b>	<b>\$ 25,878,555</b>	<b>\$ 31,621,071</b>	<b>\$ 23,219,162</b>	<b>\$ 25,039,433</b>	<b>\$ 19,990,087</b>	<b>\$ 32,583,358</b>	<b>\$ 38,757,516</b>	<b>\$ 36,624,379</b>
1997 Refunding Certificate of Participation <sup>(8)</sup>	1,794,688	1,797,013	-	-	-	-	-	-	-	-
2008 Revenue Certificates of Participation	2,145,966	2,271,034	2,684,462	2,632,225	2,648,783	2,531,179	2,313,857	2,468,593	2,268,298	2,121,410
MID Treatment & Delivery Agreement <sup>(9)</sup>	7,455,918	10,794,041	10,888,790	10,889,760	8,885,208	9,930,040	10,203,352	10,202,108	10,208,384	10,214,947
CDWR Loan	264,719	264,719	255,942	264,719	264,719	262,692	131,322	-	-	-
ARRA Grant	-	-	5,137	36,289	36,103	36,095	36,089	36,084	36,080	37,123
<b>Total debt service</b>	<b>\$ 11,661,291</b>	<b>\$ 15,126,807</b>	<b>\$ 13,834,331</b>	<b>\$ 13,822,993</b>	<b>\$ 11,834,813</b>	<b>\$ 12,760,006</b>	<b>\$ 12,684,620</b>	<b>\$ 12,706,785</b>	<b>\$ 12,512,762</b>	<b>\$ 12,373,480</b>
<b>Debt service coverage<sup>(14)(15)</sup></b>	<b>2.04</b>	<b>1.89</b>	<b>1.87</b>	<b>2.29</b>	<b>1.96</b>	<b>1.96</b>	<b>1.58</b>	<b>2.56</b>	<b>3.10</b>	<b>2.96</b>

(1) In fiscal year 2012-13, the amount reported for Charges for Services was incorrectly reported in the amount of \$59,906,488. The correct amount is \$56,906,488 which is reflected in the table above.

(2) Service Credits are reimbursements from other City funds of costs associated with employee time worked on other projects.

In fiscal year 2009-10 Cashiering, Utilities, and Collections division was moved into the Water Fund. This caused a structural change and in return an increase in service credits.

(3) Beginning in fiscal year 2008-09 total operating expenses increased as a result of the initiation of a meter program and increases in costs associated with supplies, maintenance, water treatment litigation and administration. Reduced fiscal year 2016 Operating Expenses as the 131,322 CDWR Loan payment (along with 2 dollars attributed to rounding error) were counted both in Operating Expense and in the debt service section.

(4) Operating transfers in fiscal year 2008-09 increased due to an administrative oversight and funds were returned to the correct fund.

(5) Includes operating transfers for building rental fee of \$65,000 annually and commencing in fiscal year 2009-10 \$700,000 annual transfer to the Storm Drain Fund to actively protect the groundwater supply source from contamination. In fiscal year 2011-12 \$668,610 a one time transfer for information technology internal service funds.

(6) In fiscal year 2009-10, the City made a prior period adjustment to reclassify certain operating costs previously recorded as capital improvements. This prior period adjustment has been reflected in this table in the years costs were incurred.

(7) Total operating expenses excludes depreciation and amortization, as well as the debt service component under the Treatment and Delivery Agreement. Fiscal year 2016 Total operating expense reduced from 39,619,604 to 39,488,274 since the Operating expenses was adjusted (see note 3)

(8) 1997 COPS were prepaid in full in fiscal year 2010-11

(9) Increased fiscal year 2014-15 2008 Revenue Certificates of Participation from 2,501,891 to 2,531,179 to account for actual expenditure instead of the internal transfer.

(10) Debt service payment increased by \$4.1 million in fiscal year 2010-11 due to the expiration of capitalized interest. Fiscal year 2015 MID Treatment & Delivery Agreement increased from 9,905,923 to 9,930,040 to account for actual expenditure.

(11) Reduced fiscal year 2014-15 Operating expenses from 40,349,338 to 33,773,198.

(12) The sale of the Waterford-Hickman Water System for \$2.6 million had a significant impact to the Water Fund debt service calculation. Without the sale of this system Water Fund debt service coverage would have been 1.35. Reduced fiscal year 2015-16 Operating Expenses as the 131,322 Del Estate Water Company loan payment (along with 2 dollars attributed to rounding error) were counted both in Operating Expense and in the Debt service section.

(13) Del Estate Water Company (CDWR) loan payment for fiscal year 2014-15 was reduced from 264,719 to 262,692 and fiscal year 2015-16 reduced from 264,719 to 131,322. Loan repayment was completed in fiscal year 2015-16.

(14) Changed fiscal year 2014-15 ARRA Grant from 36,290 to 36,095 and changed fiscal year 2015-16 ARRA Grant from 36,290 to 36,089. Fiscal Year 2013 rate was reported incorrectly in previous reports.

(15) Fiscal year 2015-16 Debt service coverage increased from 1.55 to 1.57 and fiscal year 2014-15 Debt service coverage increased from 1.45 to 1.96 after above stated changes were made.

(16) The financial figures reported only reflect net operating revenues in the Water Operating Fund.

(17) 2018 Miscellaneous revenues include \$1,048,863 of one-time transfer as result of the dissolution of the Central Stores Fund.

(18) Fiscal Year 2018-19 Operating Transfers of \$3,129,583 includes \$2,300,000 in one-time loan to fund 4893 (Carpenter Road Landfill) to be repaid over 6 years.

Source: City of Modesto

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**CITY WATER UTILITY SYSTEM**  
**PROJECTED OPERATING RESULTS <sup>(1)</sup>**

The City has prepared the following table of projections of operating results of the Water Utility System for the five fiscal years 2020-24. The projected amounts set forth below are based on certain assumptions made by the City. To the extent that actual future conditions vary from those assumed in preparing the projections, the actual results will vary.

	Fiscal Year Projected 2020	Fiscal Year Projected 2021 <sup>(5)</sup>	Fiscal Year Projected 2022	Fiscal Year Projected 2023	Fiscal Year Projected 2024
Charges for services <sup>(2)</sup>	\$ 76,299,050	\$ 81,431,893	\$ 86,807,593	\$ 86,807,593	\$ 86,807,593
Connection charges	1,289,641	1,315,434	1,341,742	1,368,577	1,395,949
Refunds, damages & recoveries	155,650	158,763	161,938	165,177	168,481
Interest and rental income	196,549	171,330	172,125	172,938	173,767
Service credits	2,671,967	2,698,687	2,725,674	2,725,674	2,780,460
Miscellaneous	6,200	6,324	6,450	6,579	6,711
6-year Loan Repayment from fund 4893 (Carpenter Road Landfill)	-	34,270	480,765	480,766	480,767
Total gross operating revenues	<u>80,619,057</u>	<u>85,816,701</u>	<u>91,696,287</u>	<u>91,727,304</u>	<u>91,813,728</u>
Operating expenses <sup>(3)</sup>	48,435,455	49,783,658	50,862,475	51,964,946	53,091,598
Operating transfers	765,000	765,000	765,000	765,000	765,000
Total operating expenses <sup>(4)</sup>	<u>\$ 49,200,455</u>	<u>\$ 50,548,658</u>	<u>\$ 51,627,475</u>	<u>\$ 52,729,946</u>	<u>\$ 53,856,598</u>
Net operating revenues	<u>\$ 31,418,602</u>	<u>\$ 35,268,043</u>	<u>\$ 40,068,812</u>	<u>\$ 38,997,358</u>	<u>\$ 37,957,130</u>
2008 Revenue Certificates of Participation	\$ 3,076,639	\$ 3,076,639	\$ 3,076,639	\$ 3,076,639	\$ 4,244,303
MID Treatment & Delivery Agreement	10,208,561	10,195,601	10,443,035	9,065,124	8,398,606
ARRA Grant	36,600	36,600	36,600	36,600	36,600
Total debt service	<u>\$ 13,321,800</u>	<u>\$ 13,308,840</u>	<u>\$ 13,556,274</u>	<u>\$ 12,178,363</u>	<u>\$ 12,679,509</u>
Debt service coverage	2.36	2.65	2.96	3.20	2.99

\* Please note that fiscal year 2018 thru fiscal year 2021 projection is derived from the May 2016 Water Rate and Fee Study. Fiscal year 2011-22 has been kept flat until another Water Rate and Fee Study is completed.

(2) Revenues do NOT include a Consumer Price Index (CPI) increase. There were approved water rate increases as follows: fiscal year 2016-17 at 25.04%, fiscal year 2017-18 at 11.08%, fiscal year 2018-19 at 9.00%, fiscal year 2019-20 at 9.00%, and

(3) Operating expenses have assumed an inflationary rate of 2% in 2018-22 thru fiscal year 2021-22.

(4) Total operating expenses exclude depreciation and amortization, as well as the debt service component under the MID Treatment & Delivery Agreement.

(5) Increase in Debt Service Coverage from fiscal year 2017-18 to fiscal year 2020-21 is due to larger increase in water rates compared to operating expenses. See note (2) and note (3). The increase in water rates is intended to fund pay-as-you-go CIPs not reflected on this table.

Source: City of Modesto.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**YEAR ENDED JUNE 30, 2019**

**CITY WATER UTILITY SYSTEM STATISTICS**  
**(Calendar Years 2010 through 2019)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of Service Accounts	76,508.0	76,983.0	76,788.0	75,357.0	75,006.0	74,665.0	72,825.0	73,135.0	73,423.0	73,591.0
Total Water Production <sup>(MG)</sup> <sup>(1)</sup>	21,712.0	20,892.0	21,765.0	21,606.0	20,630.0	17,692.0	15,155.0	15,319.5	16,782.0	16,059.0
Capacity <sup>(MGD)</sup> <sup>(2)</sup>	166.0	166.0	175.2	175.2	175.2	175.2	175.2	175.2	168.0	168.2
Peak Daily Distribution <sup>(MGD)</sup>	110.0	98.5	97.2	99.8	95.3	84.6	74.7	84.3	77.5	83.5
Average Daily Distribution <sup>(MGD)</sup>	59.5	57.2	59.5	59.2	56.5	48.5	41.5	42.0	46.0	44.0

- (1) "MG" means million gallons.  
(2) "MGD" means million gallons daily.

**CITY WATER UTILITY SYSTEM**  
**Service Area Total Production (Billion Gallons)**  
**(Fiscal Years 2010 through 2019)**

Fiscal Year Ended	Well Water	Surface Water	Total
2010	11.32	10.39	21.71
2011	11.72	9.17	20.89
2012	11.57	10.19	21.76
2013	10.62	10.99	21.61
2014	10.72	9.91	20.63
2015	10.63	5.85	16.48
2016	9.22	5.02	14.24
2017	8.63	5.86	14.49
2018	9.82	6.23	16.05
2019	5.45	9.86	15.31

**CITY WATER UTILITY SYSTEM**  
**Average Monthly Water Rates Comparison**  
**Flat Rate (1" Service)**  
**As of July 1, 2018**

City	Flat Rate Typical Home
Fresno <sup>(1)</sup>	\$ 17.90
Lodi <sup>(2)</sup>	\$ 34.34
<b>Modesto</b>	<b>\$ 60.89</b>
Stockton <sup>(1)</sup>	\$ 32.90
Tracy <sup>(2)</sup>	\$ 24.72
Turlock <sup>(1)</sup>	\$ 26.50

- (1) Water is metered. Charge varies per meter size.  
(2) Water is both metered and flat rate. Charge varies per meter and dwelling size.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**YEAR ENDED JUNE 30, 2019**

The following table sets forth connection fees for all users except multi-family units by meter size for year 2018-2019:

**CITY WATER UTILITY SYSTEM**  
**Connection Fees Comparison**  
**Except Multiple Family Units**  
**(Fiscal Year 2018-2019)**

<u>Meter Size</u>	<u>Connection Fees</u>
5/8" meter**	\$2,202
1" meter	\$3,671
1-1/2" meter	\$7,341
2" meter	\$11,746
3" meter	\$25,695
4" meter	\$46,250
6" meter	\$95,437
8" meter	\$176,191
10" meter	\$278,970
12" meter	\$367,065

\*\*NOTE- Single-family residences qualify for the 5/8" connection fee only under the following conditions:  
 Single story, single-family residences on a lot of 4,000 square feet or less.  
 Two-story single family residence on a lot of 4,000 square feet or less, provided the request for such a service accompanied by a report from a licensed professional engineer that certifies that the 5/8" service is adequate to meet the needs of the proposed dwelling.  
 A 5/8" "service" shall not be allowed for a single-family dwellings of greater than 2 stories on lots less than 4,000 square feet.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**YEAR ENDED JUNE 30, 2019**

**CITY WATER UTILITY SYSTEM**  
**Sale of Water**  
**(Year Ended June 30, 2019)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues (\$000)										
Residential (Flat Rates)	\$21,256,928	\$16,888,754	\$14,464,689	\$12,955,005	\$10,723,594	\$9,037,477	\$7,320,096	\$6,767,446	\$5,506,216	\$4,385,017
Commercial, Industrial and Municipal (Metered)	28,758,412	33,190,426	37,162,861	42,452,862	44,093,862	43,118,855	40,242,493	51,960,729	60,113,019	62,933,627
Total Water Sales	\$50,015,340	\$50,079,180	\$51,627,550	\$55,407,867	\$54,817,456	\$52,156,332	\$47,562,589	\$58,728,175	\$65,619,235	\$67,318,644

The table below sets forth the adopted single family residential flat rates approved through fiscal year 2018-19.

**CITY WATER UTILITY SYSTEM**  
**Monthly Single Family Residential Flat Water Rates <sup>(1)</sup>**

Lot Size	Effective July 1, 2009	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013	Effective July 1, 2014	Effective July 1, 2015	Effective July 1, 2016	Effective July 1, 2017	Effective July 1, 2018
0-5,000 sq. ft. lot	\$37.23	\$38.01	\$38.69	\$39.89	\$40.81	\$40.81	\$40.81	\$47.38	\$48.77	\$52.97
5,001-7,000 sq. ft. lot	42.31	43.20	43.98	45.34	46.38	46.38	46.38	54.72	56.23	60.89
7,001-11,000 sq. ft. lot	50.21	51.26	52.18	53.80	55.04	55.04	55.04	69.22	70.98	76.52
11,001-17,000 sq. ft. lot	53.30	54.42	55.40	57.12	58.43	58.43	58.43	90.88	93.00	99.87
over 17,000 sq. ft. lot	62.66	63.98	65.13	67.15	68.69	68.69	68.69	101.80	104.10	111.65

(1) Single family residential properties with water meters that are read for billing purposes, are charged the meter water rate.

NOTE: Additional financial information available at [www.modestogov.com](http://www.modestogov.com)

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**YEAR ENDED JUNE 30, 2019**

The following table sets forth the adopted monthly service charge and volume charge for commercial accounts through fiscal year 2018-19.

**CITY WATER UTILITY SYSTEM**  
**Water Rates and Charges**  
**Commercial Accounts**

	Effective July 1, 2010	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013	Effective July 1, 2014	Effective July 1, 2015	Effective July 1, 2016	Effective July 1, 2017	Effective July 1, 2018
Volume-based Rate (\$/hcf)	\$1.28	\$1.33	\$1.33	\$1.37	\$1.40	\$1.40	\$1.40	\$1.40	\$1.79	\$1.93
Fixed Monthly Meter Charge (in addition to volume-based charges)										
5/8"-3/4" meter	\$13.71	\$14.00	\$14.25	\$14.69	\$15.03	\$15.03	\$15.03	\$20.79	\$21.47	\$23.34
1" meter	19.45	19.86	20.22	20.85	21.33	21.33	21.33	29.30	30.39	33.48
1-1/2" meter	33.66	34.37	34.99	36.07	36.90	36.90	36.90	50.58	52.71	58.83
2" meter	50.79	51.86	52.79	54.43	55.68	55.68	55.68	76.11	79.49	89.25
3" meter	96.51	98.54	100.31	103.42	105.80	105.80	105.80	156.98	164.30	185.59
4" meter	147.88	150.99	153.71	158.48	162.13	162.13	162.13	276.14	289.28	327.55
6" meter	290.51	296.61	301.95	311.31	318.47	318.47	318.47	561.28	588.33	667.24
8" meter	461.75	471.45	479.94	494.82	506.20	506.20	506.20	1,029.42	1,079.32	1,224.95
10" meter	661.58	675.47	687.63	708.95	725.26	725.26	725.26	1,625.23	1,704.21	1,934.76
12" meter	1,232.31	1,258.19	1,280.84	1,320.55	1,350.92	1,350.92	1,350.92	2,135.93	2,239.84	2,543.16

Note: Additional financial information is available at [www.modestogov.com](http://www.modestogov.com)

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**FISCAL YEAR ENDED JUNE 30, 2019**

**BOND RATINGS**

<u>Bonds</u>	<u>Moody's Rating</u>	<u>Standard &amp; Poor's Rating</u>	<u>Fitch Rating</u>
Wastewater Revenue Bonds, Series 2006A	A1		AA-
2008 Lease Revenue Bonds		A/A-1	A+
2008 Water Certificates of Participation	Aa1	AA+/A-1	
Wastewater Revenue Bonds, Series 2018A		AA+/A-1+	

Sources: [www.moodys.com](http://www.moodys.com)  
[www.standardandpoors.com](http://www.standardandpoors.com)  
[www.Fitchratings.com](http://www.Fitchratings.com)

## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

*The following is a brief summary of certain provisions of the Indenture. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture. Reference is directed to the Indenture for the complete text thereof. Copies of the Indenture are available from the City Clerk/Auditor of the City of Modesto.*

#### Definitions

“**Accreted Value**” means, with respect to any Capital Appreciation Indebtedness, the principal amount thereof plus the interest accrued thereon, compounded at the interest rate thereon on each date as specified therein.

“**Annual Debt Service**” means, for any Fiscal Year, the aggregate amount of principal and interest on all Bonds and Parity Debt becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

“**Average Annual Debt Service**” means, as of any date of calculation, an amount equal to (i) the Annual Debt Service remaining to be paid on all Bonds and Parity Debt on the date of calculation, divided by (ii) the number of Fiscal Years (or partial years) commencing with the Fiscal Year of the date of calculation to and including the Fiscal Year which includes the first date on which none of such Bonds or Parity Debt remains Outstanding. Such interest and principal will be calculated on the assumption that no Bonds or Parity Debt at the date of calculation will cease to be Outstanding except by reason of the payment when due of each principal installment (including mandatory sinking account payments).

“**Balloon Indebtedness**” means any Series of Bonds or Parity Debt 50% or more of the principal of which matures or is payable on the same date and which is not required by the instrument pursuant to which such Bonds or Parity Debt were issued to be amortized by payment or redemption prior to such date.

“**Bond Obligation**” means, as of any given date of calculation, (1) with respect to any Current Interest Indebtedness, the principal amount thereof, and (2) with respect to any Capital Appreciation Indebtedness, the Accreted Value thereof.

“**Bonds**” means the City of Modesto, California Wastewater Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

“**Business Day**” means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, and (2) for purposes of payments and other actions relating to Bonds secured by a letter of credit, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under the letter of credit are to be presented are authorized or obligated by law or executive order to be closed.

**“Capital Appreciation Indebtedness”** means Bonds and Parity Debt on which interest is compounded and paid less frequently than annually.

**“Certificate,” “Statement,” “Request,” “Requisition” or “Order”** of the City mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the City by its City Manager, Finance Director or any other person authorized by the City Manager or Finance Director to execute such instruments. 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 will be read and construed as a single instrument. If and to the extent required by the Indenture, certificates and opinions will include the statements provided for in the Indenture.

**“City”** means the City of Modesto, California.

**“City Council”** means the City Council of the City or any other legislative body of the City hereafter provided for pursuant to law.

**“Code”** means the Internal Revenue Code of 1986, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code will be deemed to be a reference to any successor to any such section.

**“Continuing Disclosure Agreement”** means any Continuing Disclosure Agreement executed and delivered by the City relating to any Series of Bonds.

**“Corporate Trust Office” or “corporate trust office”** means the corporate trust office of the Trustee at One California Street, Suite 2550, San Francisco, California 94111, Attention: Corporate Trust Services, or such other or additional offices as may be designated by the Trustee.

**“Current Interest Indebtedness”** means Bonds and Parity Debt on which interest is paid at least annually.

**“Debt Service”** means, during any period of computation, the amount of principal and interest becoming due and payable on all Bonds and Parity Debt for such period, determined by totaling the following amounts:

(a) The Bond Obligation of all Outstanding Serial Bonds and all Parity Debt coming due and payable by their terms in such period;

(b) The minimum Bond Obligation of all Outstanding Term Bonds and all Parity Debt scheduled to be redeemed by operation of mandatory sinking fund deposits in such period, together with any premium thereon; and

(c) The interest which would be due during such period on the aggregate principal amount of Bonds and Parity Debt which would be Outstanding in such period if the Bonds or Parity Debt are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds or Parity Debt no longer Outstanding;

provided, that for the purposes of determining compliance with the requirements for issuance of additional Bonds or Parity Debt, the rate covenant contained in the Indenture and the amount of the Reserve Fund Requirement, the following provisions apply:

(i) Generally. Except as otherwise provided in subparagraph (ii) below with respect to Variable Interest Rate Indebtedness, in subparagraph (iii) below with respect to Bonds or Parity Debt with respect to which a Public Finance Contract is in force, and in subparagraph (iv) below with respect to Balloon Indebtedness, interest on any Bond or Parity Debt will be calculated based on the actual amount of interest that is payable under such Bond or Parity Debt;

(ii) Interest on Variable Interest Rate Indebtedness. Interest deemed to be payable on any Variable Interest Rate Indebtedness for periods when the actual interest rate can be determined will be the actual Variable Interest Rates and for periods when the actual interest rate cannot yet be determined will be calculated on the assumption that the interest rate on such Variable Interest Rate Indebtedness would be equal to (a) the average rate that accrued on such Variable Interest Rate Indebtedness over the preceding twelve (12) months, or (b) if the Variable Interest Rate Indebtedness has not been accruing interest at a variable rate for twelve (12) months, the average interest rate that accrued on any outstanding Variable Interest Rate Indebtedness for which interest is computed on substantially the same basis during the preceding twelve (12) month period, or (c) if no such comparable Variable Interest Rate Indebtedness was outstanding during the twelve (12) months preceding the date of calculation, then (x) if the interest on such Variable Interest Rate Indebtedness is excluded from gross income for purposes of Federal income taxation, 90% of the average rate of interest for The Bond Buyer Revenue Bond Index over the preceding twelve (12) months, or, if that index is no longer published, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Variable Rate Interest Indebtedness, or if there are no such Treasury Bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets, and (y) if interest on such Variable Interest Rate Indebtedness is not excluded from gross income for purposes of Federal income taxation, 110% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Variable Rate Interest Indebtedness, or if there are no such United States Treasury Bonds having equivalent maturities, 110% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets;

(iii) Interest on Bonds or Parity Debt with respect to which a Public Finance Contract is in force. Interest deemed to be payable on any Bonds or Parity Debt with respect to which a Public Finance Contract is in force will be based on the net economic effect on the City expected to be produced by the terms of such Bonds or Parity Debt and such Public Finance Contract, including

but not limited to the effects that (a) such Bonds or Parity Debt would, but for such Public Finance Contract, be treated as an obligation bearing interest at a Variable Interest Rate instead will be treated as an obligation bearing interest at a fixed interest rate, and (b) such Bonds or Parity Debt would, but for such Public Finance Contract, be treated as an obligation bearing interest at a fixed interest rate instead will be treated as an obligation bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Bonds or Parity Debt with respect to which a Public Finance Contract is in force will be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Bonds or Parity Debt plus the Public Finance Contract Payments minus the Public Finance Contract Receipts, and for the purpose of calculating as nearly as practicable the Public Finance Contract Receipts and the Public Finance Contract Payments under such Bonds or Parity Debt, the following assumptions will be made:

(1) City Obligated to Pay Net Variable Payments. If a Public Finance Contract has been entered into by the City with respect to Bonds or Parity Debt resulting in the payment of a net variable interest rate with respect to such Bonds or Parity Debt and Public Finance Contract by the City, the interest rate on such Bonds or Parity Debt for future periods when the actual interest rate cannot yet be determined will be assumed (but only during the period the Public Finance Contract is in effect) to be equal to the sum of (x) the fixed rate or rates stated in such Bonds or Parity Debt, minus (y) the fixed rate paid by the Qualified Counterparty to the City, plus (z) the lesser of (A) the interest rate cap, if any, provided by a Qualified Counterparty with respect to such Public Finance Contract (but only during the period that such interest rate cap is in effect) and (B) the applicable Variable Interest Rate calculated in accordance with subparagraph (ii) above; and

(2) City Obligated to Pay Net Fixed Payments. If a Public Finance Contract has been entered into by the City with respect to Bonds or Parity Debt resulting in the payment of a net fixed interest rate with respect to such Bonds or Parity Debt and Public Finance Contract by the City, the interest on such Bonds or Parity Debt will be included in the calculation of Debt Service (but only during the period the Public Finance Contract is in effect) by including for each Fiscal Year or twelve (12) calendar month period an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Public Finance Contract;

(iv) Interest on Balloon Indebtedness. If any outstanding Bonds or Parity Debt constitute Balloon Indebtedness (and such Bonds or Parity Debt do not constitute Short Term Indebtedness excluded from the calculation of the Debt Service pursuant to clause (v), below) or if Bonds or Parity Debt proposed to be incurred would constitute Balloon Indebtedness (and such Bonds or Parity Debt would not constitute Short Term Indebtedness excluded from the calculation of the Debt Service pursuant to clause (v), below), then such Balloon Indebtedness

will be treated as if the principal amount of such Bonds or Parity Debt were amortized from the date originally incurred in substantially equal installments of principal and interest over a term of thirty (30) years; provided, however, that the full principal amount of such Balloon Indebtedness will be included in making such calculation if such principal amount is due within ninety (90) days of the date such calculation is being made); and, if interest accrues under such Balloon Indebtedness at other than a fixed rate, the interest rate used for such computation will be (x) if the interest on such Bonds or Parity Debt is excluded from gross income for purposes of Federal income taxation, 90% of the average rate of interest for The Bond Buyer Revenue Bond Index over the preceding twelve (12) months, or if that index is no longer published, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Bonds or Parity Debt on the date incurred, or if there are no such United States Treasury bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets, and (y) if the interest on such Bonds or Parity Debt is not excluded from gross income for purposes of Federal income taxation, the rate equal to 110% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Balloon Indebtedness, or, if there are no such United States Treasury Bonds having equivalent maturities, 110% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets;

(v) Exclusion of Certain Short-Term Indebtedness. If any outstanding Bonds or Parity Debt constitute Short Term Indebtedness or if the Bonds or Parity Debt proposed to be issued would constitute Short Term Indebtedness, and such Short Term Indebtedness are or will be payable only out of Net Revenues of the Fiscal Year in which such Short Term Indebtedness are incurred, then such Short Term Indebtedness will be disregarded and not included in calculating Debt Service;

(vi) Credit for Accrued and Capitalized Interest. If amounts constituting accrued interest or capitalized interest have been deposited with a trustee for such Bonds or Parity Debt, then the interest payable from such amounts with respect to such Bonds or Parity Debt will be disregarded and not included in calculating Debt Service.

**“Defeasance Securities”** means any of the following:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of the United States of America;

(ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (i) held by a bank or trust company as custodian, under which the owner thereof is the real party in interest and has the right to

proceed directly and individually against the obligor and the underlying bonds or other obligations which as to principal and interest constitute direct obligations of the United States of America are not available to any person claiming through the custodian or to whom the custodian may be obligated; or

(iii) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i) or (ii) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i) or (ii) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (iii) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (iii), as appropriate, and (d) which have been rated “AAA” by Standard & Poor’s and “Aaa” by Moody’s or which are eligible to be rated “AAA” by Standard & Poor’s under the then existing defeasance criteria of Standard & Poor’s;

“**Enterprise**” means any and all facilities of the City for the disposal or reuse of wastewater, including sewage treatment plants, intercepting and collecting sewers, outfall sewers, force mains, pumping stations, ejector stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification or disposal of sewage and any necessary lands, rights of way and other real or personal property useful in connection therewith. The term “Enterprise” does not include, however, facilities relating to the production, distribution and use of methane gas.

“**Event of Default**” means any of the events specified as such in the Indenture as described under the caption “Events of Default” below.

“**Fiscal Year**” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the City which designation will be provided to the Trustee in a Certificate of the City.

“**Gross Revenues**” means all gross income and revenue received by the City from the ownership and operation of the Enterprise, including (a) all fees and charges received by the City for the services of the Enterprise, (b) all other income and revenue howsoever derived by the City from the ownership and operation of the Enterprise or arising from the Enterprise, and (c) all sums deposited, or required under the Indenture to be deposited, in the Sewer Enterprise

Fund; but excluding (x) the proceeds of any ad valorem property taxes received by the City to pay debt service on any outstanding obligations of the City, (y) any contributed capital (other than connection fees), and (z) any moneys received by the City as a result of litigation arising out of perchloroethylene (PCE) contamination that are to be expended on capital costs of the Enterprise.

“**Indenture**” means the Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, as originally executed and as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions of the Indenture.

“**Independent Accountant**” means any accountant or firm of such accountants appointed and paid by the City, and who, or each of whom-

- (a) is in fact independent and not under domination of the City;
- (b) does not have any substantial interest, direct or indirect, with the City; and
- (c) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

“**Interest Fund**” means the fund by that name established with the Trustee pursuant to the Indenture.

“**Investment Securities**” means the following:

- (i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the federal agencies and federally sponsored entities set forth in clause (iii) below to the extent unconditionally guaranteed by the United States of America;
- (ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (i);
- (iii) obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks, and Federal Home Loan Mortgage Corporation;
- (iv) obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing; provided that at the time of their purchase such obligations are rated not lower than their respective ratings on the Bonds by Moody’s (if Moody’s is then rating the Bonds) and Standard & Poor’s (if Standard & Poor’s is then rating the Bonds);

(v) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i), (ii) or (iii) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i), (ii) or (iii) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (v) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (v), as appropriate, and (d) which have been rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(vi) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds) in their respective highest short-term Rating Categories, or, if the term of such indebtedness is longer than three (3) years, rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(vii) demand or time deposits or certificates of deposit, whether negotiable or nonnegotiable, issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee), provided that such certificates of deposit will be purchased directly from such a bank, trust company or national banking association and will be either (1) continuously and fully insured by the Federal Deposit Insurance Corporation, or (2) continuously and fully secured by such securities and obligations as are described above in clauses (i) through (iv), inclusive, which will have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and will be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit, and the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured will furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to the principal amount of each such certificate of deposit and the Trustee will be entitled to rely on each such undertaking;

(viii) taxable commercial paper or tax-exempt commercial paper, rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(ix) variable rate obligations required to be redeemed or purchased by the obligor or its agent or designee upon demand of the holder thereof secured as to such redemption or purchase requirement by a liquidity agreement with a corporation and as to the payment of interest and principal either upon maturity or redemption (other than upon demand by the holder thereof) thereof by an unconditional credit facility of a corporation provided that the variable rate obligations themselves are rated in their respective highest Rating Categories for its short-term rating, if any, and not lower than their respective ratings on the Bonds for its long-term rating, if any, by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds), and that the corporations providing the liquidity agreement and credit facility have, at the date of acquisition of the variable rate obligation by the Trustee, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(x) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of one hundred million dollars (\$100,000,000) and with short-term debt rated by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds) in their respective four highest short-term rating categories or with government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clauses (i), (ii), or (iii) above, which will have a market value (exclusive of accrued interest and valued at least monthly) at least equal to the principal amount of such investment and will be lodged with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement, and the entity executing each such repurchase agreement required to be so secured will furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to the principal amount of each such repurchase agreement and the Trustee will be entitled to rely on each such undertaking;

(xi) any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (i), (ii), (iii), (iv) and (x) of the definition of Investment Securities and any money market fund, the entire investments of which are limited to investments described in clauses (i), (ii), (iii), (iv) and (x) of the definition of Investment Securities and which money market fund is rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds); provided that as used in this clause (xi) and clause (xii) investments will be deemed to satisfy the requirements of clause (x) if they meet the requirements set forth in clause (x)

ending with the words “clauses (i), (ii), or (iii) above” and without regard to the remainder of such clause (x);

(xii) investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least “AA” by Standard & Poor’s and “Aa” by Moody’s; provided that the terms of the investment agreement will be approved in writing by each insurer of the Bonds, if any;

(xiii) shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (i) through (xii) of the definition of Investment Securities and which companies are rated in their respective highest Rating Categories by Moody’s (if Moody’s is then rating the Bonds) and Standard & Poor’s (if Standard & Poor’s is then rating the Bonds) or have an investment advisor registered with the Securities and Exchange Commission with not less than 5 years experience investing in such securities and obligations and with assets under management in excess of \$500,000,000;

(xiv) the California Asset Management Program (CAMP);

(xv) forward purchase and sale agreements for underlying securities otherwise authorized under this definition of “Investment Securities” with providers acceptable to each insurer of the Bonds, if any; and

(xvi) any other investment approved by the City Council.

**“Maximum Annual Debt Service”** means the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Debt in the Fiscal Year in which the calculation is made or any subsequent Fiscal Year using the principles and assumptions set forth under the definition of Debt Service.

**“Moody’s”** means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency selected by the City.

**“Net Revenues”** means, with respect to any period, the amount of the Gross Revenues received during such period less the amount of Operating Expenses becoming payable during such period.

**“Operating Expenses”** means the reasonable and necessary costs of maintaining and operating the Enterprise, calculated on the basis of generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar

costs, but excluding (a) depreciation, replacement and obsolescence charges or reserves therefor or other bookkeeping entries of a similar nature, and (b) interest on the Bonds and any Parity Debt.

**“Opinion of Bond Counsel”** means a written opinion of a law firm of national standing in the field of public finance selected by the City.

**“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 cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the City will have been discharged in accordance with the Indenture, including Bonds (or portions of Bonds) for which money has been set aside for the payment of the interest, principal or Redemption Price due as provided in the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds will have been authenticated and delivered by the Trustee pursuant to the Indenture.

**“Owner”** or **“Bondholder”** or **“Bondowner,”** whenever used in the Indenture with respect to a Bond, means the person in whose name such Bond is registered.

**“Parity Debt”** means any indebtedness, installment sale obligation, lease obligation or other obligation of the City for borrowed money having an equal lien and charge upon the Net Revenues, therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

**“Parity Reserve Fund”** means the fund by that name established with the Trustee pursuant to the Indenture.

**“Principal Fund”** means the fund by that name established with the Trustee pursuant to the Indenture.

**“Public Finance Contract”** means a written agreement for the purpose of managing or reducing the City’s exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the City and a Qualified Counterparty as authorized under any applicable laws of the State in connection with, or incidental to, the issuance of Bonds or Parity Debt, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device.

**“Public Finance Contract Payments”** means the amounts periodically required to be paid by the City to all Qualified Counterparties under all Public Finance Contracts.

**“Public Finance Contract Receipts”** means the amounts periodically required to be paid by all Qualified Counterparties to the City under all Public Finance Contracts.

**“Qualified Counterparty”** means a party (other than the City or a party related to the City) who is the other party to a Public Finance Contract and (1) (A) who is rated at least “A2” from Moody’s and “A” from Standard & Poor’s, or (B) whose senior debt obligations are rated

at least “A2” from Moody’s and “A” from Standard & Poor’s, or guaranteed by an entity so rated, or (C) whose obligations under the Public Finance Contract are guaranteed for the entire term of the Public Finance Contract by a bond insurer or other institution which has been assigned a credit rating at least equal to “A2” from Moody’s and “A” from Standard & Poor’s, or (D) whose obligations under the Public Finance Contract are collateralized in such a manner as to obtain a rating at least equal to the ratings assigned by each of the Rating Agencies to the Bonds or Parity Debt to which such Public Finance Contract relates, and (2) who is otherwise qualified to act as the other party to a Public Finance Contract under all applicable laws of the State.

**“Rating Category”** means (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

**“Rebate Fund”** means the fund by that name established with the Trustee pursuant to the Indenture.

**“Rebate Requirement”** means the Rebate Requirement defined in the Tax Certificate.

**“Redemption Fund”** means the fund by that name established with the Trustee pursuant to the Indenture.

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

**“Reserve Fund Requirement”** means, as of any date of determination and excluding any Bonds or Parity Debt for which no reserve fund is to be maintained and any Parity Debt for which a separate reserve fund is to be maintained, the lesser of (a) the Maximum Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, or (b) one hundred twenty-five percent (125%) of the Average Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund; provided that in no event will the deposit to the Parity Reserve Fund with respect to any Series of Bonds or Parity Debt to be secured by the Parity Reserve Fund be an amount greater than ten percent (10%) of the initial offering price to the public of each Series of Bonds and any Parity Debt to be secured by the Parity Reserve Fund as determined under the Code, all as computed and determined by the City and specified in writing to the Trustee.

**“Serial Bonds”** means Bonds, maturing in specified years, for which no mandatory sinking fund payments are provided.

**“Series,”** whenever used in the Indenture with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any

Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

“**Sewer Enterprise Fund**” means the existing fund by that name established and held by the City with respect to the Enterprise.

“**Short-Term Indebtedness**” means Bonds or Parity Debt having an original maturity of less than or equal to one year and which are not renewable at the option of the City for a term greater than one year beyond the date of original incurrence.

“**Standard & Poor’s**” means Standard & Poor’s, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term “Standard & Poor’s” will be deemed to refer to any other nationally recognized securities rating agency selected by the City.

“**State**” means the State of California.

“**Supplemental Indenture**” means any indenture hereafter duly executed and delivered, supplementing, modifying or amending the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

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

“**Term Bonds**” means Bonds payable at or before their specified maturity date or dates from mandatory sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“**Trustee**” means The Bank of New York Mellon Trust Company, N.A., acting as trustee under the Indenture, or its successor, as Trustee as provided in the Indenture.

“**Variable Interest Rate**” means any variable interest rate or rates to be paid under any Bonds or Parity Debt, the method of computing which variable interest rate will be as specified in the Supplemental Indenture providing for the issuance of the applicable Bonds or the instrument providing for the issuance of the Parity Debt, which Supplemental Indenture or other instrument will also specify either (i) the payment period or periods or time or manner of determining such period or periods or time for which each value of such variable interest rate will remain in effect, and (ii) the time or times based upon which any change in such variable interest rate will become effective, and which variable interest rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indices.

“**Variable Interest Rate Indebtedness**” means, for any period of time, any Bonds or Parity Debt that bear a Variable Interest Rate during such period, except that no Bonds or Parity Debt will be treated as a Variable Interest Rate Indebtedness if the net economic effect of a Public Finance Contract with respect to any particular Bonds or Parity Debt is to produce

obligations that bear interest at a fixed interest rate, and any Bonds or Parity Debt with respect to which a Public Finance Contract is in force will be treated as a Variable Interest Rate Indebtedness if the net economic effect of the Public Finance Contract is to produce obligations that bear interest at a Variable Interest Rate.

### **Issuance of Bonds and Parity Debt**

*Issuance of Bonds.* The City may by Supplemental Indenture establish one or more Series of Bonds payable from Net Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued, and the City may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as will be determined by the City, but only, with respect to each Series of Bonds, upon compliance by the City with the provisions of the Indenture (except any Series of Bonds delivered under a Supplemental Indenture of even date with the Indenture may be issued upon compliance by the City with the requirements of the Indenture described under subparagraph (c) under “Proceedings for Issuance of Additional Series of Bonds” below and without further condition) and any additional requirements set forth in said Supplemental Indenture and subject to the following specific conditions, which are made conditions precedent to the issuance of any such additional Series of Bonds:

- (a) no Event of Default shall have occurred and then be continuing;
- (b) the aggregate principal amount of Bonds issued under the Indenture will not exceed any limitation imposed by law or otherwise;
- (c) there will be deposited in the Parity Reserve Fund an amount of money so as to increase the amount on deposit therein to the Reserve Fund Requirement, provided that Parity Debt may be secured by a separate reserve fund or no reserve fund; and
- (d) The Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the Supplemental Indenture pursuant to which such Series of Bonds are issued or the instrument pursuant to which such Parity Debt is issued, as shown by the books of the City, plus, at the option of the City, any or all of the items designated in (i) and (ii) below, but excluding connection charges, will at least equal one hundred twenty-five percent (125%) of the Maximum Annual Debt Service on all Bonds and Parity Debt to be Outstanding immediately subsequent to the issuance of such Series of Bonds or Parity Debt. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring additional Series of Bonds or Parity Debt under the Indenture are the following:
  - (i) An allowance for Net Revenues from any additions to or improvements or extensions of the Enterprise to be made with the proceeds of such additional Series of Bonds or Parity Debt, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of such

Fiscal Year or such twelve (12) month period, were not in service, all in an amount equal to ninety-five percent (95%) of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first thirty-six (36) month period in which each addition, improvement or extension is respectively to be in operation, all as shown by a Certificate of the City filed with the Trustee.

(ii) An allowance for earnings arising from any increase in the charges made for service from the Enterprise which has become effective prior to the incurring of such additional Series of Bonds or Parity Debt but which, during all or any part of such Fiscal Year or such twelve (12) month period, was not in effect, in an amount equal to ninety-five percent (95%) of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such twelve (12) month period, all as shown by a Certificate of the City filed with the Trustee.

In the event additional assets or revenues are included within the definition of “Net Revenues” by a Supplemental Indenture, such additional assets or revenues will be included in the calculations in (d) above, as appropriate, as if such additional assets or revenues had always been included in Net Revenues.

*Proceedings for Issuance of Additional Series of Bonds.* Whenever the City determines to issue a Series of Bonds pursuant to the Indenture, the City will authorize the execution of a Supplemental Indenture specifying the principal amount, and prescribing the form or forms of Bonds of such additional Series and providing the terms, conditions, distinctive designation, denominations, date, maturity date or dates, interest rate or rates (or the manner of determining the same), redemption provisions and place or places of payment of principal or Redemption Price, if any, of and interest on such Bonds, and any other provisions respecting the Bonds of such Series not inconsistent with the terms of the Indenture.

Before such additional Series of Bonds is issued and delivered, the City will file the following documents with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Bonds have been satisfied):

- (a) an executed copy of the Supplemental Indenture authorizing such Series;
- (b) a Certificate of the City stating that no Event of Default has occurred and is then continuing;
- (c) an Opinion of Bond Counsel to the effect that the execution of the Supplemental Indenture has been duly authorized by the City in accordance with the Indenture; that such Series, when duly executed by the City and authenticated and delivered by the Trustee, will be valid and binding limited obligations of the City, and that upon the delivery of such Series the aggregate principal amount of Bonds then Outstanding will not exceed the amount permitted by law or otherwise;
- (d) the Certificate of the City required by the Indenture; and

(e) a Certificate of the City or of an independent certified public accountant that upon delivery of such Bonds, the aggregate principal amount of Bonds then Outstanding will not exceed the amount permitted under the Indenture.

*Issuance of Refunding Bonds.* Notwithstanding any provisions in the Indenture, there will be no limitation on the ability of the City to issue any Bonds at any time to refund any outstanding Bonds or Parity Debt; provided, however, that the Maximum Annual Debt Service with respect to any such refunding Bonds will not exceed 1.10 times the Maximum Annual Debt Service with respect to the Bonds or Parity Debt being refunded.

*Limitations on the Issuance of Obligations.* The City will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Net Revenues, except the following:

(a) Bonds of any Series authorized pursuant to the Indenture as described under the captions “Issuance of Bonds” and “Proceedings for Issuance of Additional Series of Bonds” above;

(b) refunding Bonds authorized pursuant to the Indenture as described under “Issuance of Refunding Bonds” above.

(c) Parity Debt payable on a parity with the Bonds and which will have, when issued, an equal lien and charge upon the Net Revenues, provided that the following conditions to the issuance of such Parity Debt are satisfied:

(1) such Parity Debt has been duly and legally authorized for any lawful purpose;

(2) no Event of Default shall have occurred and then be continuing, as evidenced in a Certificate of the City filed with the Trustee;

(3) unless such Parity Debt is for the refunding purposes specified in the Indenture, the City will have obtained and placed on file with the Trustee a Certificate of the City that (on the basis of calculations as of the date of delivery of such Parity Debt) the requirements of the Indenture with respect to additional Bonds have been met with respect to such Parity Debt;

(4) the City will have filed with the Trustee an Opinion of Bond Counsel to the effect that such Parity Debt has been duly authorized in accordance with law and constitutes a valid and binding obligation of the City payable from Net Revenues on a parity with the Bonds; and

(5) the Trustee will be designated as paying agent or trustee for such Parity Debt and the City will deliver to the Trustee a transcript of the proceedings providing for the issuance of such Parity Debt (but the Trustee will not be responsible for the validity or sufficiency of such proceedings or such Parity Debt); or

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

### **Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts**

*Pledge of Net Revenues.* The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues and from the other funds pledged under the Indenture. All Net Revenues are pledged to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds and any Parity Debt in accordance with their terms, 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 to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), 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. Said pledge will constitute a first lien on the Net Revenues and amounts in such funds and will be valid and binding from and after delivery by the Trustee of the Bonds or Parity Debt, without any physical delivery thereof or further act.

The Net Revenues are pledged to the payment of Bonds and Parity Debt without priority or distinction of one over the other and the Net Revenues constitute a trust fund for the security and payment of the Bonds and Parity Debt; but nevertheless out of Net Revenues, certain amounts may be applied for other purposes as provided in the Indenture.

Out of Net Revenues, there will be applied as set forth in the Indenture all sums required for the payment of the principal of (including any premium thereon) and interest on the Bonds and all Parity Debt, together with any reserve fund requirements with respect thereto. All remaining Net Revenues, after making the foregoing allocation, will be available to the City for all lawful City purposes. The pledge of Net Revenues in the Indenture made will be irrevocable until all of the Bonds and all Parity Debt are no longer outstanding.

*Sewer Enterprise Fund.* In order to carry out and effectuate the obligation of the City contained in the Indenture to pay the Bonds, so long as any Bonds are Outstanding, the City covenants and agrees that all Gross Revenues, when and as received, will be received, deposited and held by the City in the Sewer Enterprise Fund and will be accounted for through and held in trust in the Sewer Enterprise Fund, and the City will have no beneficial right or interest in any of such moneys except only as provided in the Indenture. The City covenants and agrees to maintain the Sewer Enterprise Fund at all times so long as any Bonds will be Outstanding under the Indenture. All Gross Revenues and Net Revenues, whether held by the City or deposited

with the Trustee, all as provided in the Indenture, will nevertheless be disbursed, allocated, and applied solely to the uses and purposes set forth in the Indenture.

All amounts in the Sewer Enterprise Fund required to pay Operating Expenses of the Enterprise will be applied for such purpose from time to time by the City. So long as any Bonds are Outstanding, the City will transfer the remaining moneys in the Sewer Enterprise Fund to the Trustee as required for deposit into the following respective funds (each of which the Trustee will establish, maintain and hold in trust for the benefit of the Owners of the Bonds) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Net Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to outstanding Parity Debt as provided in the proceedings for such Parity Debt (which will be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Debt):

(1) Interest Fund. The City will transfer to the Trustee and the Trustee will set aside in the Interest Fund on or before the third Business Day prior to each interest payment date therefor an amount equal to the interest becoming due and payable on the Outstanding Bonds (excluding interest for which there are moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source to pay such interest).

(2) Principal Fund: Sinking Accounts. The City will transfer to the Trustee and the Trustee will set aside in the Principal Fund on or before the third Business Day prior to each principal or mandatory sinking fund payment date therefor an amount equal to (a) the amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds, plus (b) the mandatory sinking fund payments to be paid into the respective Sinking Accounts for the Term Bonds; provided that if the City certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from excess amounts on deposit in the Parity Reserve Fund or other bond reserve fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid mandatory sinking fund payments will be made without priority of any payment into any one such Sinking Account over any other such payment.

(3) Parity Reserve Fund. Upon the occurrence of any deficiency in the Parity Reserve Fund established pursuant to the Indenture, the City will transfer to the Trustee and the Trustee will set aside in the Parity Reserve Fund an amount equal to the aggregate amount of each unreplenished prior withdrawal from the Parity Reserve Fund until there is on deposit in the Parity Reserve Fund an amount equal to the Reserve Fund Requirement.

Any Net Revenues remaining in the Sewer Enterprise Fund after the transfers described above, except as otherwise provided in a Supplemental Indenture, will be held free and clear of the Indenture by the City and it may use and apply such Net Revenues for any lawful purpose of

the City, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

If on any principal payment date, interest payment date or mandatory sinking fund redemption date the amounts on deposit in the Interest Fund and Principal Fund, including the Sinking Accounts therein, are insufficient to make such payments, the Trustee will immediately notify the City, by telephone or facsimile machine, of such deficiency and direct that the City transfer the amount of such deficiency to the Trustee on such payment date. The City covenants and agrees to transfer to the Trustee from any Net Revenues in its possession the amount of such deficiency on the principal, interest or mandatory redemption date referenced in such notice.

*Application of Interest Fund.* All amounts in the Interest Fund will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it will become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture). In addition if so directed by the City, the Trustee may deposit into the Interest Fund, Public Finance Contract Receipts of the City and may pay from the Interest Fund, Public Finance Contract Payments on behalf of the City.

*Application of Principal Fund.* All amounts in the Principal Fund will be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that all amounts in the Sinking Accounts will be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided in the Indenture.

The Trustee will establish and maintain within the Principal Fund a separate sinking account for the Term Bonds of each Series and maturity. On or before the Business Day prior to any date upon which a mandatory sinking fund payment is due, the Trustee will transfer the amount of such mandatory sinking fund payment (being the principal thereof, in the case of Current Interest Bonds and the Accreted Value, in the case of Capital Appreciation Bonds from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each mandatory sinking fund payment date established for such Sinking Account, the Trustee will apply the mandatory sinking fund payment required on that date to the redemption of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of such redemption, the Trustee will, upon receipt of a Request of the City, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the City, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) will not exceed the principal amount or Accreted Value thereof. If the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or purchased or redeemed Term Bonds of such Series and maturity at any time from the Redemption Fund and allocable to said mandatory sinking fund payment, or if the City has purchased or otherwise acquired Term Bonds and deposited such Term Bonds with the Trustee, such Term Bonds so purchased or deposited or redeemed by the Trustee or the City will be applied, to the extent of the full principal amount

thereof, to reduce said mandatory sinking fund payment. All Term Bonds so purchased or deposited as described under this caption, "Application of Principal Fund" will be cancelled and destroyed by the Trustee. Any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding will be withdrawn by the Trustee and transferred to the City to be deposited in the Sewer Enterprise Fund. All Term Bonds so purchased will be allocated first to the next succeeding mandatory sinking fund payment for such Series and maturity of Term Bonds, then as a credit against such future mandatory sinking fund payment for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed from the Redemption Fund will be credited to such future mandatory sinking fund payment for such Series and maturity of Term Bonds as may be specified in a Request of the City.

*Application of Redemption Fund.* The Trustee will establish, maintain and hold in trust a special fund designated as the "Redemption Fund" when required. All moneys deposited by the City with the Trustee for the purpose of redeeming Bonds of any Series pursuant to optional redemption or special mandatory redemption provisions applicable to such Series of Bonds will, unless otherwise directed by the City, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund will be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving notice of such redemption, the Trustee will, upon receipt of a Request of the City, apply such amounts to the purchase of Bonds of such Series at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Account) as is directed by the City, except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund will be allocated to mandatory sinking fund payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the City.

*Parity Reserve Fund.* The Trustee will 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 "Parity Reserve Fund." Amounts on deposit in the Parity Reserve Fund are pledged to the payment of the Bonds and any Parity Debt to be secured by the Parity Reserve Fund and will be applied only for such purposes as permitted in the Indenture. The Trustee will deposit in the Parity Reserve Fund, upon the direction of the City, the Reserve Fund Requirement and such other amounts transferred to the Trustee by the City pursuant to the Indenture. No deposit need be made in the Parity Reserve Fund so long as there will be on deposit therein a sum equal to at least the amount required to be on deposit therein as described in this paragraph. Whenever the amount on deposit in the Parity Reserve Fund is less than the Reserve Fund Requirement, notice thereof will be provided to the insurer of the Bonds, if any, and such amount will be increased to the Reserve Fund Requirement as described in this paragraph not later than twelve months thereafter. Moneys on deposit in the Parity Reserve Fund (including all amounts that may be obtained from letters of credit and surety bonds and insurance policies, as provided below, on deposit in the Parity Reserve Fund) will be transferred by the Trustee to the Principal Fund and Interest Fund to pay principal of and interest on the Bonds on any interest payment date in the event amounts on deposit therein are insufficient for such purposes. The Trustee will also, from

such amounts on deposit in the Parity Reserve Fund, transfer or cause to be transferred to any applicable debt service fund for any Parity Debt to be secured by the Parity Reserve Fund, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without discrimination or preference, that sum or sums, if any, equal to the amount required to be deposited therein pursuant to the documents under which any such Parity Debt to be secured by the Parity Reserve Fund is issued or incurred. Amounts on deposit in the Parity Reserve Fund in excess of the Reserve Fund Requirement will, at the written Request of the City, be withdrawn from the Parity Reserve Fund and transferred to the City.

The City may provide for all or any part of the Reserve Fund Requirement by delivering to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest Rating Categories of Moody's or Standard & Poor's, without regard to modifiers, securing an amount, together with moneys, Investment Securities or surety bonds or insurance policies (as described in the immediately succeeding paragraph under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts Parity Reserve Fund") on deposit in the Parity Reserve Fund, equal to the Reserve Fund Requirement. Such letter of credit will have an original term of no less than three (3) years or, if less, the final maturity of the Bonds and such letter of credit will provide by its terms that it may be drawn upon as provided in the Indenture. At least one year prior to the stated expiration of such letter of credit, the City will either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year or, if less, the maturity of the Bonds or (iii) deliver to the Trustee a surety bond or an insurance policy satisfying the requirements described in the immediately succeeding paragraph under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts-Parity Reserve Fund." Upon delivery of such replacement letter of credit, extended letter of credit, or surety bond or insurance policy, the Trustee will deliver the then effective letter of credit to or upon the order of the City. If the City fails to deposit a replacement letter of credit, extended letter of credit, surety bond or insurance policy with the Trustee, the City will immediately commence to make monthly deposits with the Trustee so that an amount equal to the Reserve Fund Requirement will be on deposit in the Parity Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Reserve Fund Requirement, as of the date following the expiration of the letter of credit, is not on deposit in the Parity Reserve Fund one week prior to the stated expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee will draw on the letter of credit to fund the amount of any such deficiency in the Parity Reserve Fund.

The City may also provide for all or any part of the Parity Reserve Fund by delivering to the Trustee a surety bond or an insurance policy securing an amount, together with moneys, Investment Securities or letters of credit on deposit in the Parity Reserve Fund, equal to the Reserve Fund Requirement. Such surety bond or insurance policy will be issued by an insurance company whose unsecured debt obligations (or obligations secured by such insurance company's insurance policies) are rated in one of the two highest Rating Categories of Moody's or Standard & Poor's, without regard to modifiers. Such surety bond or insurance policy will have a term of no less than the final maturity of the Bonds. In the event that such surety bond or insurance policy for any reason lapses or expires, the City will immediately implement the actions described in clause (i) or (iii) of the immediately preceding paragraph under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts-Parity Reserve Fund"

above or make the required deposits to the Parity Reserve Fund. Repayment of any draw under any such surety bond or insurance policy, and any expenses and accrued interest related to such draw (collectively the "Policy Costs") will commence in the first month following each such draw, and will be paid at the time specified in the first paragraph under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts-Parity Reserve Fund" above in an amount not less than one-twelfth (1/12th) of the aggregate of the Policy Costs related to such draw. If and to the extent that cash has also been deposited in the Parity Reserve Fund, all such cash will be used (including investments purchased with such cash, which will be liquidated and the proceeds thereof applied as required under the Indenture) prior to any drawing under surety bond or insurance policy, and repayment of any Policy Costs will be made prior to any replenishment of any such cash amounts. If the City fails to repay any Policy Costs in accordance with the Indenture, the insurance company issuing such surety bond or insurance policy will be entitled to exercise any and all remedies available at law or under the Indenture other than (i) an acceleration of the interest on or principal of the Bonds as provided in the Indenture or (ii) any other remedy that would adversely affect Bondholders. The Trustee will ascertain the necessity for a claim upon any surety bond or insurance policy provided pursuant to the provisions of the Indenture described under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts-Parity Reserve Fund" and provide notice to the insurance company issuing such bond or policy in accordance with the terms and conditions of such bond or insurance policy not less than two (2) Business Days prior to any interest payment date upon which such a claim should be paid.

In the event of any deficiency in the Principal Fund or Interest Fund for the payment of principal and interest payments for the Bonds pursuant to clause (A) above, the Trustee will, after first applying all cash and Investment Securities held in the Parity Reserve Fund to pay the Bond Obligation of, any mandatory sinking fund payments with respect to, and interest on, the Bonds when due, on a pro rata basis with respect to the portion of the Parity Reserve Fund held in the form of letters of credit and amounts held in the form of surety bonds and insurance policies (calculated by reference to the maximum amounts of such letters of credit and surety bonds and insurance policies), draw under each letter of credit or surety bond or insurance policy issued with respect to the Parity Reserve Fund, in a timely manner and pursuant to the terms of such letter of credit or surety bond or insurance policy to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, any mandatory sinking fund payments with respect to, and interest on, the Bonds when due. In the event that the Trustee has written notice from the City or any Bondholder that any payment of principal of, or interest on, a Bond has been recovered from a Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to and provided that the terms of the letter of credit or surety bond or insurance policy, if any, credited to the Parity Reserve Fund so provide, will so notify the issuer thereof and draw on such letter of credit or surety bond or insurance policy to the lesser of the extent required or the maximum amount of such letter of credit or surety bond or insurance policy in order to pay to such Bondholder the principal of and interest so recovered. All amounts in the Parity Reserve Fund (other than amounts that may be obtained from letters of credit and surety bonds and insurance policies on deposit in the Parity Reserve Fund) may be used and withdrawn by the Trustee, if so directed by the City, for the payment or redemption of all Bonds then Outstanding, or for the payment of the final principal and interest payments of the Bonds.

## **Investment of Moneys in Funds and Accounts**

All moneys in any of the funds and accounts held by the Trustee and established pursuant to the Indenture will be invested, as directed by the City, solely in Investment Securities; provided, however, that Investment Securities (other than those described in clauses (x), (xii), (xv) or (xvi) of the definition thereof) purchased with moneys held by the Trustee in the Parity Reserve Fund will have an average weighted term to maturity not greater than five years. All Investment Securities will, as directed by the City in writing or by telephone, promptly confirmed in writing, be acquired subject to the limitations as to maturities set forth in the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by Request of the City. The Trustee may conclusively rely upon any investment direction from the City as a certification to the Trustee that such investment constitutes an Investment Security. If and to the extent the Trustee does not receive investment instructions from the City with respect to the moneys in the funds and accounts held by the Trustee pursuant to the Indenture, such moneys will be invested in Investment Securities described in clause (xi) of the definition thereof and the Trustee will thereupon request investment instructions from the City for such moneys.

Unless otherwise provided in the Indenture or in a Supplemental Indenture, all interest, profits and other income received from the investment of moneys in any fund or account, other than the Rebate Fund, will be transferred by the Trustee to the City for deposit in the Sewer Enterprise Fund when received. All interest, profits and other income received from the investment of moneys in the Rebate Fund will be deposited in the Rebate Fund, except as otherwise provided in the Indenture. Notwithstanding anything to the contrary contained in the Indenture, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security will be credited to the fund or account from which such accrued interest was paid.

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture will be accounted for separately as required by the Indenture. The Trustee may act as principal or agent in the making or disposing of any investment and, with the prior written consent of the City, may impose its customary charge therefor. The Trustee may sell or present for redemption, any Investment Securities so purchased whenever it will 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, and the Trustee will not be liable or responsible for any loss resulting from such investment.

The Trustee and the City will each keep proper books of record and accounts containing complete and correct entries of all transactions made by it relating to the receipt, investment, disbursement, allocation and application of the moneys related to the Bonds, including moneys derived from, pledged to, or to be used to make payments on the Bonds. Such records will specify the account or fund to which each investment (or portion thereof) is to be allocated and will set forth, in the case of each investment security, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, including accrued interest, (d) the amounts and

dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City will not receive such confirmations to the extent permitted by law. The Trustee will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

The Trustee may make any investments under the Indenture through its own bond or investment department or trust investment department, or those of its parent or any affiliate.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

The Trustee will also provide to the City in accordance with a Request of the City, with respect to each Investment Security such documentation as is reasonably available to the Trustee and specified by the City to the Trustee in writing and is required by the Code or other applicable law to be obtained by the City as evidence to establish that each investment had been acquired and disposed of on an established market in an arm's-length transaction at a price equal to its fair market value and with no amounts having been paid to reduce the yield on the investments, or will be United States Treasury Obligations-State and Local Government Series as set forth in the Tax Certificate.

## **Covenants**

Pursuant to the Indenture, the City has covenanted as follows:

*Punctual Payment.* The City will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and will punctually pay or cause to be paid all mandatory sinking fund payments, but in each case only out of Net Revenues, as provided in the Indenture.

*Operation of Enterprise in Efficient and Economical Manner.* The City covenants and agrees to operate the Enterprise in an efficient and economical manner and to operate, maintain and preserve the Enterprise in good repair and working order.

*Waiver of Laws.* The City will 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 the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the City to the extent permitted by law.

*Further Assurances.* The City will make, execute and deliver any and all such 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 Owners of the Bonds of the rights and benefits provided in the Indenture.

*Discharge of Claims.* The City covenants that in order to fully preserve and protect the priority and security of the Bonds, the City will pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with Enterprise which, if unpaid, may become a lien or charge upon the Gross Revenues or the Net Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The City will also pay from the Gross Revenues all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Enterprise or upon any part thereof or upon any of the Gross Revenues or the Net Revenues therefrom.

*Against Sale, Eminent Domain.* Except as provided in the Indenture, the City covenants that the property, facilities and improvements of the Enterprise will not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless: (a) the City will cause to be filed with the Trustee written evidence from each Rating Agency that such sale or other disposition will not cause a reduction or withdrawal of the rating then assigned to the Bonds by each such Rating Agency; (b) such sale or other disposition will be so arranged as to provide for a continuance of payments into the Sewer Enterprise Fund sufficient in amount to permit payment therefrom of the principal of and interest on and premiums, if any, due upon the call and redemption, thereof of the Outstanding Bonds, and also to provide for such payments into the funds as are required under the terms of the Indenture and any Supplemental Indenture; and (c) the City will have filed with the Trustee an opinion of nationally- recognized bond counsel to the effect that such sale or other disposition will not adversely affect the exemption from federal income taxation of interest on the Bonds. The City further covenants that the Net Revenues or any other funds pledged or otherwise made available to secure payment of the principal of and interest on the Outstanding Bonds will not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used except as authorized by the terms of the Indenture. The City further covenants that it will not enter into any agreement which impairs the operation of the Enterprise or any part of it necessary to secure adequate Net Revenues to pay the principal and interest of the Bonds or which otherwise would impair the rights of the Bond Owners with respect to the Net Revenues. If any substantial part of the Enterprise is sold the payment therefor will either be used for the acquisition and/or construction of improvements and extensions of the Enterprise or will be deposited with the Trustee and will be used to redeem the Outstanding Bonds and Parity Debt in respective amounts and on the respective dates identified by the City in writing.

The City covenants that any amounts received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the City, will either (a) be used for the acquisition and or construction of improvements and extension of the Enterprise, or (b) be deposited with the Trustee (in an amount required to redeem the maximum amount of Outstanding Bonds and Parity Debt) to be used to pay or redeem the Outstanding Bonds and Parity Debt in respective amounts and on the respective dates identified by the City in writing.

*Insurance.* The City covenants that it will at all times maintain with responsible insurers all such insurance on the Enterprise as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Enterprise is damaged or destroyed, such part will be restored to use. The money collected from insurance against accident to or destruction of the physical Enterprise will

either (a) be used for repairing or rebuilding the damaged or destroyed Enterprise, and to the extent not so applied will be deposited with the Trustee (in an amount required to redeem the maximum amount of Outstanding Bonds and Parity Debt) to be used to pay or redeem the Outstanding Bonds and Parity Debt in respective amounts and on the respective dates identified by the City in writing.

Any such insurance will be in the form of policies or contracts for insurance with insurers of good standing and will be payable to the City, or may in the form of self-insurance by the City. The City will establish such fund or funds or reserves as are necessary to provide for its share of any such self-insurance. The City will file or cause to be filed with the Trustee, annually within one hundred twenty (120) days after the close of each Fiscal Year, a Certificate of the City (a) stating that the City is then in compliance with the requirements of the Indenture described under this caption "Covenants-Insurance," and (b) stating whether during the preceding Fiscal Year any loss has been incurred with respect to the Enterprise and, if so, the amount of insurance proceeds, including the proceeds of any self-insurance fund covering such loss and specifying the reasonable and necessary costs of repair, reconstruction or replacement thereof.

*Records and Accounts.* The City covenants that it will keep proper books of record and accounts of the Enterprise, separate from all other records and accounts, in which complete and correct entries will be made of all transactions relating to the Enterprise. Said books will, upon reasonable request, be subject to the inspection of the Owners of not less than ten percent (10%) of the Outstanding Bonds or their representatives authorized in writing.

The City covenants that it will cause the books and accounts of the Enterprise to be audited annually by an Independent Accountant and will make available for inspection by the Bond Owners at the Trust Office of the Trustee, upon reasonable request, a copy of the report of such Independent Accountant.

*Rates and Charges.* The City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which (together with other funds accumulated from Gross Revenues and which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year) are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

- (a) all Operating Expenses estimated by the City to become due and payable in such Fiscal Year;
- (b) the Debt Service on the Outstanding Bonds and Parity Debt becoming due and payable during such Fiscal Year;
- (c) all other payments required for compliance with the Indenture and the instruments pursuant to which any Parity Debt will have been issued; and
- (d) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or the Net Revenues.

In addition, the City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which are sufficient to yield Net Revenues during such Fiscal Year equal to at least 1.25 times the amount determined pursuant to the (b) above. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but will not reduce such fees and charges below those then in effect unless the Gross Revenues from such reduced fees and charges will at all times be sufficient to meet the requirements of the Indenture described in this caption "Covenants Rates and Charges."

*No Priority for Additional Obligations.* The City covenants that no additional bonds, notes or other indebtedness will be issued or incurred having any priority in payment of principal or interest out of the Net Revenues over the Bonds. Nothing in the Indenture will prohibit or impair the authority of the City to issue bonds or other obligations which are unsecured or which are secured by a lien on Net Revenues which is subordinate to the lien established under the Indenture, upon such terms and in such principal amount as the City may determine.

*Tax Covenants.* The City covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the City may exclude the application of the tax covenants contained in the Indenture to such Series of Bonds. The City will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the City, or take or omit to take any action that would cause the Bonds to be arbitrage bonds within the meaning of Section 148(a) of the Code. To that end, the City will comply with all requirements of Section 148 of the Code to the extent applicable to the Bonds. In the event that at any time the City is of the opinion that for purposes of the tax covenants contained in the Indenture it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the City will so instruct the Trustee in writing, and the Trustee will take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the City agrees that there will be paid from time to time all amounts required to be rebated to the federal government of the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. The City specifically covenants to pay or cause to be paid to the federal government of the United States of America the Rebate Requirement at the times and in the amounts determined under and as described in the Tax Certificate.

Notwithstanding any of the tax covenants contained in the Indenture, if the City will receive an Opinion of Bond Counsel to the effect that any action required by the tax covenants contained in the Indenture is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the City and the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants under the Indenture will be deemed to be modified to that extent.

*Continuing Disclosure Agreement.* The City will comply with and carry out all of its obligations under any Continuing Disclosure Agreement executed in connection with a Series of Bonds. Upon the failure of the City to comply with the Continuing Disclosure Agreement relating to any Series of Bonds, the Trustee (at the written request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Owners of at least 25% in aggregate Bond Obligation of the related Series of Bonds, will, but only to the extent indemnified to its satisfaction from any liability or expense, including, without limitation, fees and expenses of its attorneys) 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 City, to comply with its obligations under this paragraph. For purposes of the covenant described in this paragraph, “Beneficial Owner” will have the meaning prescribed thereto in the respective Continuing Disclosure Agreement relating to such Series of Bonds.

### **Events of Default and Remedies**

*Events of Default.* The following events will be Events of Default under the Indenture:

(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 declaration or otherwise in the amounts and at the times provided therefor;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) failure by the City to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in (a) or (b) under this caption “Events of Default,” for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, has been given to the City by the Trustee; except that, if such failure can be remedied but not within such thirty (30) day period and if the City has taken all action reasonably possible to remedy such failure within such thirty (30) day period, such failure shall not become an Event of Default for so long as the City shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee or any insurer of the Bonds;

(d) default by the City under any agreement governing any Parity Debt and the continuance of such default beyond the therein stated grace period, if any, with respect to such default;

(e) the filing by the City of a petition in voluntary bankruptcy for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or an assignment by the City for the benefit of creditors, or the admission by the City in writing to its insolvency or inability to pay debts as they mature, or the consent by the City in writing to the appointment of a trustee or receiver for itself;

(f) the entering by a court of competent jurisdiction of an order, judgment or decree declaring the City insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the City, or approving a petition filed against the City seeking reorganization of the City under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof; or

(g) the assumption, under the provisions of any other law for the relief or aid of debtors, by any court of competent jurisdiction of custody or control of the City or of the Net Revenues and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control.

*Application of Net Revenues and Other Funds After Default; Acceleration.* If an Event of Default shall occur and be continuing, the City shall immediately transfer to the Trustee all Net Revenues held by it and received thereafter and the Trustee shall apply all Net Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (except as otherwise provided in the Indenture) 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 Owners of the Bonds and Parity Debt, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) To the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Debt (upon presentation of the Bonds and Parity Debt to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation at the rate or rates of interest borne by the respective Bonds and Parity Debt, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Debt 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 Bond Obligation and Parity Debt at the rate borne by the respective Bonds and Parity Debt, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Debt due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or interest or Accreted Value (plus accrued interest) due on such date to the persons entitled thereto, without any discrimination or preference.

In each and every such case during the continuance of such Event of Default (and subject to any rights granted to any insurer of the Bonds with respect to the enforcement of remedies upon an Event of Default pursuant to a Supplemental Indenture), the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds at the time Outstanding shall be entitled, upon notice in writing to the City, to declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any

such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, the City shall pay to or shall deposit with the Trustee a sum sufficient to pay all principal on such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds at the time Outstanding, by written notice to the City and to the Trustee, may, on behalf of the Owners of all the Bonds, rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

*Trustee to Represent Bondholders.* The Trustee is irrevocably appointed (and the successive respective Owners 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 Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture 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 Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation 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 Owners 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 in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Indenture 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 Net Revenues, and other assets pledged under the Indenture, pending such proceedings. All rights of 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 Owners of such Bonds, subject to the provisions of the Indenture.

*Bondholders' Direction of Proceedings.* Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate amount of Bond Obligation 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 furnishing the Trustee with indemnification satisfactory to it, 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, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, 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 or holders of Parity Debt not parties to such direction.

*Limitation on Bondholders' Right to Sue.* No Owner 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 or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation 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; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (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; and (5) the Trustee shall not have received contrary directions from the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Indenture 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 Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

*Absolute Obligation of the City.* Nothing in any other provision of the Indenture or in the Bonds contained shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal or Redemption Price of and interest on the Bonds to the respective Owners of the Bonds at their respective due dates therefor or upon call for redemption, as provided in the Indenture, but only out of the Net Revenues and other assets pledged in the Indenture therefor, or affect or impair the right of such Owners, 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 any one 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 City, the Trustee 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 City, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

*Remedies Not Exclusive.* No remedy conferred in the Indenture upon or reserved to the Trustee or to the Owners of the Bonds 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 hereafter existing at law or in equity or otherwise.

*No Waiver of Default.* No delay or omission of the Trustee or of any Owner of the Bonds 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 Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

### **The Trustee**

*Appointment; Duties, Immunities and Liabilities of Trustee.* The Bank of New York Trust Company, N.A. serves as successor Trustee under the Indenture and accepts the trust imposed upon it as Trustee under the Indenture and to perform all the functions and duties of the Trustee under the Indenture, subject to the terms and conditions set forth in the Indenture. The Trustee shall, prior to an Event of Default, and after the curing or waiver 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 no implied covenants 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 or waived), 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 would exercise or use under the circumstances in the conduct of his or her own affairs.

The City may 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 Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee will cease to be eligible in accordance with the requirements of the Indenture, or will become incapable of acting, or will be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property will be appointed, or any public officer will 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 will 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 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 City will promptly appoint a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of himself 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, will signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will 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 City or the request of the successor Trustee, such predecessor Trustee will 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 will 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 request of the successor Trustee, the City will 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 acceptance of appointment by a successor Trustee as described under this caption "The Trustee," the City will give notice of the succession of such Trustee to the trusts under the Indenture by mail to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the City fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the City.

Any Trustee appointed under the provisions of the Indenture in succession to the Trustee will be a trust company or bank having the powers of a trust company having a corporate trust office in the State, having a combined capital and surplus of at least fifty million dollars (\$50,000,000) 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 the Indenture described in this paragraph, the combined capital and surplus of such bank or trust company will 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 will cease to be eligible in accordance with the provisions of the Indenture described in this paragraph, the Trustee will resign immediately in the manner and with the effect described under this caption "The Trustee."

If, by reason of the judgment of any court, the Trustee or any successor Trustee is rendered unable to perform its duties under the Indenture, and if no successor Trustee be then appointed, all such duties and all of the rights and powers of the Trustee under the Indenture will be assumed by and vest in the Treasurer of the City in trust for the benefit of the Bondowners.

*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 is 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 will be eligible under the Indenture, will 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 recitals of facts in the Indenture and in the Bonds contained will be taken as statements of the City, and the Trustee assumes no responsibility for the correctness of the same (other than the certificate of authentication of the Trustee on each Bond), and makes no representations as to the validity or sufficiency of the Indenture or of the Bonds or of any Investment Security, as to the sufficiency of the Net Revenues, or the priority of the lien of the Indenture thereon, or as to the financial or technical feasibility of the Enterprise and will not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence, willful misconduct or breach of the express terms and conditions of the Indenture. The Trustee and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if the Trustee was not the Trustee under the Indenture. The Trustee may in good faith hold any other form of indebtedness of the City, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of the City and make disbursements for the City and enter into any commercial or business arrangement therewith, without limitation.

The Trustee will not be liable for any error of judgment made in good faith by a responsible officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts. The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it under the Indenture by or through attorneys, agents, or receivers, and will be entitled to advice of counsel concerning all matters of trust and its duty under the Indenture, but the Trustee will be answerable for the negligence or misconduct of any such attorney, agent, or receiver selected by it; provided, however, that the Trustee will not be answerable for the negligence or misconduct of any attorney or certified public accountant selected by it with due care.

The Trustee will 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 Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation 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 is 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, including, without limitation, the provisions of the Indenture, unless such Bondholders has offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby.

No provision of the Indenture will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties under the Indenture.

The Trustee shall not be deemed to have knowledge of and shall not be required to take any action with respect to, any Event of Default (other than an Event of Default described under (a) or (b) under the caption “Events of Default” above) or event which would, with the giving of notice, the passage of time or both, constitute an Event of Default, unless the Trustee shall have actual knowledge of such event or shall have been notified of such event by the City or the Owners of twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds at the time Outstanding. Without limiting the generality of the foregoing, the Trustee shall not be required to ascertain, monitor or inquire as to the performance or observance by the City of the terms, conditions, covenants or agreements set forth in the Indenture (including, without limitation, the covenants of the City set forth in the Indenture relating to insurance and records and accounts), other than the covenants of the City to make payments with respect to the Bonds when due as set forth in the Indenture and to file with the Trustee when due, such reports and certifications as the City is required to file with the Trustee under the Indenture.

No permissive power, right or remedy conferred upon the Trustee under the Indenture will be construed to impose a duty to exercise such power, right or remedy.

The Trustee will not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee will determine to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of the City, personally or by agent or attorney.

The Trustee will not be responsible for:

- (1) the application or handling by the City of any Net Revenues or other moneys transferred to or pursuant to any Requisition or Request of the City in accordance with the terms and conditions of the Indenture;
- (2) the application and handling by the City of any other fund or account designated to be held by the City under the Indenture;
- (3) any error or omission by the City in making any computation or giving any instruction pursuant to the covenant provisions of the Indenture relating to insurance and records and accounts and may rely conclusively on any computations or instructions furnished to it by the City in connection with the requirements of the Indenture and the Tax Certificate; or
- (4) the construction, operation or maintenance of the Enterprise by the City.

Whether or not therein expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee will be subject to the provisions of the Indenture described under this caption “The Trustee.”

The Trustee will have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

## **Amendments**

*Amendments Permitted with Consent.* The Indenture and the rights and obligations of the City, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding has been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding described under this under this caption “Amendments.”

For any Series of Bonds for which there is a letter of credit or policy of bond insurance in place securing such Series of Bonds, the written consents of each provider of a letter of credit or a policy of bond insurance for such Series of Bonds filed with the Trustee shall be accepted in lieu of consent of the Owners of such Series of Bonds and shall be deemed to be the consent of all of the Owners of such Series of Bonds for purposes of satisfying the requirements described in the preceding paragraph, provided that at the time such consent is given, the payment of all the principal of and interest on all Outstanding Bonds of such Series will be insured by a policy or policies of municipal bond insurance or payable under a letter of credit the provider of which will be a financial institution or association having unsecured debt obligations rated, or insuring or securing other debt obligations rated on the basis of such insurance or letters of credit, in one of the two highest Rating Categories of Moody’s or Standard & Poor’s.

No such modification or amendment will (a) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any mandatory sinking fund payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof exclusively, without the consent of the Owner of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture on such Net Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof. Promptly after the execution and delivery by the Trustee and the City of any

Supplemental Indenture under the provisions of the Indenture described under this caption “Amendments Permitted With Consent,” the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Owners of the Bonds at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

A copy of each Supplemental Indenture entered into by the City and the Trustee pursuant to the provisions described under this caption “Amendments Permitted with Consent” will be sent by the City to Moody’s and Standard & Poor’s.

*Amendments Not Requiring Consent.* The Indenture and the rights and obligations of the City, of the Trustee and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the City may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City in the Indenture contained 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 in the Indenture to or conferred upon the City;

(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 City may deem necessary or desirable, and which will not materially and adversely affect the interests of the Owners of the Bonds;

(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 hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said Act or similar federal statute, and which will not materially and adversely affect the interests of the Owners of the Bonds;

(4) to make modifications or adjustments necessary, appropriate or desirable to provide for the issuance of Variable Rate Indebtedness, Capital Appreciation Indebtedness or Parity Debt with such interest rate, payment, maturity and other terms as the City may deem desirable; subject to the provisions of the Indenture;

(5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision will materially and adversely affect the interests of the Owners of the Bonds;

(6) if the City agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(7) to provide for the issuance of an additional Series of Bonds pursuant to provisions of the Indenture; and

(8) for any other purpose that does not materially and adversely affect the interests of the Owners of the Bonds.

## **Defeasance**

*Discharge of Indenture.* Bonds of any Series or a portion thereof may be paid by the City in any of the following ways:

(a) by paying or causing to be paid the Bond Obligation of and interest on such Outstanding Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount and subject to the conditions as described under “Deposit of Moneys or Securities with Trustee” to pay or redeem such Outstanding Bonds; or

(c) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the City pays all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable under the Indenture by the City, then and in that case (but subject to any additional requirements in connection therewith as may be imposed by any insurer of the Bonds and set forth in a Supplemental Indenture), at the election of the City (evidenced by a Certificate of the City filed with the Trustee signifying the intention of the City to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds have not been surrendered for payment, the Indenture and the pledge of Net Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the City under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the City, the Trustee will cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and will execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from a firm of certified public accountants, are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

*Discharge of Liability on Bonds.* Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount and subject to the conditions as described under “Deposit of Moneys or Securities with Trustee” to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption has been given as in the Indenture provided or provision satisfactory to the Trustee have been made for the giving of such notice, then (but subject to any additional requirements with respect thereto as may be imposed by any insurer of the Bonds and set forth in

a Supplemental Indenture) all liability of the City in respect of such Bond will cease, terminate and be completely discharged, provided that the Owner thereof will thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the City will remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture and the continuing duties of the Trustee under the Indenture.

The City may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

*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 pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will 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, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption has been given as in the Indenture provided or provision satisfactory to the Trustee has been made for the giving of such notice, the amount to be deposited or held will be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Defeasance Securities, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (upon which opinion the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, 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 has been given as in the Indenture provided or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that the Trustee has been irrevocably instructed (by the terms of the Indenture or by Request of the City) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

### **Liability of City Limited to Net Revenues**

Notwithstanding anything in the Indenture or in the Bonds contained, the City will not be required to advance any moneys derived from any source other than the Net 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 Bonds are special, limited obligations of the City. The Bonds will not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but will be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds will not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

**APPENDIX D**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

October \_\_, 2020

City of Modesto  
Modesto, California

The Bank of New York Mellon Trust Company, N.A.  
San Francisco, California

§[PAR AMOUNT]  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020A (Federally Taxable) and

§[PAR AMOUNT]  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020B

Ladies and Gentlemen:

We have acted as bond counsel to the City of Modesto, California, (the “City”), a charter city and municipal corporation existing under the laws of the State of California (the “City”), in connection with the issuance by the City of its Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable), in the aggregate principal amount of §[PAR AMOUNT] (the “Series 2020A Bonds”), and its Wastewater Revenue Refunding Bonds, Series 2020B, in the aggregate principal amount of §[PAR AMOUNT] (the “Series 2020B Bonds” and together with the Series 2020A Bonds, the “Series 2020 Bonds”). The Series 2020 Bonds are being issued under and pursuant to (i) Section 200 of the Charter of the City of Modesto and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the “Bond Law”), and (ii) the Wastewater Revenue Bond Indenture, dated as of April 1, 2005, between the City and The Bank of New York Mellon Trust Company, N.A., successor trustee (the “Trustee”) to U.S. Bank National Association, as amended and supplemented (the “Indenture”), including as amended and supplemented by a Fifth Supplemental Indenture, dated as of October 1, 2020 (the “Fifth Supplemental Indenture”). The Series 2020 Bonds are being issued to provide funds to prepay the City’s outstanding revolving fund loan from the State of California Water Resources Control Board (“State Water Board”) issued in 2011 in the initial principal amount of \$127,157,943.06 (the “2011 State Loan”), of which \$106,812,879.98 is currently outstanding. Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Indenture.

In our capacity as bond counsel, we have reviewed the Charter of the City, the Bond Law, the Indenture, certifications of the City, the Trustee and others, opinions of the City Attorney and counsel to the Trustee, the Tax Certificate executed and delivered by the City in connection with the issuance of the Series 2020 Bonds (the “Tax Certificate”), a letter from the State Water Board addressed to the City, dated October \_\_, 2020 (the “State Letter”), and such other documents, certificates, opinions and matters of law as we have deemed necessary to enable us to render the opinions expressed herein. We have assumed, but have not verified, that the signatures on all documents, certificates and opinions that we have reviewed are genuine. In our examination, we have assumed, but have not verified, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies or by facsimile or other means of electronic transmission or which we obtained from sites on the internet, and the authenticity of the originals of such latter documents. As to facts and certain other matters and the consequences thereof relevant to the opinions expressed herein and the other statements made herein, we have relied without investigation or verification upon, and have assumed the accuracy, completeness and reasonableness of, certificates and letters (including opinion letters and the State Letter), and upon oral and written statements and representations of public officials, officers and other representatives of the City, the City Attorney and others. As to questions of fact material to the opinions in this letter, we have relied upon such certificates and documents without undertaking to verify the same by independent investigation.

Our services as bond counsel were limited to such examination and to rendering the opinions set forth below. Furthermore, we have assumed compliance with all covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Series 2020A Bonds to be included in gross income for federal tax purposes. With respect to the opinions expressed herein, we call attention to the fact that the enforceability of the rights and obligations under the Series 2020 Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against charter cities in the State of California. In addition, the imposition of certain fees and charges by the City relating to the Enterprise is subject to the provisions of Articles XIII C and XIII D of the California Constitution.

Based upon the foregoing and subject to the limitations and qualifications herein specified, as of the date hereof, we are of the opinion that, under existing law:

1. The Series 2020 Bonds constitute the valid and binding special limited obligations of the City.
2. The Series 2020 Bonds are payable exclusively from and are secured by a pledge of Net Revenues of the Enterprise and certain amounts pledged under the Indenture. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on the Series 2020 Bonds.

3. The Indenture has been duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the City. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Series 2020 Bonds, of the Net Revenues of the Enterprise, and certain other amounts held by the Trustee under the Indenture, as and to the extent set forth in the Indenture and subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

4. Additional bonds and other Parity Debt of the City have been, and may from time to time hereafter be, issued under the Indenture which are payable from Net Revenues on a parity basis with the Series 2020 Bonds.

5. Assuming compliance by the City with certain covenants in the Indenture, the Tax Certificate and other documents pertaining to the Series 2020A Bonds and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of proceeds of the Series 2020A Bonds and the timely payment of certain investment earnings to the United States, interest on the Series 2020A Bonds is not included in the gross income of the owners of the Series 2020A Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Series 2020A Bonds to be included in gross income retroactive to the date of issuance of the Series 2020A Bonds.

6. Interest on the Series 2020A Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax.

7. Interest on the Series 2020 Bonds is exempt from personal income taxes imposed by the State of California.

Other than as described herein, we have not addressed, and are not opining on, the tax consequences to any person of the investment in, or of the receipt or accrual of interest on, the Series 2020 Bonds. Further, certain requirements and procedures contained or referred to in the Indenture or in other documents pertaining to the Series 2020 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 effect of any change to any document pertaining to the Series 2020 Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the exclusion from gross income of the interest on the Series 2020A Bonds for federal income tax purposes.

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 the opinions in this letter in light of any such actions or events.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2020 Bonds.

The opinions in this letter are 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 may not be relied upon in any manner for any purposes by any other person.

Respectfully submitted,

## APPENDIX E

### FORM OF CONTINUING DISCLOSURE AGREEMENT

### DISCLOSURE DISSEMINATION AGENT AGREEMENT

This Disclosure Dissemination Agent Agreement (the “Disclosure Agreement”), dated as of \_\_\_\_\_, 2020, is executed and delivered by the City of Modesto, California (the “Issuer”) and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the “Disclosure Dissemination Agent” or “DAC”) for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) and in order to assist the Issuer in processing certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”).

The services provided under this Disclosure Agreement solely relate to the execution of instructions received from the Issuer through use of the DAC system and do not constitute “advice” within the meaning of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”). DAC will not provide any advice or recommendation to the Issuer or anyone on the Issuer’s behalf regarding the “issuance of municipal securities” or any “municipal financial product” as defined in the Act and nothing in this Disclosure Agreement shall be interpreted to the contrary. DAC is not a “Municipal Advisor” as such term is defined in Section 15B of the Securities Exchange Act of 1934, as amended, and related rules.

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

“Annual Filing Date” means the date, set in Sections 2(a) and 2(f) hereof, by which the Annual Report is to be filed with the MSRB.

“Annual Financial Information” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

“Annual Report” means an Annual Report containing Annual Financial Information described in and consistent with Section 3 of this Disclosure Agreement.

“Audited Financial Statements” means the annual financial statements of the Issuer for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i)(B) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

“Bonds” means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure required to be submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Issuer and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“Disclosure Dissemination Agent” means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Issuer pursuant to Section 9 hereof.

“Disclosure Representative” means the Director of Finance or his or her designee, or such other person as the Issuer shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Failure to File Event” means the Issuer’s failure to file an Annual Report on or before the Annual Filing Date.

“Financial Obligation” as used in this Disclosure Agreement is defined in the Rule, as may be amended, as (i) a debt obligation; (ii) derivative instrument entered into in connection with, or pledged as a security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Force Majeure Event” means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent’s reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

“Holder” means any person (a) having 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) treated as the owner of any Bonds for federal income tax purposes.

“Information” means, collectively, the Annual Reports, the Audited Financial Statements, the Notice Event notices, the Failure to File Event notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

“MSRB” means the Municipal Securities Rulemaking Board, or any successor thereto, established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

“Notice Event” means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

“Obligated Person” means any person, including the Issuer, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities), as shown on Exhibit A.

“Official Statement” means that Official Statement prepared by the Issuer in connection with the Bonds, as listed in Exhibit A.

“Trustee” means the institution, if any, identified as such in the document under which the Bonds were issued.

“Voluntary Event Disclosure” means information of the category specified in any of subsections (e)(vi)(1) through (e)(vi)(10) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(a) of this Disclosure Agreement.

“Voluntary Financial Disclosure” means information of the category specified in any of subsections (e)(vii)(1) through (e)(vii)(9) of Section 2 of this Disclosure Agreement that is accompanied by a

Certification of the Disclosure Representative containing the information prescribed by Section 7(b) of this Disclosure Agreement.

**SECTION 2. Provision of Annual Reports.**

(a) The Issuer shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the MSRB not later than the 25<sup>th</sup> day of February following the end of each fiscal year of the Issuer, commencing with the fiscal year ending June 30, 2019. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15<sup>th</sup>) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Issuer of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the Issuer irrevocably directs the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B without reference to the anticipated filing date for the Annual Report, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(d) If Audited Financial Statements of the Issuer are prepared but not available prior to the Annual Filing Date, the Issuer shall, when the Audited Financial Statements are available, provide at such time an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, together with a copy for the Trustee, if any, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

- (i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;
- (ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) hereof with the MSRB;
- (iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) hereof with the MSRB;
- (iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) hereof with the MSRB, identifying the Notice Event as instructed by the Issuer pursuant to Section 4(a) or 4(b)(ii) hereof (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Agreement:

- 1. "Principal and interest payment delinquencies;"

2. “Non-Payment related defaults, if material;”
3. “Unscheduled draws on debt service reserves reflecting financial difficulties;”
4. “Unscheduled draws on credit enhancements reflecting financial difficulties;”
5. “Substitution of credit or liquidity providers, or their failure to perform;”
6. “Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;”
7. “Modifications to rights of holders of the Bonds, if material;”
8. “Bond calls, if material, and tender offers;”
9. “Defeasances;”
10. “Release, substitution, or sale of property securing repayment of the securities, if material;”
11. “Rating changes;”
12. “Bankruptcy, insolvency, receivership or similar event of the obligated person;”<sup>6</sup>
13. “The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;”
14. “Appointment of a successor or additional trustee, or the change of name of a trustee, if material;”
15. “Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and
16. “Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.”

- (v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as “Failure to provide annual financial

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<sup>6</sup> This event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

information as required” when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;

(vi) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 7(a) hereof with the MSRB, identifying the Voluntary Event Disclosure as instructed by the Issuer pursuant to Section 7(a) (being any of the categories set forth below) when filing pursuant to Section 7(a) of this Disclosure Agreement:

1. “amendment to continuing disclosure undertaking;”
2. “change in obligated person;”
3. “notice to investors pursuant to bond documents;”
4. “certain communications from the Internal Revenue Service; other than those communications included in the Rule;”
5. “secondary market purchases;”
6. “bid for auction rate or other securities;”
7. “capital or other financing plan;”
8. “litigation/enforcement action;”
9. “change of tender agent, remarketing agent, or other on-going party;”
10. “other event-based disclosures;”

(vii) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 7(b) hereof with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the Issuer pursuant to Section 7(b) (being any of the categories set forth below) when filing pursuant to Section 7(b) of this Disclosure Agreement:

1. “quarterly/monthly financial information;”
2. “change in fiscal year/timing of annual disclosure;”
3. “change in accounting standard;”
4. “interim/additional financial information/operating data;”
5. “budget;”
6. “investment/debt/financial policy;”
7. “information provided to rating agency, credit/liquidity provider or other third party;”
8. “consultant reports;” and
9. “other financial/operating data.”

- (viii) provide the Issuer evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Issuer may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Anything in this Disclosure Agreement to the contrary notwithstanding, any Information received by the Disclosure Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

### SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the Issuer, including the information provided in the Official Statement with respect to the City in the most recent Fiscal Year in Tables 3-15 and Table 18; provided that, with respect to Tables 6 and 10, the City will provide such information on an “as available” basis.

(b) Audited Financial Statements as described in the Official Statement will be included in the Annual Report. If audited financial statements are not available, then unaudited financial statements, prepared in accordance with Generally Accepted Accounting Principles as described in the Official Statement will be included in the Annual Report. In such event, Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Issuer is an “obligated person” (as defined by the Rule), which have been previously filed with the Securities and Exchange Commission or available on the MSRB Internet Website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer will clearly identify each such document so incorporated by reference.

If the Annual Financial Information contains modified operating data or financial information different from the Annual Financial Information agreed to in the continuing disclosure undertaking related to the Bonds, the Issuer is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

### SECTION 4. Reporting of Notice Events.

- (a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:
  1. Principal and interest payment delinquencies;
  2. Non-payment related defaults, if material;
  3. Unscheduled draws on debt service reserves reflecting financial difficulties;
  4. Unscheduled draws on credit enhancements reflecting financial difficulties;
  5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. Modifications to rights of Bond holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

**Note to subsection (a)(12) of this Section 4:** For the purposes of the event described in subsection (a)(12) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material; and
15. Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

The Issuer shall, in a timely manner not later than nine (9) business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the Issuer or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the Issuer determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that either (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with MSRB in accordance with Section 2 (e)(iv) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

**SECTION 5. CUSIP Numbers.** The Issuer will provide the Dissemination Agent with the CUSIP numbers for (i) new bonds at such time as they are issued or become subject to the Rule and (ii) any Bonds to which new CUSIP numbers are assigned in substitution for the CUSIP numbers previously assigned to such Bonds.

**SECTION 6. Additional Disclosure Obligations.** The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws. The Issuer acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

**SECTION 7. Voluntary Filing.**

(a) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(e)(vi) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(a) to file a Voluntary Event Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Event Disclosure with the MSRB in accordance with Section 2(e)(vi) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(e)(vii) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(b) hereof to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(e)(vii) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-3.

(c) The parties hereto acknowledge that the Issuer is not obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 7(a) hereof or any Voluntary Financial Disclosure pursuant to Section 7(b) hereof.

(d) Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure, in addition to that required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure.

SECTION 8. Termination of Reporting Obligation. The obligations of the Issuer and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Issuer is no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of counsel expert in federal securities laws to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent. The Issuer has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Issuer may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Issuer or DAC, the Issuer agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Issuer shall remain liable to the Disclosure Dissemination Agent until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Issuer.

SECTION 10. Remedies in Event of Default. In the event of a failure of the Issuer or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Issuer has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Issuer and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Issuer's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Issuer has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon Certifications of the Issuer at all times.

The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Issuer.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Disclosure Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Issuer and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Issuer or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Issuer. No such amendment shall become effective if the Issuer shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Trustee, if any, for the Bonds, the Disclosure Dissemination Agent, the underwriters, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of Florida (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure 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.

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The Disclosure Dissemination Agent and the Issuer have caused this Continuing Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

**DIGITAL ASSURANCE CERTIFICATION, L.L.C.**, as  
Disclosure Dissemination Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**CITY OF MODESTO, CALIFORNIA**  
as Issuer

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT A**

**NAME AND CUSIP NUMBERS OF BONDS**

Name of Issuer	City of Modesto, California
Obligated Person(s)	City of Modesto, California
Name of Bond Issue:	Wastewater Revenue Refunding Bonds, Series 2020
Date of Issuance:	_____, 2020
Date of Official Statement	_____, 2020

CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____
CUSIP Number:	_____	CUSIP Number:	_____

**EXHIBIT B**

**NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT**

Issuer: City of Modesto, California

Obligated Person: City of Modesto, California

Name(s) of Bond Issue(s): Wastewater Revenue Refunding Bonds, Series 2020

Date(s) of Issuance: \_\_\_\_\_, 2020

Date(s) of Disclosure Agreement: \_\_\_\_\_, 2020

CUSIP Number: \_\_\_\_\_

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Disclosure Agreement between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. [The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by \_\_\_\_\_].

Dated: \_\_\_\_\_

Digital Assurance Certification, L.L.C., as Disclosure  
Dissemination Agent, on behalf of the Issuer

\_\_\_\_\_

cc: Director Finance of the City of Modesto

**EXHIBIT C-1  
EVENT NOTICE COVER SHEET**

This cover sheet and accompanying "event notice" will be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name:

City of Modesto, California

Issuer's Six-Digit CUSIP Number:

\_\_\_\_\_  
\_\_\_\_\_

or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates:

\_\_\_\_\_

Number of pages attached: \_\_\_\_\_

\_\_\_\_ Description of Notice Events (Check One):

1. \_\_\_\_\_ "Principal and interest payment delinquencies;"
2. \_\_\_\_\_ "Non-Payment related defaults, if material;"
3. \_\_\_\_\_ "Unscheduled draws on debt service reserves reflecting financial difficulties;"
4. \_\_\_\_\_ "Unscheduled draws on credit enhancements reflecting financial difficulties;"
5. \_\_\_\_\_ "Substitution of credit or liquidity providers, or their failure to perform;"
6. \_\_\_\_\_ "Adverse tax opinions, IRS notices or events affecting the tax status of the security;"
7. \_\_\_\_\_ "Modifications to rights of securities holders, if material;"
8. \_\_\_\_\_ "Bond calls, if material;" Tender offers;
9. \_\_\_\_\_ "Defeasances;"
10. \_\_\_\_\_ "Release, substitution, or sale of property securing repayment of the securities, if material;"
11. \_\_\_\_\_ "Rating changes;"
12. \_\_\_\_\_ "Bankruptcy, insolvency, receivership or similar event of the obligated person;"
13. \_\_\_\_\_ "Merger, consolidation, or acquisition of the obligated person, if material;"
14. \_\_\_\_\_ "Appointment of a successor or additional trustee, or the change of name of a trustee, if material;"
15. \_\_\_\_\_ "Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material;" and
16. \_\_\_\_\_ "Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties."

\_\_\_\_ Failure to provide annual financial information as required.

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

\_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Digital Assurance Certification, L.L.C.  
315 E. Robinson Street  
Suite 300  
Orlando, FL 32801  
407-515-1100

Date: \_\_\_\_\_

**EXHIBIT C-2  
VOLUNTARY EVENT DISCLOSURE COVER SHEET**

This cover sheet and accompanying “voluntary event disclosure” will be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of \_\_\_\_\_, 2020 between the Issuer and DAC.

Issuer’s and/or Other Obligated Person’s Name:

City of Modesto, California

Issuer’s Six-Digit CUSIP Number:

\_\_\_\_\_  
\_\_\_\_\_

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

\_\_\_\_\_

Number of pages attached: \_\_\_\_\_

\_\_\_\_ Description of Voluntary Event Disclosure (Check One):

1. \_\_\_\_\_ “amendment to continuing disclosure undertaking;”
2. \_\_\_\_\_ “change in obligated person;”
3. \_\_\_\_\_ “notice to investors pursuant to bond documents;”
4. \_\_\_\_\_ “certain communications from the Internal Revenue Service;”
5. \_\_\_\_\_ “secondary market purchases;”
6. \_\_\_\_\_ “bid for auction rate or other securities;”
7. \_\_\_\_\_ “capital or other financing plan;”
8. \_\_\_\_\_ “litigation/enforcement action;”
9. \_\_\_\_\_ “change of tender agent, remarketing agent, or other on-going party;” and
10. \_\_\_\_\_ “other event-based disclosures.”

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

\_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Digital Assurance Certification, L.L.C.  
315 E. Robinson Street  
Suite 300  
Orlando, FL 32801  
407-515-1100

Date: \_\_\_\_\_

**EXHIBIT C-3**  
**VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET**

This cover sheet and accompanying "voluntary financial disclosure" will be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of \_\_\_\_\_, 2020, between the Issuer and DAC.

Issuer's and/or Other Obligated Person's Name:

City of Modesto, California

Issuer's Six-Digit CUSIP Number:

\_\_\_\_\_  
\_\_\_\_\_

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

\_\_\_\_\_

Number of pages attached: \_\_\_\_\_

\_\_\_\_ Description of Voluntary Financial Disclosure (Check One):

1. \_\_\_\_\_ "quarterly/monthly financial information;"
2. \_\_\_\_\_ "change in fiscal year/timing of annual disclosure;"
3. \_\_\_\_\_ "change in accounting standard;"
4. \_\_\_\_\_ "interim/additional financial information/operating data;"
5. \_\_\_\_\_ "budget;"
6. \_\_\_\_\_ "investment/debt/financial policy;"
7. \_\_\_\_\_ "information provided to rating agency, credit/liquidity provider or other third party;"
8. \_\_\_\_\_ "consultant reports;" and
9. \_\_\_\_\_ "other financial/operating data."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

\_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Digital Assurance Certification, L.L.C.  
315 E. Robinson Street  
Suite 300  
Orlando, FL 32801  
407-515-1100

Date: \_\_\_\_\_

## APPENDIX F

### BOOK ENTRY ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2020 Bonds. The Series 2020 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 Series 2020 Bond certificate will be issued in the aggregate principal amount of each maturity of the Series 2020 Bonds, 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, as amended. DTC holds and provides asset servicing for over 3.5 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 is the holding company of DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Series 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2020 Bond (“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. 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 Series 2020 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 certificates representing their beneficial ownership interests in the Series 2020 Bonds, except in the event that use of the book-entry system for the Series 2020 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020 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 Series 2020 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 Series 2020 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2020 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 Series 2020 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2020 Bonds, such as redemptions, defaults, and proposed amendments to the Series 2020 Bond documents. For example, Beneficial Owners of Series 2020 Bonds may wish to ascertain that the nominee holding the Series 2020 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 Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2020 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2020 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2020 Bonds unless authorized by a Direct Participant in accordance with DTC's Money Market Instrument Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2020 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, redemption proceeds, and interest payments on the Series 2020 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 City or the Trustee, on a payment 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 Participants and not of DTC nor of its nominee, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, redemption proceeds, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City 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 depository with respect to the Series 2020 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2020 Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Series 2020 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

**The City and the Underwriters cannot and do not give any assurances that DTC will distribute to Participants or that Participants or others will distribute to the Beneficial Owners payments of principal of, premium, if any, and interest on the Series 2020 Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The City is not responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Series 2020 Bonds or any error or delay relating thereto.**

**None of the City, the Underwriters or the Trustee will have any responsibility or obligation to Direct Participants, to Indirect Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC, any Direct Participant, or any Indirect Participant; (ii) the payment by DTC or any Direct Participant or Indirect Participant of any amount with respect to the principal of or premium, if any, or interest on the Series 2020 Bonds; (iii) any notice that is permitted or required to be given to Holders under the Indenture; (iv) the selection by DTC, any Direct Participant or any Indirect Participant of any person to receive payment in the event of a partial redemption of the Series 2020 Bonds; (v) any consent given or other action taken by DTC as Bondholder; or (vi) any other procedures or obligations of DTC, Direct Participants or Indirect Participants under the book-entry system.**

**CERTIFICATE OF THE CITY OF MODESTO  
AS TO PRELIMINARY OFFICIAL STATEMENT**

The undersigned, on behalf of the City of Modesto (the "City"), hereby certifies that there has been delivered to the underwriter (the "Underwriter") of the \$66,285,000\* City of Modesto, California Wastewater Revenue Refunding Bonds Series 2020A (Federally Taxable) and the \$27,510,000\* City of Modesto, California Wastewater Revenue Refunding Bonds Series 2020B (collectively, the "2020 Bonds") a preliminary official statement relating to the 2020 Bonds, dated the date set forth below (including the cover page, the introduction and all appendices thereto, the "Preliminary Official Statement"), which the City deems to be final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12"), except for information permitted to be omitted therefrom by Rule 15c2-12.

The City hereby approves the use and distribution by the Underwriters of the Preliminary Official Statement.

Dated: October 15, 2020

CITY OF MODESTO

By:   
DeAnna Christensen  
Director of Finance

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\* Preliminary, subject to change

**\$68,840,000**  
**CITY OF MODESTO, CALIFORNIA**  
**WASTEWATER REVENUE REFUNDING**  
**BONDS,**  
**SERIES 2020A (Federally Taxable)**

**\$25,470,000**  
**CITY OF MODESTO, CALIFORNIA**  
**WASTEWATER REVENUE REFUNDING**  
**BONDS,**  
**SERIES 2020B**

**BOND PURCHASE AGREEMENT**

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October 27, 2020

City of Modesto  
1010 10<sup>th</sup> Street  
Modesto, California 95354

Ladies and Gentlemen:

The undersigned, BofA Securities, Inc., on behalf of itself and as representative (the “Representative”) of Citigroup Global Markets, Inc. and J.P. Morgan Securities LLC (collectively, the “Underwriters”) relating to the \$68,840,000 City of Modesto California Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the “Series 2020A Bonds”) and the \$25,470,000 City of Modesto California Wastewater Revenue Refunding Bonds, Series 2020B (the “Series 2020B Bonds,” and, together with the Series 2020A Bonds, the Series 2020 Bonds), hereby offers to enter into this Bond Purchase Agreement (the “Purchase Agreement”) with you, the City of Modesto, California (the “City”), which, upon the City’s acceptance of this offer, will be binding upon the City and the Underwriters. This offer is made subject to acceptance by you prior to 11:59 P.M., Pacific Daylight Time, on the date hereof. If this offer is not so accepted, this offer will be subject to withdrawal by the Representative upon notice delivered to you at any time prior to acceptance. Upon acceptance, this Purchase Agreement shall be in full force and effect in accordance with its terms and shall be binding upon the City and the Underwriters. All capitalized terms used herein not otherwise defined herein shall have the respective meanings ascribed thereto in the Official Statement and the Indenture (each, as herein defined).

The City acknowledges that the Underwriters have made the following statements (i) the Underwriters are not acting as a municipal advisor within the meaning of Section 15B of the Securities Exchange Act, as amended, (ii) the purchase and sale of the Series 2020 Bonds pursuant to this Purchase Agreement is an arm’s-length commercial transaction between the City and the Underwriters, (iii) in connection with such transaction, the Underwriters are acting solely as principal and not as financial or municipal advisors, agents or fiduciaries of the City, the Underwriters have financial and other interests that differ from those of the City (iv) the Underwriters have not assumed (individually or collectively) a fiduciary responsibility in favor of the City with respect to the offering of the Series 2020 Bonds or the process leading thereto (whether or not any Underwriter, or any affiliate of any Underwriter, has advised or is currently advising the City on other matters), (v) the only obligations the Underwriters have to the City with respect to the transaction contemplated hereby expressly are set forth in this Purchase Agreement and as otherwise required by law, and (vi) the City has consulted with its own legal and financial advisors to the extent they deemed appropriate in connection with the offering of the Series 2020 Bonds.

Section 1. Purchase, Sale and Delivery of the Series 2020 Bonds.

(a) Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Representative hereby agrees to purchase and the City agrees to sell and deliver to the Representative all (but not less than all) of the Series 2020 Bonds.

(b) The Series 2020 Bonds shall be issued pursuant to the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code, the constitution and laws of the State of California and a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and The Bank of New York Trust Company, N.A., as successor trustee (the “Trustee”) (as heretofore supplemented and amended, the “Master Indenture”), and as supplemented by a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020, by and between the City and the Trustee (the “Fifth Supplemental Indenture,” and, together with the Master Indenture, the “Indenture”). The Series 2020 Bonds shall be dated the Closing Date (as hereinafter defined). The Series 2020 Bonds shall have the maturities, be subject to redemption and bear interest at the rates per annum and at the prices and yields shown on Exhibit A hereto. The Series 2020 Bonds shall be substantially in the form described in, and shall be issued and secured under, the provisions of the Indenture. The Series 2020 Bonds are payable, as to interest thereon, principal thereof, and any redemption premiums thereon, solely from the Net Revenues derived from the operation of the facilities comprising the Enterprise (as such term is defined in the Indenture) and the moneys and securities held by the Trustee in the funds under the Indenture. All Net Revenues are pledged to secure the payment of the principal of and redemption premium, if any, and interest on the Series 2020 Bonds, and any Parity Debt, including: (i) the City of Modesto, California, Wastewater Revenue Refunding Bond, Series 2015 (the “Series 2015 Bond”), in the initial principal amount of \$19,429,912.56, issued to Capital One Public Funding, LLC, (ii) a revolving fund loan from the State of California, issued in 2016 (the “2016 State Loan”), in the initial principal amount of \$41,862,028 and (iii) the City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A in the initial principal amount of \$11,340,000 (the “Series 2018A Bonds,” and together with the Series 2015 Bond, the 2016 State Loan and the Series 2018A Bonds, the “Existing Parity Debt”). The pledge of Net Revenues to the Series 2020 Bonds and the Existing Parity Debt is on parity with the pledge of Net Revenues for the benefit of the owners of any additional Bonds or Parity Debt to be issued pursuant to the Indenture. The Series 2020 Bonds are being issued to provide funds to (i) refund all of the City’s outstanding revolving fund loan from the State of California issued in 2011 in the initial principal amount of \$127,157,943.06 (the “2011 State Loan”) and (ii) pay the costs of issuance of the Series 2020 Bonds.

(c) The aggregate purchase price for the Series 2020A Bonds will be \$68,748,503.43 (consisting of the aggregate principal amount of the Series 2020A Bonds less an Underwriters’ discount of \$91,496.57). The aggregate purchase price for the Series 2020B Bonds will be \$33,865,372.66 (consisting of the aggregate principal amount of the Series 2020B Bonds plus original issue premium of \$8,429,723.90 and less an Underwriters’ discount of \$34,351.24).

(d) At 8:00 o’clock A.M., California time, on November 10, 2020, or at such other time or on such other date as we mutually agree upon (the “Closing Date”), the City will, subject to the terms and conditions hereof, cause to be delivered to the Representative, at a location or locations to be designated by the Representative in New York, New York, the Series 2020 Bonds (delivered through the book entry system of The Depository Trust Company), duly executed, at such other place as shall have been mutually agreed upon by the City, the other documents mentioned herein. The

Underwriters will accept such delivery and pay the Purchase Price in immediately available funds (such delivery and payment being herein referred to as the “Closing”) to the order of the Trustee.

(e) The Underwriters intend to make an initial bona fide public offering of the Series 2020 Bonds at the initial offering prices set forth in the Official Statement (as hereinafter defined) and in accordance with the priority of order instructions from the City, if any, or as otherwise applicable in accordance with the rules of the Municipal Securities Rulemaking Board (the “MSRB”). The Underwriters shall take all required steps to ensure that orders submitted during any retail order period meet the conditions of the City and the requirements of MSRB rules. Subsequent to the initial public offering the Underwriters reserve the right to change the public offering prices as the Underwriters deem necessary or desirable, in their sole discretion, in connection with the marketing of the Bonds (but in all cases as otherwise required by law), and may offer and sell the Series 2020 Bonds to certain dealers, unit investment trusts and money market funds, certain of which may be sponsored or managed by one or more of the Underwriters at prices lower than the public offering prices (but in all cases as otherwise required by law); provided that the Underwriters shall not change the interest rates on the Series 2020 Bonds.

(f) The City will undertake, pursuant to a Continuing Disclosure Agreement, dated as of the Closing Date (the “Continuing Disclosure Agreement”) to provide certain annual financial information and notices of the occurrence of certain events. A description of this undertaking is set forth in the Preliminary Official Statement (as hereinafter defined) and will also be set forth in the Official Statement.

Section 2. Use and Preparation of Official Statement. The City hereby ratifies, confirms and approves of the use and distribution by the Underwriters prior to the date hereof of the Preliminary Official Statement dated October 15, 2020 relating to the Series 2020 Bonds (which, together with all appendices thereto, is referred to herein as the “Preliminary Official Statement”). The City has deemed final the Preliminary Official Statement as of its date for purposes of Rule 15c2-12 promulgated by the Securities Exchange Act of 1934 (“Rule 15c2-12”), as amended, except for the omission of such information as is specified in Rule 15c2-12(b)(1). The City hereby agrees to deliver or cause to be delivered to the Underwriters, no later than the earlier of (i) seven (7) business days after the date hereof or (ii) one (1) business day prior to the Closing Date, in order to permit the Underwriters to comply with Rule 15c2-12 of the Securities and Exchange Commission (“SEC”), and the applicable rules of the MSRB, with respect to distribution of the Official Statement, conformed copies of the final Official Statement (in word-searchable PDF format), dated the date hereof (including all information previously permitted to have been omitted by Rule 15c2-12 and any amendments or supplements to such Official Statement as have been approved by the City and the Representative) (the “Official Statement”) in sufficient quantity to enable the Underwriters to comply with the rules of the Securities and Exchange Commission and the MSRB. The City hereby approves of the use and distribution by the Underwriters of the Official Statement in connection with the offer and sale of the Series 2020 Bonds. At the time of or prior to the Closing Date, the Representative shall file a copy of the Official Statement with the MSRB.

Section 3. Authority of Representative. The Underwriters have designated BofA Securities, Inc., as their Representative. The Representative has been duly authorized in writing to

execute this Purchase Agreement as Representative of the Underwriters and has been duly authorized to act hereunder on behalf of the other Underwriters.

Section 4. Establishment of Issue Price.

(a) The Representative, on behalf of the Underwriters, agrees to assist the City in establishing the issue price of the Series 2020B Bonds and shall execute and deliver to the City on or before the Closing Date an “issue price” or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit C, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Representative, the City and Bond Counsel, to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Series 2020B Bonds.

(b) The City will treat the first price at which 10% of each maturity of the Series 2020B Bonds (the “10% test”) is sold to the public as the issue price of that maturity. At or promptly after the execution of this Purchase Agreement, the Representative shall report to the City the price or prices at which the Underwriters have sold to the public each maturity of the Series 2020B Bonds. For purposes of this Section, if Series 2020B Bonds mature on the same date but have different interest rates, each separate CUSIP number within that maturity will be treated as a separate maturity of the Series 2020B Bonds.

(c) The Representative confirms that:

(i) any agreement among underwriters, any selling group agreement and each retail or other third-party distribution agreement (to which the Representative is a party) relating to the initial sale of the Series 2020B Bonds to the public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group and each broker-dealer that is a party to such retail or other third-party distribution agreement, as applicable:

(A)(i) to report the prices at which it sells to the public the unsold Series 2020B Bonds of each maturity allocated to it, whether or not the Closing Date has occurred, until either all Series 2020B Bonds of that maturity allocated to it have been sold or it is notified by the Representative that the 10% test has been satisfied as to the Series 2020B Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the Representative, and (ii) to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Representative and as set forth in the related pricing wires, and

(B) to promptly notify the Representative of any sales of Series 2020B Bonds that, to its knowledge, are made to a purchaser who is a related party to an underwriter participating in the initial sale of the Series 2020B Bonds to the public (each such term being used as defined below),

(C) to acknowledge that, unless otherwise advised by the Underwriter, dealer or broker-dealer, the Representative shall assume that each order submitted by the Underwriter, dealer or broker-dealer is a sale to the public.

(ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Series 2020B Bonds to the public, together with the related pricing wires, contains or will contain language obligating each Underwriter or dealer that is a party to a retail or other third-party distribution agreement to be employed in connection with the initial sale of the Series 2020B Bonds to the public to require each broker-dealer that is a party to such retail or other third-party distribution agreement to (A) report the prices at which it sells to the public the unsold Series 2020B Bonds of each maturity allocated to it, whether or not the Closing Date has occurred, until either all Series 2020 Bonds of that maturity allocated to it have been sold or it is notified by the Representative or such Underwriter or dealer that the 10% test has been satisfied as to the Series 2020B Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the Representative or such Underwriter or dealer, and (B) comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Representative or the Underwriter or the dealer and as set forth in the related pricing wires.

(d) The City acknowledges that, in making the representations set forth in this section, the Representative will rely on (i) the agreement of each Underwriter to comply with the requirements for establishing issue price of the Series 2020B Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Series 2020B Bonds, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Series 2020B Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Series 2020B Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Series 2020B Bonds, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an Underwriter or dealer who is a member of the selling group is a party to a retail or other third-party distribution agreement that was employed in connection with the initial sale of the Series 2020B Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the requirements for establishing issue price of the Series 2020B Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Series 2020B Bonds, as set forth in the retail or other third-party distribution agreement and the related pricing wires. The City further acknowledges that each Underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price of the Series 2020B Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Series 2020B Bonds, and that no Underwriter shall be liable for the failure of any other Underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail or other third-party distribution agreement, to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Series 2020B Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Series 2020B Bonds.

(f) The Underwriters acknowledge that sales of any Series 2020B Bonds to any person that is a related party to an underwriter participating in the initial sale of the Series 2020B Bonds to the public (each such term being used as defined below) shall not constitute sales to the public for purposes of this section. Further, for purposes of this section:

- (i) “public” means any person other than an underwriter or a related party,
- (ii) “underwriter” means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate)

to participate in the initial sale of the Series 2020B Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Series 2020B Bonds to the public (including a member of a selling group or a party to a retail or other third-party distribution agreement participating in the initial sale of the Series 2020B Bonds to the public),

- (iii) a purchaser of any of the Series 2020B Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) “sale date” means the date of execution of this Purchase Agreement by all parties.

Section 5. Representations, Warranties and Agreements of the City. The City hereby represents, warrants and agrees with the Representative as follows:

(a) The City is a charter city and municipal corporation of the State of California (the “State”) duly organized and validly existing under and by virtue of its charter and the Constitution and the laws of the State.

(b) The City has the legal right and power to issue and deliver the Bonds and to execute and deliver, and to perform its obligations under, the Indenture, the Continuing Disclosure Agreement and this Purchase Agreement (collectively, the “City Documents”). The City has duly authorized the issuance and delivery of the Series 2020 Bonds and the execution and delivery of, and performance of its obligations under, the City Documents and, as of the date hereof, such authorizations are in full force and effect and have not been amended, modified, or rescinded. When executed and delivered by the respective parties thereto, the City Documents will constitute legal, valid, and binding obligations of the City in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws, the application of equitable principles relating to or affecting creditors’ rights generally, the exercise of judicial discretion in appropriate cases, and the limitations on legal remedies against cities in the State. The City has complied, and will at the Closing be in compliance in all respects, with its obligations under the City Documents.

(c) The Series 2020 Bonds will be issued in accordance with the Indenture and will conform in all material respects to the descriptions thereof contained in the Official Statement. The Indenture creates a valid pledge of, first lien upon, Net Revenues (as such term is defined in the Indenture).

(d) The information in the Preliminary Official Statement and the Official Statement (excluding any information provided by the Underwriters or with respect to DTC and the book-entry only system) is true and correct in all material respects, and the information in the Preliminary Official Statement

and the Official Statement do not contain any misstatement of any material fact and does not omit any statement necessary to make the statements, in the light of the circumstances in which such statements were made, not misleading.

(e) To assist the Underwriters in complying with the Rule, the City will undertake, pursuant to the Continuing Disclosure Agreement, to provide annual reports and notices of certain events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement. The Preliminary Official Statement and the Official Statement describe all incidences, if any, during the last five years in which the City has failed to comply with previous undertakings to provide annual continuing disclosure reports and notices of material events.

(f) The City covenants with the Underwriters that for twenty-five days after the Closing Date (the “Delivery Period”), if any event occurs that might or would cause the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the City shall notify the Representative thereof, and if in the opinion of the Representative such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will cooperate with the Representative in the preparation of an amendment or supplement to the Official Statement, in a form and in a manner approved by the Representative and the City.

(g) The City will advise the Representative promptly of any proposal to amend or supplement the Preliminary Official Statement or the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Representative. The City will advise the Representative promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Preliminary Official Statement or the Official Statement in connection with the offering, sale, or distribution of the Series 2020 Bonds.

(h) If the Preliminary Official Statement or the Official Statement is supplemented or amended, the Preliminary Official Statement or the Official Statement, as so supplemented or amended, as of the date of such supplement or amendment, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(i) The City is not in breach of or in default under any applicable constitutional provision, law, or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, consent, or other agreement to which the City is a party, and no event has occurred and is continuing that, with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any of the foregoing.

(j) The authorization, execution, and delivery by the City of the City Documents, and compliance by the City with the provisions thereof, do not and will not conflict with or constitute a breach of or default by the City under any applicable constitutional provision, law, or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, consent, or other agreement to which it is bound or by which its properties may be affected.

(k) No authorization, consent, or approval of, or filing or registration with, any Governmental Authority (as defined below) or court is, or under existing requirements of law will be, necessary for the valid execution and delivery of, or performance by the City of its obligations under, the City Documents, other than any authorization, consent, approval, filing, or registration as may be required under the Blue Sky or securities laws of any state in connection with the offering, sale, or issuance of the

Series 2020 Bonds. All authorizations, consents, or approvals of, or filings or registrations with, any Governmental Authority or court necessary for the valid issuance of, and performance by the City of its obligations under, the Series 2020 Bonds will have been duly obtained or made prior to the issuance of the Series 2020 Bonds (and disclosed to the Underwriter). As used herein, the term “Governmental Authority” refers to any legislative body or governmental official, department, commission, board, bureau, agency, instrumentality, body, or public benefit corporation.

(l) The City shall furnish such information, execute such instruments, and take such other action in cooperation with the Underwriters as the Underwriters may reasonably request in order (i) to qualify the Series 2020 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 Underwriters may designate and (ii) to determine the eligibility of the Series 2020 Bonds for investment under the laws of such states and other jurisdictions, and shall use its best efforts to continue such qualifications in effect so long as required for the distribution of the Series 2020 Bonds; provided, however, that the City shall not be required to execute a general consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

(m) At the time of acceptance hereof, except as disclosed in the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending and served or, to the best of the City’s knowledge, threatened (i) in any way questioning the existence of the City or the titles of the officers of the City to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the issuance or delivery of any of the Series 2020 Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Series 2020 Bonds, or in any way contesting or affecting the validity of the Series 2020 Bonds, the City Documents or the consummation of the transactions contemplated thereby or hereby, or contesting the exclusion of the interest on the Bonds from taxation or contesting the powers of the City or its authority to issue the Series 2020 Bonds; (iii) which may result in any material adverse change relating to the City or relating to the financial condition of the Enterprise or the City’s ability to pay debt service on the Series 2020 Bonds; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any 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, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this sentence.

(n) Other than in the ordinary course of its business or as contemplated by the Official Statement, between the date of this Purchase Agreement and the Closing Date the City will not, without the prior written consent of the Representative, offer or issue any certificates, bonds, notes, or other obligations for borrowed money or incur any material liabilities, direct or contingent, payable from or secured by a lien on the Net Revenues superior to or equal to the lien of the Series 2020 Bonds on the Net Revenues.

(o) The financial statements of, and other financial information regarding, the City contained in the Preliminary Official Statement and 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.

(p) Except as otherwise described in the Preliminary Official Statement and the Official Statement, there shall not have been any material adverse changes in the financial condition of the Enterprise since June 30, 2019.

(q) Any certificate signed by any authorized official of the City and delivered to the Representative pursuant to this Purchase Agreement shall be deemed a representation and warranty by the City to the Underwriters as to the truth of the statements therein made.

Section 6. Conditions to the Obligations of the Representative. The Representative hereby enters into this Purchase Agreement in reliance upon the representations and warranties of the City contained herein and the representations and warranties to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the City of its obligations both on and as of the date hereof and as of the Closing Date. Accordingly, the Representative's obligations under this Purchase Agreement to purchase, to accept delivery of and to pay for the Series 2020 Bonds shall be subject, at the option of the Representative, to the following additional conditions:

(a) The Representative shall receive copies of the Official Statement (including all information previously permitted to have been omitted by Rule 15c2-12 and any amendments or supplements as have been approved by the Representative), in such reasonable quantity as provided in Section 2 hereof;

(b) The representations and warranties of the City contained herein shall be true and correct on the date hereof and on the Closing Date, as if made on and at the Closing;

(c) At the Closing, the Indenture, the Continuing Disclosure Agreement and this Purchase Agreement shall have been duly authorized, executed and delivered by the respective parties thereto, and the Preliminary Official Statement and the Official Statement shall have been duly authorized, executed and delivered by the City, all in substantially the forms heretofore submitted to the Representative, with only such changes as shall have been agreed to in writing by the Representative, and shall be in full force and effect; and there shall be in full force and effect such resolution or resolutions of the City Council of the City, in the opinion of Norton Rose Fulbright US LLP as Bond and Disclosure Counsel ("Bond Counsel" and "Disclosure Counsel"), shall be necessary or appropriate in connection with the transactions contemplated hereby;

(d) At or prior to the Closing Date, the Representative shall have received the following documents, in each case satisfactory in form and substance to the Representative:

(1) The Preliminary Official Statement, the Official Statement and each supplement or amendment, if any, thereto, executed on behalf of the City;

(2) Copies of the Indenture, this Purchase Agreement and the Continuing Disclosure Agreement, each duly executed and delivered by the respective parties thereto;

(3) The approving opinion of Bond Counsel, dated the Closing Date and addressed to the City, in substantially the form attached to the Official Statement as Appendix D thereto, and letters of such counsel, dated the Closing Date and addressed to the Representative and the Trustee, to the effect that such opinion may be relied upon

by the Representative and the Trustee to the same extent as if such opinion were addressed to it;

(4) The supplemental opinion of Bond Counsel, dated the Closing Date and addressed to the Representative, in substantially the form attached hereto as Exhibit B.

(5) The opinion of Bond Counsel dated the date of Closing and addressed to the Trustee to the effect that the 2011 State Loan has been discharged as provided in the documents relating to the 2011 State Loan;

(3) an opinion of the City Attorney of the City, in form and substance satisfactory to the Representative, dated the Closing Date, addressed to the City and the Representative, to the effect that:

(i) the City is a charter city and municipal corporation duly organized and validly existing under the laws of the State;

(ii) the resolution of the City approving and authorizing the execution and delivery of the City Documents (the "City Resolution") was duly adopted at a meeting of the City Council of the City that 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 Resolution is in full force and effect and has not been modified, amended, or rescinded;

(iii) the City Documents have been duly authorized, executed, and delivered by the City and, assuming due authorization, execution, and delivery by the other parties thereto, such documents constitute the legal, valid, and binding agreements of the City enforceable in accordance with their terms, subject to laws relating to bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally, the application of equitable principles if equitable remedies are sought, the exercise of judicial discretion in appropriate cases, and the limitations on legal remedies against cities in the State;

(iv) to the best knowledge of such counsel, the execution and delivery by the City of the City Documents, and compliance by the City with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute a breach of or default under any law, administrative regulation, court decree, resolution, or agreement to which the City is subject to or by which it is bound;

(v) to the best knowledge of such counsel, the Preliminary Official Statement and the Official Statement (excluding therefrom financial statements and other statistical data included in the Preliminary Official Statement and the Official Statement, and any information provided by the Underwriters or with respect to DTC and the book-entry only system, as to which no view 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 therein, in the light of the circumstances under which they were made, not misleading;

(vi) except as otherwise disclosed in the Preliminary Official Statement and the Official Statement, to the best knowledge of such counsel after reasonable investigation, there is no litigation, proceeding, action, suit, or investigation at law or in equity before or by any court, governmental agency or body, pending or, to the best knowledge of such counsel after due investigation, threatened against the City, challenging the creation, organization or existence of the City, or the validity of the City Documents or seeking to restrain or enjoin the City's obligations under the City Documents or in any way contesting or affecting the validity of the City Documents or any of the transactions referred to therein or contemplated thereby or contesting the authority of the City to enter into or perform its obligations under any of the City Documents, or under which a determination adverse to the City would have a material adverse effect upon the financial condition or the revenues of the City, or which, in any manner, questions or affects the right or ability of the City to enter into the City Documents or affects in any manner the right or ability of the City to pay debt service on the Series 2020 Bonds; 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 City is required for the valid authorization, execution, and delivery by the City of the City Documents;

(6) The opinion of counsel to the Trustee, dated the Closing Date and addressed to the City and the Representative, to the effect that (i) the Trustee has duly authorized, executed and delivered the Indenture; and (ii) the Indenture constitutes a legally valid and binding obligation of the Trustee, enforceable against the Trustee in accordance with its terms, except that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally and except to the extent that the enforceability thereof may be limited by the application of general principles of equity;

(7) The opinion of Disclosure Counsel, dated the Closing Date and addressed to the City and the Representative, to the effect that based upon their participation in the preparation of the Preliminary Official Statement and the Official Statement as Disclosure Counsel and without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Preliminary Official Statement and the Official Statement, nothing has come to their attention which would cause them to believe that the Preliminary Official Statement and the Official Statement (except that no opinion or belief need be expressed as to any financial, statistical or demographic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, or information about DTC or the book-entry only system, or the information contained in the Appendix B and F to the Preliminary Official Statement and the Official Statement), as of the date thereof and the Closing Date, contained any untrue statement of a material fact or omitted 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;

(8) A certificate or certificates, dated the Closing Date, signed by a duly authorized official of the City satisfactory to the Representative, in form and substance satisfactory to the Representative, to the effect that (i) the representations and warranties of the City contained in this Purchase Agreement are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date and (ii) no event affecting the City has occurred or information become known since the date of the Preliminary Official Statement and the Official Statement which either makes untrue or incorrect in any material respect as of the Closing Date any statement or information contained in the Preliminary Official Statement and the Official Statement relating to the City or is not reflected in the Preliminary Official Statement and the Official Statement but should be reflected therein in order to make the statements and information therein relating to the City not misleading in any material respect;

(9) A certificate, dated the Closing Date, signed by a duly authorized official of the Trustee, satisfactory in form and substance to the Representative, to the effect that: (i) the Trustee is a national banking association organized and existing under and by virtue of the laws of the United States of America; having the full power and being qualified to enter into and perform its duties under the Indenture; (ii) the Trustee is duly authorized to enter into the Indenture; (iii) the execution and delivery of the Indenture and compliance with the provisions on the Trustee's part contained therein, will not 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 Trustee is a party or is otherwise subject (except that no representation, warranty or agreement is made with respect to any federal or state securities or Blue Sky laws or regulations), 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 held by the Trustee pursuant to the lien created by the Indenture under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the Indenture; (iv) it has not been served with any action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, nor is any such action, to the best of such official's knowledge after reasonable investigation, threatened against the Trustee affecting the existence of the Trustee, or the titles of its officers to their respective offices, or seeking to prohibit, restrain or enjoin the collection of the funds to be applied to pay the principal, premium, if any, and interest with respect to the Series 2020 Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Indenture, or contesting the powers of the Trustee or its authority to enter into, adopt or perform its obligations under any of the foregoing, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Indenture; and (v) subject to the provisions of the Indenture and applicable law, the Trustee will apply the proceeds from the Series 2020 Bonds to the purposes specified in the Indenture;

(10) A certified copy of the general resolution of the Trustee authorizing the execution and delivery of the Indenture;

(11) A certified copy of the resolution of the City authorizing the execution and delivery of the Fifth Supplemental Indenture, this Purchase Agreement, the Continuing Disclosure Agreement and the Official Statement;

(12) copies of the statements with respect to the sale of the Bonds required to be delivered to the California Debt and Investment Advisory Commission;

(13) a copy of the Blanket Letter of Representations to DTC relating to the Series 2020 Bonds signed by the City;

(14) Evidence that the ratings on the Series 2020 Bonds as set forth in the Official Statement are in full force and effect as of the Closing Date;

(15) An opinion of Underwriters' Counsel, dated the Closing Date and addressed to the Representative, in form and substance acceptable to the Representative;

(16) A Tax Certificate with respect to the Series 2020B Bonds, together with Form 8038-G, in form satisfactory to Bond Counsel, signed by an appropriate officer of the City;

(17) Such additional legal opinions, certificates, proceedings, instruments, insurance policies or evidences thereof and other documents as the Representative or Bond Counsel may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the representations of the City herein and of the statements and information contained in the Preliminary Official Statement and the Official Statement, and the due performance or satisfaction by the City at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by the City in connection with the transactions contemplated hereby and by the Indenture.

If the City shall be unable to satisfy the conditions to the Representative's obligations contained in this Purchase Agreement or if the Representative's obligations shall be terminated for any reason permitted herein, all obligations of the Representative hereunder may be terminated by the Representative at, or at any time prior to, the Closing Date by written notice to the City and neither the Representative nor the City shall have any further obligations hereunder.

Section 7. Termination. The Underwriters may terminate this Purchase Agreement, without liability therefor, by written notification by the Representative to the City if at any time subsequent to the date of this Purchase Agreement and at or prior to the Closing Date any of the following shall have occurred and be continuing as of the date of termination:

(a) an amendment to the Constitution of the United States or the State of California shall have been passed or legislation shall have been introduced in or enacted by the Congress of the United States or the legislature of any state having jurisdiction of the subject matter or legislation pending in the Congress of the United States shall have been amended or legislation shall have been recommended to the Congress of the United States or to any state having jurisdiction of the subject matter or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue

Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation shall have been proposed for consideration by either such Committee by any member thereof or presented as an option for consideration by either such Committee by the staff of such Committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or legislation shall have been favorably reported for passage to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or a decision shall have been rendered by a court of the United States or of the State of California or the Tax Court of the United States, or a ruling shall have been made or a regulation or temporary regulation shall have been proposed or made or any other release or announcement shall have been made by the Treasury Department of the United States, the Internal Revenue Service or other federal or State of California authority, with respect to federal or State of California taxation upon revenues or other income of the general character to be derived by the City or upon interest received on obligations of the general character of the Series 2020 Bonds which may have the purpose or effect, directly or indirectly, of affecting the tax status of the City, its property or income, its securities (including the Series 2020 Bonds) or the interest thereon, or any tax exemption granted or authorized by State of California legislation which, in the reasonable judgment of the Representative, materially and adversely affects the market price or marketability, at the initial offering prices set forth in the Official Statement, of the Series 2020 Bonds;

(b) legislation shall have been enacted, introduced in the Congress or recommended for passage by the President of the United States, or a decision shall be rendered by a court established under Article III of the Constitution of the United States or by the Tax Court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement shall be issued or made by or on behalf of the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter to the effect that obligations of the general character of the Series 2020 Bonds, or the Series 2020 Bonds, including any or all underlying arrangements, are not exempt from registration under the Securities Act of 1933, as amended, or that the Indenture is not exempt from qualification under the Trust Indenture Act of 1939, as amended;

(c) the declaration of war or engagement or significant escalation in major military hostilities by the United States or any other national emergency (or the escalation thereof) or calamity relating to the effective operation of the government of, or the financial community in, the United States shall occur which, in the reasonable judgment of the Representative, materially and adversely affects the market price or marketability, at the initial offering prices set forth in the Official Statement, of the Series 2020 Bonds;

(d) the declaration of a general banking moratorium by federal, New York or California authorities, or the general suspension of trading on any national securities exchange;

(e) the imposition by the New York Stock Exchange or other national securities exchange, or any governmental authority, of any material restrictions not now in force with respect to the Series 2020 Bonds or obligations of the general character of the Series 2020 Bonds or securities generally, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to the net capital requirements of, the Representative;

(f) an order, decree or injunction of any court of competent jurisdiction, or order, ruling, regulation or official statement by the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, issued or made to the effect that the

issuance, offering or sale of obligations of the general character of the Series 2020 Bonds, or the issuance, offering or sale of the Series 2020 Bonds, including any or all underlying obligations, as contemplated hereby or by the Preliminary Official Statement and the Official Statement, is or would be in violation of the federal securities laws as amended and then in effect;

(g) the withdrawal or downgrading or placement on credit watch with negative outlook of any rating of the Series 2020 Bonds by a national rating agency which, in the reasonable judgment of the Representative, materially and adversely affects the market price or marketability, at the initial offering prices set forth in the Official Statement, of the Series 2020 Bonds; or

(h) any event occurs, or information becomes known which, in the judgment of the Representative, makes untrue in any material respect any statement or information contained in the Preliminary Official Statement or the Official Statement, or has the effect that the Preliminary Official Statement or the Official Statement contains any untrue statement of material fact 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.

Section 8. Expenses. The Underwriters shall be under no obligation to pay and the costs of printing of the Series 2020 Bonds, the Preliminary Official Statement and the Official Statement, the cost of duplicating the Indenture, the Continuing Disclosure Agreement, the fees of accountants, financial advisors and consultants to the City and the fees of rating agencies, the initial fee of the Trustee and its counsel in connection with the issuance of the Series 2020 Bonds and the fees and expenses of Bond Counsel and Disclosure Counsel shall be paid by the City from the proceeds of the Series 2020 Bonds. In the event that the Series 2020 Bonds for any reason are not issued, or to the extent proceeds of the Series 2020 Bonds are insufficient or unavailable therefor, any fees, costs and expenses owed by the City, which otherwise would have been paid from the proceeds of the Series 2020 Bonds, shall be paid by the City. All out of pocket expenses of the Representative, including traveling and other expenses, the California Debt and Investment Advisory Commission fee and the fees and expenses of Underwriters' Counsel shall be paid by the Representative.

The City shall pay for any reasonable expenses (included in the expense component of the Underwriters' discount) incurred by the Underwriters on behalf of the City, with the express written approval of the City, in connection with the marketing, issuance and delivery of the Series 2020 Bonds, including, but not limited to, reasonable costs of meals, transportation, and lodging of the City's employees and representatives.

Section 9. Notices. Any notice or other communication to be given under this Purchase Agreement may be given by delivering the same in writing to the respective parties at the following address:

Representative: BofA Securities, Inc., as Representative of the Underwriters  
555 California Street, 11<sup>th</sup> Floor  
San Francisco, CA 94104  
Attention: Holly Vocal

City: City of Modesto  
1010 10<sup>th</sup> Street  
Modesto, CA 95354  
Attention: City Manager

Section 10. Survival of Representations and Warranties. The representations and warranties of the City set forth in or made pursuant to this Purchase Agreement shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing or termination of this Purchase Agreement and regardless of any investigations or statements as to the results thereof made by or on behalf of the Underwriters and regardless of delivery of and payment for the Series 2020 Bonds.

Section 11. Effectiveness and Counterpart Signatures. This Purchase Agreement (i) shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by duly authorized officers of the City and shall be valid and enforceable as of the time of such acceptance and (ii) contains the entire agreement between the parties relating to the subject matter hereof and supersedes all oral statements, prior writings and representations with respect thereto.

This Purchase Agreement may be executed in several counterparts, including counterparts that are manually executed and counterparts that are executed with an electronic signature, all or any of which shall be regarded for all purposes as one original and shall constitute and be but one and the same instrument. The person associated with any such signature shall be deemed to have had the intent to sign this Purchase Agreement with an electronic signature and that agrees that execution of this Purchase Agreement by electronic signature is attributable to such person. All parties executing this Purchase Agreement expressly agree under the California Uniform Electronic Transactions Act (“UETA”) (California Civil Code §1633.1 et seq.), that this Purchase Agreement and all other agreements, certificates, opinions and similar records (“documents”) relating to the Series 2020 Bonds constitute a “transaction” under the UETA and expressly agree to allow all aspects of the transaction to which the UETA can apply to be conducted by electronic means. For these purposes, a signature by fax, e-mail, or other electronic technology on a document relating to the Series 2020 Bonds shall constitute an “electronic signature” to an “electronic record” under the UETA with respect to this specific transaction.

An electronic signature means a signature that is executed by symbol attached to or logically associated with a record and includes facsimile signatures or signatures transmitted by electronic mail in so-called PDF format. All parties to this Purchase Agreement (i) agree that an electronic signature, whether digital or encrypted, of a party to this Purchase Agreement or any other electronic record associated with the Series 2020 Bonds is intended to authenticate this writing and to have the same force and effect as a manual signature; (ii) intended to be bound by the signatures (whether original, faxed, or electronic) on any document relating to the Series 2020 Bonds sent or delivered by facsimile

or electronic mail or other electronic means; (iii) are aware that the other party(ies) will rely on such signatures; and, (iv) hereby waive any defenses to the enforcement of the terms of this Purchase Agreement or any other document related to Series 2020 Bonds based on the foregoing forms of signature.

Section 12. Parties in Interest. This Purchase Agreement is made solely for the benefit of the City and the Representative (including the successors or assigns of the Representative) and no other person shall acquire or have any right hereunder or by virtue hereof.

Section 13. Headings. The headings of the sections of this Purchase Agreement are inserted for convenience only and shall not be deemed to be a part hereof.

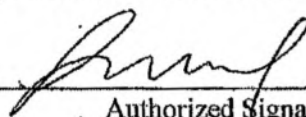
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Section 14. Governing Law. This Purchase Agreement shall be construed in accordance with the laws of the State of California.

Very truly yours,

BOFA SECURITIES, INC.  
as Representative of the Underwriters

By: \_\_\_\_\_

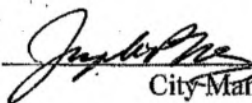


Authorized Signatory

ACCEPTED:

CITY OF MODESTO, CALIFORNIA

By: \_\_\_\_\_



City Manager

**EXHIBIT A**

**MATURITY SCHEDULE**

**\$68,840,000**

**CITY OF MODESTO, CALIFORNIA  
WASTEWATER REVENUE REFUNDING BONDS,  
SERIES 2020A (FEDERALLY TAXABLE)**

<i>Maturity Date (November 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>
2021	\$5,390,000	0.379%	0.379%
2022	5,415,000	0.449	0.449
2023	5,440,000	0.618	0.618
2024	5,480,000	0.835	0.835
2025	5,530,000	0.985	0.985
2026	5,125,000	1.202	1.202
2031	6,965,000	2.079	2.079
2032	7,120,000	2.229	2.229
2033	7,280,000	2.329	2.329
2034	7,455,000	2.429	2.429
2035	7,640,000	2.479	2.479

**\$25,470,000**  
**CITY OF MODESTO, CALIFORNIA**  
**WASTEWATER REVENUE REFUNDING BONDS,**  
**SERIES 2020B**

<i><b>Maturity Date*</b></i> <i><b>(November 1)</b></i>	<i><b>Principal</b></i> <i><b>Amount</b></i>	<i><b>Interest Rate</b></i>	<i><b>Yield</b></i>	<i><b>Price</b></i>
2026	\$475,000	5.000%	0.540%	126.188
2027	5,790,000	5.000	0.710	129.143
2028	6,085,000	5.000	0.850	131.933
2029	6,395,000	5.000	0.980	134.457
2030	6,725,000	5.000	1.100	136.748

\* All maturities are 10% Test Maturities (Sale Date).

## THE SERIES 2020 BONDS REDEMPTION

***Optional Redemption of Series 2020A Bonds.*** The Series 2020A Bonds maturing on or after November 1, 2031, shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2030, (the “Par Call Date”) at a Redemption Price equal to 100% of the principal amount of such Series 2020A Bond called for redemption, plus accrued interest to the date fixed for redemption, without premium.

***Special Mandatory Redemption of Series 2020A and Series 2020B Bonds From Insurance or Condemnation Proceeds.*** The Series 2020A Bonds and Series 2020B Bonds are subject to redemption as a whole or in part on any date, among such Series and maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a Redemption Price equal to the principal amount of such Series 2020 Bonds called for redemption plus interest accrued thereon to the date fixed for redemption, without premium.

***Make-Whole Optional Redemption of Series 2020A Bonds.*** From the date of issuance, the Series 2020A Bonds will be subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part prior to the Par Call Date, on any date, at a Redemption Price equal to the greater of: (i) one hundred percent (100%) of the principal amount of such Series 2020A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the earlier of the Par Call Date or the maturity date of such Series 2020A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020A Bonds are to be redeemed, discounted to the date on which such Series 2020A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 30 basis points, plus, in each case, accrued interest on such Series 2020A Bonds to be redeemed to the redemption date.

The term “Treasury Rate” as such term is used in the foregoing paragraph, means, with respect to any redemption date for a particular Series 2020A Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) (the “Statistical Release”) that has become publicly available at least two business days prior to the redemption date (excluding inflation for indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2020A Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

***Calculation of Make-Whole Optional Redemption Price.*** At the request of the City, the Redemption Price of the Series 2020A Bonds to be redeemed at the option of the City as described above will be determined by an independent accounting firm or municipal advisor retained by the City at the City’s expense to calculate such Redemption Price. The City may conclusively rely on the determination of such Redemption Price by such independent accounting firm or municipal advisor and will not be liable for such reliance.

## **EXHIBIT B**

### **FORM OF SUPPLEMENTAL OPINION OF BOND COUNSEL**

A supplemental opinion or opinions of Bond Counsel addressed to the Underwriter, in substantially the form and to the following effect:

- (i) The statements contained in the Official Statement on the cover page and under the captions “THE SERIES 2020 BONDS,” “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS,” “TAX MATTERS (TAXABLE BONDS – SERIES 2020A)” and “TAX MATTERS (TAX-EXEMPT BONDS – SERIES 2020B),” and in APPENDICES C, D and E, insofar as such statements expressly purport to summarize certain provisions of the Series 2020 Bonds, the Indenture and the Continuing Disclosure Agreement and the final approving opinion of Bond Counsel, fairly and accurately summarize the information presented therein in all material respects; provided, that Bond Counsel is not required to express any opinion with respect to any financial, statistical or numerical information contained therein;
- (ii) The Series 2020 Bonds are exempt from registration under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, as amended; and
- (iii) (iii) The Purchase Agreement has been duly authorized, executed and delivered by the City, and, assuming due authorization, execution and delivery by the Underwriter, constitutes the legal, valid and binding agreement of the City enforceable against the City in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, fraudulent conveyance or other laws affecting the enforcement of creditors’ rights generally and equitable remedies if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and limitations on remedies against public agencies, and except as the enforceability of the indemnification or waiver provisions may be limited by applicable securities laws or public policy.

**EXHIBIT C**

**FORM OF ISSUE PRICE CERTIFICATE**

The undersigned, on behalf of BofA Securities, Inc., (“BofA”) and the other members of the underwriting syndicate (together, the “Underwriting Group”), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the “Bonds”) of the City of Modesto (the “Issuer”).

1. **Sale of the Bonds.** As of the date of this certificate, for each Maturity of the Bonds, the first price at which at least 10% of such Maturity was sold to the Public is the respective price listed in Schedule A.

2. **Defined Terms.**

(a) **Maturity** means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(b) **Public** means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) **Sale Date** means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is October 27, 2020.

(d) **Underwriter** means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail or other third-party distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents BofA’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the tax certificate with respect to the Bonds and with respect to compliance with the federal income tax rules affecting the Bonds, and by Norton Rose Fulbright US LLP in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

BOFA SECURITIES, INC.  
as Representative of the Underwriters

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Dated: \_\_\_\_\_

*In the opinion of Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance with certain covenants in the documents pertaining to the Series 2020 Bonds and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Series 2020B Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Series 2020B Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, interest on the Series 2020A Bonds is included in gross income for federal income purposes. Bond Counsel is also of the opinion that, under existing law, interest on the Series 2020 Bonds is exempt from personal income taxes of the State of California. See “TAX MATTERS” herein.*

**\$68,840,000**

**CITY OF MODESTO, CALIFORNIA  
WASTEWATER REVENUE REFUNDING BONDS,  
SERIES 2020A (Federally Taxable)**

**\$25,470,000**

**CITY OF MODESTO, CALIFORNIA  
WASTEWATER REVENUE REFUNDING BONDS,  
SERIES 2020B**

**Dated: Date of Delivery****Due: November 1, as shown on the inside front cover hereof**

The Wastewater Revenue Refunding Bonds are issued in two series (each, a “Series”): \$68,840,000 Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the “Series 2020A Bonds” or the “Taxable Bonds”) and \$25,470,000 Wastewater Revenue Refunding Bonds, Series 2020B (the “Series 2020B Bonds” or the “Tax-Exempt Bonds” and, together with the Series 2020A Bonds, the “Series 2020 Bonds”) by the City of Modesto (the “City”) to provide funds to (i) refund all of the City’s outstanding 2011 State Loan (as defined herein) and (ii) pay the costs of issuance of the Series 2020 Bonds, as more fully described herein. The Series 2020 Bonds are being issued pursuant to Chapter 6 of Title VIII of the Modesto Municipal Code and a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, as supplemented and amended, by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”).

Interest on the Series 2020 Bonds is payable on May 1 and November 1 of each year, commencing on May 1, 2021. Principal of the Series 2020 Bonds is payable on the dates set forth on the inside front cover hereof.

The Series 2020 Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Series 2020 Bonds. Individual purchases of interests in the Series 2020 Bonds will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of such interests will not receive certificates representing their interests in the Series 2020 Bonds. Principal of, redemption premium, if any, and interest on the Series 2020 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 Series 2020 Bonds, as described herein.

**The Series 2020 Bonds are subject to optional redemption and special mandatory redemption prior to their respective maturities as described herein.**

**No deposit into the Parity Reserve Fund will be made upon the issuance of the Series 2020 Bonds and the Series 2020 Bonds will not be secured by the Parity Reserve Fund.**

THE SERIES 2020 BONDS AND THE INTEREST THEREON ARE PAYABLE SOLELY FROM THE NET REVENUES DERIVED BY THE CITY FROM THE OPERATION OF THE CITY’S WASTEWATER ENTERPRISE. THE PRINCIPAL OF AND INTEREST ON THE SERIES 2020 BONDS, AND ANY PREMIUMS UPON THE REDEMPTION OF ANY THEREOF, ARE NOT A DEBT OF THE CITY, OR A LEGAL OR EQUITABLE PLEDGE, CHARGE, LIEN OR ENCUMBRANCE UPON ANY PROPERTY OF THE CITY OR UPON ANY OF ITS INCOME, RECEIPTS OR REVENUES EXCEPT THE NET REVENUES AND OTHER FUNDS PLEDGED TO THE PAYMENT THEREOF AS PROVIDED IN THE INDENTURE.

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 Series 2020 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.

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**Maturity Schedule  
(See inside cover)**

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The Series 2020 Bonds will be offered when, as and if issued and received by the Underwriters, subject to the approval of validity by Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP; for the City by the City Attorney and by Norton Rose Fulbright US LLP, Disclosure Counsel and for the Trustee by the Law Offices of Samuel D. Waldman. It is anticipated that the Series 2020 Bonds will be available for delivery in book-entry form to DTC in New York, New York on or about November 10, 2020.

**BofA Securities****Citigroup****J.P. Morgan**

## MATURITY SCHEDULE

### \$68,840,000 Series 2020A (Federally Taxable) Serial Bonds

<i>Maturity Date (November 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP<sup>†</sup> (Base Number 607802)</i>
2021	\$ 5,390,000	0.379%	0.379%	BW4
2022	5,415,000	0.449	0.449	BX2
2023	5,440,000	0.618	0.618	BY0
2024	5,480,000	0.835	0.835	BZ7
2025	5,530,000	0.985	0.985	CA1
2026	5,125,000	1.202	1.202	CB9
2031	6,965,000	2.079	2.079	CC7
2032	7,120,000	2.229	2.229	CD5
2033	7,280,000	2.329	2.329	CE3
2034	7,455,000	2.429	2.429	CF0
2035	7,640,000	2.479	2.479	CG8

### \$25,470,000 Series 2020B Serial Bonds

<i>Maturity Date (November 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP<sup>†</sup> (Base Number 607802)</i>
2026	\$ 475,000	5.000%	0.540%	BR5
2027	5,790,000	5.000	0.710	BS3
2028	6,085,000	5.000	0.850	BT1
2029	6,395,000	5.000	0.980	BU8
2030	6,725,000	5.000	1.100	BV6

<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, managed on behalf of the American Bankers Association by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the Agency and are included solely for the convenience of the beneficial owners of the applicable Series 2020 Bonds. Neither the City nor the Underwriter is responsible for the selection or uses of the CUSIP number, and no representation is made as to its correctness on the Series 2020 Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2020 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance and other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2020 Bonds.

**CITY OF MODESTO, CALIFORNIA**

1010 10th Street  
P.O. Box 642  
Modesto, California 95353  
(209) 577-5369

**CITY COUNCIL**

Ted Brandvold, Mayor  
Kristi Ah You, Vice Mayor  
Tony Madrigal  
Mani Grewal  
Bill Zoslocki  
Jenny Kenoyer  
Douglas Ridenour

**CITY OFFICIALS**

Joseph Lopez, City Manager  
Jose M. Sanchez, City Attorney  
DeAnna Christensen, Director of Finance  
William Wong, Director of Utilities

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**SPECIAL SERVICES**

**Bond and Disclosure Counsel**

Norton Rose Fulbright US LLP  
San Francisco, California

**Trustee**

The Bank of New York Mellon Trust Company, N.A.  
San Francisco, California

**Municipal Advisor**

PFM Financial Advisors LLC  
San Francisco, California

All the information which the City of Modesto intends to present investors regarding the City and the Series 2020 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 Series 2020 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 City 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 City or the Underwriters. 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 Series 2020 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 Series 2020 Bonds.

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 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.

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The Underwriters have provided the following sentence for inclusion in this Official Statement:

*The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.*

---

The issuance and sale of the Series 2020 Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)2 and 3(a)12, respectively, for the issuance and sale of municipal securities.

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***CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT***

Certain statements included 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 connections to and revenues and expenses of the Enterprise.

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. Statements 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. While the City has agreed to provide certain on-going financial and operating data (see “CONTINUING DISCLOSURE” and Appendix E 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.

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## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
Purpose.....	1
Authority for Issuance.....	1
The City.....	1
The Wastewater Enterprise .....	1
COVID-19 Pandemic .....	2
Security and Sources of Payment for the Series 2020 Bonds.....	3
Parity Debt .....	3
Rate Covenant .....	3
Continuing Disclosure.....	4
Other Matters.....	4
PLAN OF REFUNDING.....	4
ESTIMATED SOURCES AND USES OF FUNDS .....	5
THE SERIES 2020 BONDS.....	5
General Description.....	5
Redemption .....	6
Selection of Series 2020 Bonds for Redemption.....	7
Notice of Redemption .....	7
Effect of Redemption .....	7
SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS.....	7
Net Revenue Pledge; Parity Debt.....	7
Flow of Funds.....	8
Parity Reserve Fund .....	9
Rate Covenant .....	10
Additional Bonds and Parity Debt.....	10
Outstanding Parity Debt .....	11
Debt Service Requirements .....	12
WASTEWATER SYSTEM.....	14
Introduction .....	14
Service Area .....	14
History.....	14
System Description .....	14
Permitting Issues .....	16
Master Plan Update, Capital Improvement Plan and Future Capital Needs.....	17
Management .....	20
Employees .....	20
Retirement Programs.....	21
Insurance .....	26
Wastewater System Users .....	27
PCE Litigation.....	28
WASTEWATER SYSTEM FINANCES .....	28
Rate Setting and Budget Process.....	28
Proposition 218 Process .....	28
Rates.....	29
Financial Information.....	32
Historical Debt Service Coverage .....	33
Projected Debt Service Coverage.....	34

TABLE OF CONTENTS  
(continued)

	<u>Page</u>
RISK FACTORS .....	36
General .....	36
Earthquakes, Floods and Other Natural Disasters .....	36
System Demand/Concentrated Customers .....	36
COVID-19 Related Matters.....	37
System Expenses .....	37
Rate Process .....	38
Permits and Regulation .....	38
Limitations on Remedies and Bankruptcy.....	38
Cybersecurity .....	40
Limited Obligations.....	40
CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES .....	40
Tax Limitations – Proposition 13 .....	40
Spending Limitations .....	41
Proposition 62 .....	41
Proposition 218 .....	41
Proposition 26 .....	43
Other Initiatives.....	44
TAX MATTERS (TAXABLE BONDS - SERIES 2020A) .....	44
TAX MATTERS (TAX-EXEMPT BONDS – SERIES 2020B).....	47
ABSENCE OF LITIGATION .....	49
FINANCIAL STATEMENTS.....	49
RATINGS.....	50
UNDERWRITING .....	50
MUNICIPAL ADVISOR .....	50
LEGAL PROCEEDINGS.....	51
CONTINUING DISCLOSURE.....	51
MISCELLANEOUS.....	51
APPENDIX A – CERTAIN INFORMATION REGARDING THE CITY OF MODESTO .....	A-1
APPENDIX B – CITY OF MODESTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FY 2018-19.....	B-1
APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE .....	C-1
APPENDIX D – PROPOSED FORM OF OPINION OF BOND COUNSEL .....	D-1
APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT.....	E-1
APPENDIX F – BOOK-ENTRY ONLY SYSTEM .....	F-1

**\$68,840,000**  
**CITY OF MODESTO, CALIFORNIA**  
**WASTEWATER REVENUE REFUNDING**  
**BONDS,**  
**SERIES 2020A (Federally Taxable)**

**\$25,470,000**  
**CITY OF MODESTO, CALIFORNIA**  
**WASTEWATER REVENUE REFUNDING**  
**BONDS,**  
**SERIES 2020B**

## INTRODUCTION

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 Series 2020 Bonds to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. See Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions.”

### **Purpose**

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 City of Modesto (the “City”) of its \$68,840,000 Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the “Series 2020A Bonds” or the “Taxable Bonds”) and \$25,470,000 Wastewater Revenue Refunding Bonds, Series 2020B (the “Series 2020B Bonds” or the “Tax-Exempt Bonds” and, together with the Series 2020A Bonds, the “Series 2020 Bonds”). Descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each such document for complete details of all terms and conditions thereof.

The Series 2020 Bonds are being issued by the City to provide funds to (i) refund all of the City’s outstanding revolving fund loan from the State of California issued in 2011 in the initial principal amount of \$127,157,943.06 (the “2011 State Loan”) and (ii) pay the costs of issuance of the Series 2020 Bonds, as more fully described herein. See “ESTIMATED SOURCES AND USES OF FUNDS.”

### **Authority for Issuance**

The Series 2020 Bonds are being issued pursuant to (a) the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the “Bond Law”), which was enacted by the City Council on October 2, 1984, pursuant to its authority under the Charter of the City of Modesto, and the constitution and laws of the State of California and (b) a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and The Bank of New York Trust Company, N.A., as successor trustee (the “Trustee”), as amended and supplemented (as amended and supplemented, the “Indenture”), including as supplemented by a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020, by and between the City and the Trustee, providing for the issuance of the Series 2020 Bonds.

### **The City**

The City, which has a population of approximately 222,335 as of January 1, 2020, is the county seat of Stanislaus County and was incorporated in 1884. It covers approximately 37.4 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 the City and County of San Francisco. See Appendix A – “CERTAIN INFORMATION REGARDING THE CITY OF MODESTO.” See also “—COVID-19 Pandemic” below.

### **The Wastewater Enterprise**

The City’s wastewater facilities are comprised of the wastewater collection system and the treatment and disposal facilities located at its water quality control facilities. The City’s wastewater collection and treatment system (the “Enterprise”) services the entire City and additionally accepts some sewage flow from parts of the City of Ceres and some unincorporated communities in the County of Stanislaus, including Empire. The service outside the City is

described in various individual contracts with the individual agencies. The current population of the area served by the Enterprise is approximately 200,000, but the City estimates that it could grow to approximately 270,900 by 2035.

## **COVID-19 Pandemic**

The outbreak of the novel coronavirus (“COVID-19”) has affected travel, commerce and financial markets globally, and is widely expected to negatively impact national, state and local economies including the economy of the State of California and the City.

The degree of any such impact to the operations and finances of the City and the Enterprise is extremely difficult to predict due to uncertainties related to the dynamic nature of the COVID-19 outbreak and accompanying economic consequences, including uncertainties relating to its (i) duration, (ii) severity and (iii) ultimate geographic spread, as well as with regard to what actions may be taken by governmental authorities to contain or mitigate its impact. Nonetheless, there can be no assurances that the spread of COVID-19 will not materially adversely impact the financial condition of the City and/or the Enterprise. For a further discussion on COVID-19, see “RISK FACTORS—COVID-19 Related Matters.” Any financial information, including projections, forecasts and budgets presented herein do not yet account for the potential effects of COVID-19, unless specifically referenced.

In response to the COVID-19 pandemic, beginning in March 2020, the State of California, the County of Stanislaus and the City have issued a variety of orders limiting public gatherings and imposing various restrictions on travel and the ability of businesses to operate. While some of the orders and restrictions were eased in May and early June, certain of these orders and restrictions have since been intensified due to a rising number of COVID-19 cases locally and statewide. The City is not currently able to predict the scope or duration of such orders and restrictions but both more restrictive measures and measures of a longer duration are expected to negatively impact the operations and finances of the City and could negatively impact the operations and finances of the Enterprise.

The impact of COVID-19 on projected income and expenses for the Enterprise are currently not significant. In March 2020, the Enterprise instituted a program which allowed eligible small businesses in the City to defer their utility payments for up to 90 days. The program application submission expired on May 14, 2020 and at the end of the 90-day period for each business that took advantage of the deferral program, the full amount of the deferred payments will be due. For the Enterprise, the City has estimated that the amount deferred was approximately \$150,000 per month or 5-7% of average monthly Net Revenues. However, receivable delinquencies have increased from approximately \$130,000 in March 2020 (0.5% of fiscal year 2019-20 Net Revenues) to approximately \$213,000 in July 2020 (0.8% of fiscal year 2019-20 Net Revenues). The Series 2020 Bonds are payable, as to both principal and interest and any premium upon redemption thereof, exclusively from Net Revenues of the Enterprise and from the other funds pledged under the Indenture. The City is not directly or indirectly or contingently obligated to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for the payment of the Series 2020 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS—Net Revenue Pledge; Parity Debt.”

Financial impacts to the City associated with the COVID-19 pandemic have been significant and include revenue losses within major categories and increased expenses related to the City’s response. Revenue losses are expected to include an approximately 13% reduction in sales taxes for the last quarter of Fiscal Year 2019-20, in addition to reduced utility user taxes (8% decline, actuals vs. budget), transportation taxes (gas tax) (14% decline, actuals vs. budget), transient occupancy taxes (hotels) (15% decline, actuals vs. budget), business license/mill tax (4% decline, actuals vs. budget) and construction revenues (21% decline, actuals vs. budget). The overall General Fund loss in revenues is approximately 6% based on a comparison of projected actuals vs. budget for fiscal year-end 2019-20. Losses will also be realized from fees, especially for recreation and other fee-based programs as facilities are closed and classes/programs/camps are not allowed. Expenses related to the emergency are being tracked for potential reimbursement from Federal and State emergency programs. The City will receive \$7.5 million in federal Coronavirus Aid, Relief and Economic Security (“CARES”) Act funds from the State and Stanislaus County. Those funds will be used to reimburse the City for the expenditures that have been tracked related to the COVID-19 pandemic in fiscal years 2019-20 and 2020-21. While the impacts on the finances of the City due to the COVID-19 pandemic continue to evolve, staff currently projects that the City is facing at least a \$9 million-dollar loss in budgeted revenues for Fiscal Year 2019-20, and future losses are uncertain. In response, City staff has implemented expense reductions for Fiscal Year 2019-20 and has already provided the City Council proposed reductions of approximately \$19.5 million for Fiscal Year 2020-21. These reductions include the elimination of part-time and full-time staff (54 positions eliminated of a total 1,260 General Fund positions), unpaid furloughs for sworn and non-sworn full-time staff to realize a 4.6%

reduction in salaries, a hiring freeze, a freeze on non-essential spending, deferred capital projects, and cancelling programs and events. In anticipation of ongoing economic impacts due to COVID- 19, the City is currently crafting a vacant position allocation policy and a quarterly budget update to assist the City Council with the evaluation of additional budget reduction strategies that will be implemented over the next 6 to 18 months. If the City were to file a petition under Chapter 9 (“Chapter 9”) of the Bankruptcy Code (Title 11, United States Code), the Series 2020 Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture. See “RISK FACTORS—Limitations on Remedies and Bankruptcy.”

### **Security and Sources of Payment for the Series 2020 Bonds**

The payment of the principal of, redemption premium, if any, and interest on the Series 2020 Bonds is secured equally and ratably, along with the payment of any additional Bonds and “Parity Debt” (defined in the Indenture as any indebtedness, installment sale obligation, lease obligation or other obligation of the City for borrowed money having an equal lien and charge upon the Net Revenues, therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding) issued under the Indenture, by a first lien on and pledge of the “Net Revenues” (defined under the Indenture to mean, with respect to any period, the amount of the Gross Revenues received during such period less the amount of Operating Expenses becoming payable during such period) derived from the operation of the facilities comprising the Enterprise and the moneys and securities held by the Trustee in the funds under the Indenture. Moneys held by the Trustee under the Indenture secure the Bonds and any Parity Debt. Following the issuance of the Series 2020 Bonds and the prepayment of the 2011 State Loan, the City’s outstanding Parity Debt (the “Existing Parity Debt”) will consist of: (i) the City of Modesto, California, Wastewater Revenue Refunding Bond, Series 2015 (the “Series 2015 Bond”), in the initial principal amount of \$19,429,912.56, issued to Capital One Public Funding, LLC, (ii) a revolving fund loan from the State of California, issued in 2016 (the “2016 State Loan”), in the initial principal amount of \$41,862,028 and (iii) the City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2018A in the initial principal amount of \$11,340,000 (the “Series 2018A Bonds”). The pledge of Net Revenues to the Series 2015 Bond, the 2016 State Loan, the Series 2018A Bonds and the Series 2020 Bonds is on a parity with the pledge of Net Revenues for the benefit of the owners of any additional Bonds or Parity Debt to be issued pursuant to the Indenture. The Series 2020 Bonds and any other Series of bonds to be issued under the Indenture are sometimes collectively referred to herein as the “Bonds.” As of the date of issuance of the Series 2020 Bonds, the Series 2018A Bonds and the Series 2020 Bonds will be the only Bonds issued and outstanding under the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS—Net Revenue Pledge; Parity Debt.”

### **Parity Debt**

The Series 2020 Bonds are being issued on a parity with the Existing Parity Debt. The City may at any time issue or incur Parity Debt payable from the Net Revenues and other funds as provided in the Indenture and secured by a lien and charge on a parity with the lien and charge securing the Bonds and the Existing Parity Debt, subject to the conditions set forth in the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS—Additional Bonds and Parity Debt.” **No deposit into the Parity Reserve Fund will be made upon the issuance of the Series 2020 Bonds and the Series 2020 Bonds will not be secured by the Parity Reserve Fund.**

### **Rate Covenant**

The City covenants under the Indenture that so long as any of the Series 2020 Bonds are outstanding, the City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise which are sufficient to yield Net Revenues in each Fiscal Year equal to at least 1.25 times the Debt Service on the Bonds and Parity Debt becoming due and payable during such Fiscal Year. See Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” However, the City’s ability to increase such rates, fees and charges is subject to the limitations imposed by Proposition 218. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Proposition 218—*Article XIII C* and —*Article XIII D*.”

## **Continuing Disclosure**

The City has covenanted for the benefit of the owners and beneficial owners of the Series 2020 Bonds to provide certain financial information and operating data relating to the City by not later than the 31<sup>st</sup> of March following the end of the City's Fiscal Year (presently June 30), commencing with the report for the Fiscal Year 2019-20, which report shall be due March 31, 2021, and to provide notices of occurrence of certain enumerated events, if material. See "CONTINUING DISCLOSURE" herein and Appendix E – "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, 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 since the date hereof.

All references to and summaries of provisions of the Indenture are qualified in their entirety by reference to the full Indenture, copies of which are available for inspection at the offices of the City in Modesto, California or at the corporate trust office of the Trustee in San Francisco, California.

## **PLAN OF REFUNDING**

The Series 2020 Bonds are being issued by the City to provide funds to refund all of the 2011 State Loan. On the date of delivery of the Series 2020 Bonds, the City will deposit a portion of the proceeds of the Series 2020 Bonds, along with certain funds of the City budgeted and on hand for the December 1, 2020 payment on the 2011 State Loan, with the Trustee to be used to prepay the 2011 State Loan. Pursuant to the City's instructions to the Trustee, on or about November 10, 2020, such amounts held by the Trustee will be used to prepay the 2011 State Loan at a price equal to the outstanding principal amount of 2011 State Loan, plus interest accrued thereon to the prepayment date.

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The 2011 State Loan bears interest at an effective rate of 2.6%, including mandatory service charges that are paid in lieu of interest, and is outstanding in the principal amount of \$106,812,879.98 with originally planned amortization payments as follows:

<u>Principal Payment Date</u>	<u>Principal Amount</u>	<u>Total Payment<sup>(1)</sup></u>
12/1/2020	\$ 5,468,429.39	\$8,245,564.27
12/1/2021	5,610,608.55	8,245,564.27
12/1/2022	5,756,484.38	8,245,564.27
12/1/2023	5,906,152.97	8,245,564.27
12/1/2024	6,059,712.94	8,245,564.27
12/1/2025	6,217,265.48	8,245,564.27
12/1/2026	6,378,914.39	8,245,564.27
12/1/2027	6,544,766.16	8,245,564.27
12/1/2028	6,714,930.08	8,245,564.27
12/1/2029	6,889,518.26	8,245,564.27
12/1/2030	7,068,645.74	8,245,564.27
12/1/2031	7,252,430.52	8,245,564.27
12/1/2032	7,440,993.72	8,245,564.27
12/1/2033	7,634,459.56	8,245,564.27
12/1/2034	7,832,955.50	8,245,564.27
12/1/2035 <sup>(M)</sup>	8,036,612.34	8,245,564.26

<sup>(1)</sup> Includes interest charge and service charge in lieu of interest.

<sup>(M)</sup> Maturity.

### ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds with respect to the Series 2020 Bonds.

<u>Sources of Funds</u>	<u>Series 2020A Bonds</u>	<u>Series 2020B Bonds</u>	<u>Total</u>
Principal Amount	\$ 68,840,000.00	\$ 25,470,000.00	\$ 94,310,000.00
Plus: Original Issue Premium	-	8,429,723.90	8,429,723.90
Available Funds <sup>(1)</sup>	4,774,340.39	2,351,540.79	7,125,881.18
Total Sources	<u>\$ 73,614,340.39</u>	<u>\$ 36,251,264.69</u>	<u>\$ 109,865,605.08</u>
<u>Uses of Funds</u>			
Prepayment of 2011 State Loan	\$ 73,316,770.27	\$ 36,111,245.06	\$ 109,428,015.33
Underwriters' Discount	91,496.57	34,351.24	125,847.81
Series 2020 Costs of Issuance <sup>(2)</sup>	206,073.55	105,668.39	311,741.94
Total Uses	<u>\$ 73,614,340.39</u>	<u>\$ 36,251,264.69</u>	<u>\$ 109,865,605.08</u>

<sup>(1)</sup> Consisting of debt service funds on hand.

<sup>(2)</sup> Includes legal and advisory fees, printing costs, rating agency fee and other miscellaneous expenses.

### THE SERIES 2020 BONDS

#### General Description

The Series 2020 Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Series 2020 Bonds. Individual purchases of ownership interests in the Series 2020 Bonds will be made in book-

entry form only in denominations of \$5,000 or any integral multiple thereof. See Appendix F – “BOOK-ENTRY ONLY SYSTEM.”

The Series 2020 Bonds will be dated their date of initial delivery, and will bear interest at the rates and mature in the amounts and on the dates set forth on the inside front cover page of this Official Statement. Interest on the Series 2020 Bonds is payable on May 1 and November 1 of each year, commencing May 1, 2021, calculated on the basis of a 360-day year comprised of twelve 30-day months. Principal of, redemption premium, if any, and interest on the Series 2020 Bonds are payable by the Trustee to DTC, which is obligated in turn to remit such principal and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Series 2020 Bonds.

## **Redemption**

***Optional Redemption of Series 2020A Bonds.*** The Series 2020A Bonds maturing on or after November 1, 2031, shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2030, (the “Par Call Date”) at a Redemption Price equal to 100% of the principal amount of such Series 2020A Bond called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2020B Bonds are not subject to optional redemption prior to maturity.

***Special Mandatory Redemption of Series 2020A and Series 2020B Bonds From Insurance or Condemnation Proceeds.*** The Series 2020A Bonds and Series 2020B Bonds are subject to redemption as a whole or in part on any date, among such Series and maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a Redemption Price equal to the principal amount of such Series 2020 Bonds called for redemption plus interest accrued thereon to the date fixed for redemption, without premium.

***Make-Whole Optional Redemption of Series 2020A Bonds.*** From the date of issuance, the Series 2020A Bonds will be subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part prior to the Par Call Date, on any date, at a Redemption Price equal to the greater of: (i) one hundred percent (100%) of the principal amount of such Series 2020A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the earlier of the Par Call Date or the maturity date of such Series 2020A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020A Bonds are to be redeemed, discounted to the date on which such Series 2020A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 30 basis points, plus, in each case, accrued interest on such Series 2020A Bonds to be redeemed to the redemption date.

The term “Treasury Rate” as such term is used in the foregoing paragraph, means, with respect to any redemption date for a particular Series 2020A Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) (the “Statistical Release”) that has become publicly available at least two business days prior to the redemption date (excluding inflation for indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2020A Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

***Calculation of Make-Whole Optional Redemption Price.*** At the request of the City, the Redemption Price of the Series 2020A Bonds to be redeemed at the option of the City as described above will be determined by an independent accounting firm or municipal advisor retained by the City at the City’s expense to calculate such Redemption Price. The City may conclusively rely on the determination of such Redemption Price by such independent accounting firm or municipal advisor and will not be liable for such reliance.

## **Selection of Series 2020 Bonds for Redemption**

Pursuant to the Indenture, when less than all of the Series 2020 Bonds of any Series, maturity (and interest rate) is being redeemed, the Trustee selects the Series 2020 Bonds to be redeemed, from all Series 2020 Bonds of the respective Series, maturity (and interest rate) not previously called for redemption, in authorized denominations, by lot in any manner which the Trustee in its sole discretion deems appropriate.

## **Notice of Redemption**

Notice of redemption of any Series 2020 Bonds shall be sent by the Trustee, by approved means, not less than 30 nor more than 60 days prior to the redemption date, (i) to the respective Owners of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee, (ii) to the Securities Depositories, and (iii) to the Information Services, which consists of the Municipal Securities Rulemaking Board (“MSRB”) through the Electronic Municipal Market Access System referred to as “EMMA,” at [www.emma.msrb.org](http://www.emma.msrb.org), or in accordance with then current guidelines of the Securities Exchange Commission. Failure by the Trustee to give notice to any one or more of the MSRB or the Securities Depositories or failure of any Owner to receive notice or any defect in any such notice shall not affect the sufficiency of the proceedings for redemption.

## **Effect of Redemption**

Notice of redemption having been duly given as described above, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series 2020 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2020 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 date fixed for redemption, interest on the Series 2020 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 the Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest.

## **SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS**

### **Net Revenue Pledge; Parity Debt**

The Series 2020 Bonds are revenue obligations of the City and are payable, as to both principal and interest and any premium upon redemption thereof, exclusively from Net Revenues and from the other funds pledged under the Indenture. All Net Revenues are pledged to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds, including the Series 2020 Bonds, and any Parity Debt, including the Series 2015 Bond, the 2016 State Loan and the Series 2018A Bonds, in accordance with their terms, 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. The pledge of Net Revenues to the Series 2020 Bonds and the Existing Parity Debt is on parity with the pledge of Net Revenues for the benefit of the owners of any additional Bonds or Parity Debt to be issued pursuant to the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS—Additional Bonds and Parity Debt.” The Net Revenues are irrevocably pledged to the punctual payment of the principal of and redemption premium, if any, and interest on the Outstanding Bonds, including the Series 2020 Bonds.

“Gross Revenues” are defined under the Indenture to mean all gross income and revenue received by the City from the ownership and operation of the Enterprise, including (a) all fees and charges received by the City for the services of the Enterprise, (b) all other income and revenue howsoever derived by the City from the ownership and operation of the Enterprise or arising from the Enterprise, and (c) all sums deposited, or required under the Indenture to be deposited, in the Sewer Enterprise Fund: but excluding (x) the proceeds of any *ad valorem* property taxes received by the City to pay debt service on any outstanding obligations of the City, (y) any contributed capital (other than connection fees), and (z) any moneys received as a result of litigation arising out of perchloroethylene (PCE) contamination that are to be expended on capital costs of the Enterprise. See “WASTEWATER SYSTEM—PCE Litigation” herein.

“Operating Expenses” are defined under the Indenture to mean the reasonable and necessary costs of maintaining and operating the Enterprise, calculated on the basis of generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs, but excluding (a) depreciation, replacement and obsolescence charges or reserves therefor or other bookkeeping entries of a similar nature, and (b) interest on the Bonds and any Parity Debt.

The Series 2020 Bonds are special, limited obligations of the City. The Series 2020 Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020 Bonds. The issuance of the Series 2020 Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Indenture provides that all funds and accounts created pursuant to the Indenture constitute trust funds in favor of the Owners of the Outstanding Bonds, until so applied for the purpose set forth in the Indenture.

#### **Flow of Funds**

The City has covenanted that all Gross Revenues, when and as received, will be received, deposited and held by the City in the Sewer Enterprise Fund and will be accounted for through and held in trust in the Sewer Enterprise Fund, and the City has no beneficial right or interest in any of such moneys except only as provided in the Indenture. The City has covenanted and agreed to maintain the Sewer Enterprise Fund at all times so long as any Bonds are Outstanding under the Indenture. All Gross Revenues and Net Revenues, whether held by the City or deposited with the Trustee, all as provided in the Indenture, are disbursed, allocated, and applied solely to the uses and purposes described below.

All amounts in the Sewer Enterprise Fund required to pay Operating Expenses of the Enterprise will be applied for such purpose from time to time by the City. So long as any Bonds are Outstanding, the City will transfer the remaining moneys in the Sewer Enterprise Fund to the Trustee as required for deposit into the following respective funds (each of which the Trustee established, maintains and holds in trust for the benefit of the Owners of the Bonds) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Net Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to outstanding Parity Debt as provided in the proceedings for such Parity Debt (which will be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Debt):

Interest Fund. The City will transfer to the Trustee and the Trustee will set aside in the Interest Fund on or before the third Business Day prior to each interest payment date therefor an amount equal to the interest becoming due and payable on the Outstanding Bonds (excluding interest for which there are moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source to pay such interest).

Principal Fund; Sinking Accounts. The City will transfer to the Trustee and the Trustee shall set aside in the Principal Fund on or before the third Business Day prior to each principal or mandatory sinking fund payment date therefor an amount equal to (a) the amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds, plus (b) the mandatory sinking fund payments to be paid into the respective Sinking Accounts for the Term Bonds; provided that if the City certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from excess amounts on deposit in the Parity Reserve Fund or other bond reserve fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid mandatory sinking fund

payments shall be made without priority of any payment into any one such Sinking Account over any other such payment.

Parity Reserve Fund. Upon the occurrence of any deficiency in the Parity Reserve Fund established pursuant to the Indenture, the City will transfer to the Trustee and the Trustee shall set aside in the Parity Reserve Fund an amount equal to the aggregate amount of each unreplenished prior withdrawal from the Parity Reserve Fund until there is on deposit in the Parity Reserve Fund an amount equal to the Reserve Fund Requirement. See “Parity Reserve Fund” below.

Any Net Revenues remaining in the Sewer Enterprise Fund after the foregoing transfers described above, except as otherwise provided in a Supplemental Indenture, will be held free and clear of the Indenture by the City and it may use and apply such Net Revenues for any lawful purpose of the City, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

If on any principal payment date, interest payment date or mandatory sinking fund redemption date the amounts on deposit in the Interest Fund and Principal Fund, including the Sinking Accounts therein, are insufficient to make such payments, the Trustee shall immediately notify the City, by telephone or facsimile, of such deficiency and direct that the City transfer the amount of such deficiency to the Trustee on such payment date. The City has covenanted and agreed to transfer to the Trustee from any Net Revenues in its possession the amount of such deficiency on the principal, interest or mandatory redemption date referenced in such notice.

#### **Parity 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 “Parity Reserve Fund.” **No deposit into the Parity Reserve Fund will be made upon the issuance of the Series 2020 Bonds and the Series 2020 Bonds will not be secured by the Parity Reserve Fund. As of the date of delivery of the Series 2020 Bonds, the Reserve Fund Requirement will be \$0.** See “—Outstanding Parity Debt” for a description of Parity Debt for which a separate reserve fund has been established. Amounts on deposit in the Parity Reserve Fund are pledged to the payment of any Bonds secured thereby (not including the Series 2020 Bonds) and any Parity Debt to be secured by the Parity Reserve Fund and must be applied only for such purposes as permitted in the Indenture. The Trustee is also required to deposit in the Parity Reserve Fund, upon the direction of the City, such other amounts transferred to the Trustee by the City pursuant to the Indenture. No deposit need be made in the Parity Reserve Fund so long as there shall be on deposit therein a sum equal to at least the amount required by the Indenture to be on deposit therein. Whenever the amount on deposit in the Parity Reserve Fund is less than the Reserve Fund Requirement; and such amount shall be increased to the Reserve Fund Requirement as provided for in the Indenture not later than twelve months thereafter. The Trustee must transfer in moneys on deposit in the Parity Reserve Fund (including all amounts that may be obtained from letters of credit and surety bonds and insurance policies, as provided below, on deposit in the Parity Reserve Fund) to the Principal Fund and Interest Fund to pay principal of and interest on the Bonds on any interest payment date in the event amounts on deposit therein are insufficient for such purposes.

The Trustee will also, from such amounts on deposit in the Parity Reserve Fund, transfer or cause to be transferred to any applicable debt service fund for any Parity Debt to be secured by the Parity Reserve Fund, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without discrimination or preference, that sum or sums, if any, equal to the amount required to be deposited therein pursuant to the documents under which any such Parity Debt to be secured by the Parity Reserve Fund is issued or incurred. Amounts on deposit in the Parity Reserve Fund in excess of the Reserve Fund Requirement will, at the written Request of the City, be withdrawn from the Parity Reserve Fund and transferred to the City.

In lieu of a cash deposit, the City may satisfy the Reserve Fund Requirement by depositing to the Parity Reserve Fund a letter of credit, surety bond, or insurance policy as provided in the Indenture.

“Reserve Fund Requirement” means, as of any date of determination and excluding any Bonds or Parity Debt for which no reserve fund is to be maintained and any Parity Debt for which a separate reserve fund is to be maintained,

the lesser of (a) the Maximum Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, or (b) one hundred twenty-five percent (125%) of the Average Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund; provided that in no event shall the deposit to the Parity Reserve Fund with respect to any Series of Bonds or Parity Debt to be secured by the Parity Reserve Fund be an amount greater than ten percent (10%) of the initial offering price to the public of such Series of Bonds or Parity Debt to be secured by the Parity Reserve Fund as determined under the Code, all as computed and determined by the City and specified in writing to the Trustee. See Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

### **Rate Covenant**

The rates for use of the Enterprise are set by the City Council and are not subject to review by any state or local governmental agency. The City has covenanted that it will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which (together with other funds accumulated from Gross Revenues and which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year) are at least sufficient to pay all Operating Expenses estimated to become due and payable in such Fiscal Year, Debt Service on the Bonds and any Parity Debt becoming due and payable during such Fiscal Year, all other payments required by the Indenture and any Parity Debt instruments and all payments required to meet any obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or Net Revenues. In addition, the City has covenanted that it will fix, prescribe, revise and collect rates, fees and charges so as to yield Net Revenues during such Fiscal Year equal to at least 1.25 times the Debt Service coming due and payable in such Fiscal Year on the Bonds and any Parity Debt. For a further description of the City’s rate covenant, see Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Covenants—Rates and Charges.” The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but such fees and charges shall not be reduced so as to be insufficient to provide adequate Gross Revenues for such purposes. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIC and XIID of the California Constitution.”

### **Additional Bonds and Parity Debt**

The City may at any time issue additional Series of Bonds or Parity Debt payable from the Net Revenues and other funds and secured by a lien and charge on a parity with the lien and charge securing the Outstanding Bonds on a parity with the Series 2020 Bonds and the Existing Parity Debt, subject to the following conditions precedent, among others: (a) no Event of Default has occurred and is continuing; (b) there is deposited in the Parity Reserve Fund an amount of money so as to increase the amount on deposit therein to the Reserve Fund Requirement, provided that Parity Debt may be secured by a separate reserve fund or by no reserve fund; and (c) the Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent 12-month period selected by the City ending not more than 60 days prior to the adoption of the Supplemental Indenture pursuant to which such Series of Bonds are issued or the instrument pursuant to which such Parity Debt is issued, as shown by the books of the City, plus, at the option of the City, any or all of the items designated in (i) and (ii) below, but excluding connection charges, shall at least equal 125% of the Maximum Annual Debt Service on all Bonds and Parity Debt to be Outstanding immediately subsequent to the issuance of such Series of Bonds or Parity Debt. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring additional Series of Bonds or Parity Debt under the Indenture are the following:

(i) An allowance for Net Revenues from any additions to or improvements or extensions, of the Enterprise to be made with the proceeds of such additional Series of Bonds or Parity Debt, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of such Fiscal Year or such 12-month period, were not in service, all in an amount equal to 95% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown by a certificate of the City filed with the Trustee.

(ii) An allowance for earnings arising from any increase in the charges made for service from the Enterprise which has become effective prior to the incurring of such additional Series of Bonds or Parity Debt but which, during all or any part of such Fiscal Year or such 12-month period, was not in effect, in an

amount equal to 95% of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such 12-month period, all as shown by a certificate of the City filed with the Trustee.

In the event additional assets or revenues are included within the definition of “Net Revenues” by a Supplemental Indenture, such additional assets or revenues shall be included in the calculations described above, as appropriate, as if such additional assets or revenues had always been included in Net Revenues.

“Maximum Annual Debt Service” is defined under the Indenture as the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Debt in the Fiscal Year in which the calculation is made or any successive Fiscal Year using the principles and assumptions set forth under the definition of Debt Service.

“Debt Service” is defined under the Indenture to mean, during any period of computation, the amount of principal and interest becoming due and payable on all Bonds and Parity Debt for such period, determined by totaling the following amounts: (a) the Bond Obligation of all Outstanding Serial Bonds and all Parity Debt coming due and payable by their terms in such period; (b) the minimum Bond Obligation of all Outstanding Term Bonds and all Parity Debt scheduled to be redeemed by operation of mandatory sinking fund deposits in such period, together with any premium thereon; and (c) the interest which would be due during such period on the aggregate principal amount of Bonds and Parity Debt which would be Outstanding in such period if the Bonds or Parity Debt are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds or Parity Debt no longer Outstanding; provided that for purposes of determining compliance with the test for the issuance of additional Bonds or Parity Debt and the rate covenant and the amount of the Reserve Fund Requirement, certain provisions shall be applied as described in Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions.”

Nothing in the Indenture prohibits or impairs the authority of the City to issue (i) Bonds at any time to refund outstanding Bonds or Parity Debt, provided, however, that the Maximum Annual Debt Service with respect to any such refunding Bonds does not exceed 1.10 times the Maximum Annual Debt Service with respect to the Bonds or Parity Debt being refunded; or (ii) bonds or other obligations which are unsecured or which are secured by a lien on Net Revenues which is subordinate to the lien established under the Indenture, upon such terms and in such principal amount as the City may determine.

### **Outstanding Parity Debt**

Following delivery of the Series 2020 Bonds, which will refund the 2011 State Loan, the Existing Parity Debt will consist of the Series 2015 Bond, the 2016 State Loan and the Series 2018A Bonds. The pledge of Net Revenues to the Series 2015 Bond, the 2016 State Loan, the 2018A Bonds and the Series 2020 Bonds is on a parity with the pledge of Net Revenues for the benefit of the owners of any additional Bonds or Parity Debt to be issued pursuant to the Indenture. As of the date of issuance of the Series 2020 Bonds, the Series 2018A Bonds and the Series 2020 Bonds will be the only Bonds issued and outstanding under the Indenture.

The Series 2015 Bond was issued by the City to Capital One Public Funding, LLC in the initial principal amount of \$19,429,912.56, and is outstanding in the principal amount of \$9,704,958.84 as of September 1, 2020. Under the terms of the related bond purchase agreement, the City makes semi-annual payments of interest on each May 1 and November 1 and annual payments of principal on each November 1 until maturity in 2024. The Series 2015 Bond bears interest at a fixed rate of 2.42% per annum. The purchase agreement for the Series 2015 Bond contains standard covenants and representations, for which a failure by the City to observe or perform will constitute an event of default, and provides for a cross default in an Event of Default under the Indenture. The Series 2015 Bond is not secured by any reserve fund.

The 2016 State Loan is a revolving fund loan from the State of California, which was drawn down in the amount of \$29,747,007.59. Under the terms of the installment sale agreement and grant, the City makes approximately equal annual payments of principal and interest each December 31 until maturity in 2047. The 2016 State Loan bears interest at a fixed rate of 1.0% per annum. The 2016 State Loan is also secured by a reserve fund, held by the City and funded with cash, equal to one year’s annual debt service on the 2016 State Loan. This reserve fund is not security for the Series 2020 Bonds.

The Series 2018A Bonds were issued by the City on April 19, 2018 in the original aggregate principal amount of \$11,340,000 and are outstanding in the principal amount of \$11,340,000 as of November 1, 2020. The Series 2018A Bonds mature in varying amounts starting November 1, 2025 until final maturity on November 1, 2036 at interest rates ranging from 4.0% to 5.0%.

### Debt Service Requirements

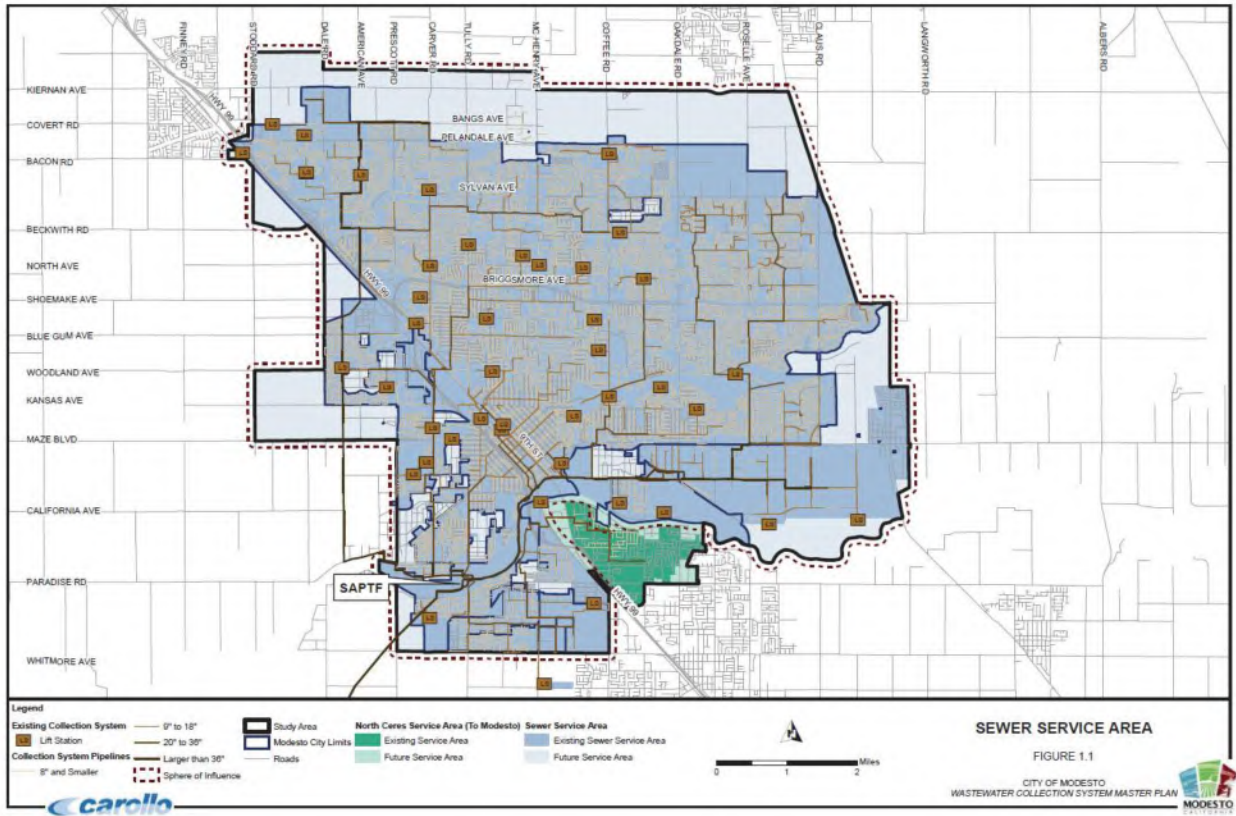
The debt service requirements of the Existing Parity Debt and the Series 2020 Bonds are shown in the following table on a fiscal year basis, assuming no optional or special mandatory redemption of the Series 2020 Bonds or prepayment of the Existing Parity Debt prior to maturity thereof.

<i>Fiscal Year Ending June 30</i>	<i>Existing Parity Debt Total<sup>(1)</sup></i>	<i>Series 2020A Principal</i>	<i>Series 2020A Interest</i>	<i>Series 2020B Principal</i>	<i>Series 2020B Interest</i>	<i>Total Debt Service</i>
2021	\$ 4,488,875.70	-	\$ 514,770.59	-	\$ 604,912.50	\$ 5,608,558.79
2022	4,492,163.20	\$5,390,000.00	1,073,513.51	-	1,273,500.00	12,229,176.71
2023	4,491,919.45	5,415,000.00	1,051,142.78	-	1,273,500.00	12,231,562.23
2024	2,616,691.77	5,440,000.00	1,022,176.50	-	1,273,500.00	10,352,368.27
2025	2,616,191.77	5,480,000.00	982,487.90	-	1,273,500.00	10,352,179.67
2026	2,399,811.64	5,530,000.00	932,373.65	-	1,273,500.00	10,135,685.29
2027	2,403,311.64	5,125,000.00	874,337.15	\$ 475,000.00	1,261,625.00	10,139,273.79
2028	2,395,061.64	-	843,535.90	5,790,000.00	1,105,000.00	10,133,597.54
2029	2,399,936.64	-	843,535.90	6,085,000.00	808,125.00	10,136,597.54
2030	2,397,686.64	-	843,535.90	6,395,000.00	496,125.00	10,132,347.54
2031	2,398,311.64	-	843,535.90	6,725,000.00	168,125.00	10,134,972.54
2032	2,396,686.64	6,965,000.00	771,134.73	-	-	10,132,821.37
2033	2,397,686.64	7,120,000.00	619,381.16	-	-	10,137,067.80
2034	2,396,186.64	7,280,000.00	455,253.16	-	-	10,131,439.80
2035	2,397,061.64	7,455,000.00	279,936.58	-	-	10,131,998.22
2036	2,396,111.64	7,640,000.00	94,697.80	-	-	10,130,809.44
2037	2,397,536.64	-	-	-	-	2,397,536.64
2038	1,152,161.64	-	-	-	-	1,152,161.64
2039	1,152,161.64	-	-	-	-	1,152,161.64
2040	1,152,161.64	-	-	-	-	1,152,161.64
2041	1,152,161.64	-	-	-	-	1,152,161.64
2042	1,152,161.64	-	-	-	-	1,152,161.64
2043	1,152,161.64	-	-	-	-	1,152,161.64
2044	1,152,161.64	-	-	-	-	1,152,161.64
2045	1,152,161.64	-	-	-	-	1,152,161.64
2046	1,152,161.64	-	-	-	-	1,152,161.64
2047	1,152,161.64	-	-	-	-	1,152,161.64
2048	1,216,054.72	-	-	-	-	1,216,054.72
<b>Total</b>	<b>\$60,218,902.71</b>	<b>\$68,840,000.00</b>	<b>\$ 12,045,349.11</b>	<b>\$25,470,000.00</b>	<b>\$10,811,412.50</b>	<b>\$177,385,664.30</b>

<sup>(1)</sup> Existing Parity Debt includes (i) the Series 2015 Bond, of which \$9,704,958.84 remains outstanding as of September 1, 2020 and which bears interest at a 2.42% per annum; (ii) the 2016 State Loan, of which \$28,064,829.59 remains outstanding as of September 1, 2020, and which bears interest at a fixed rate of 1.00% per annum; and (iii) the Series 2018A Bonds of which \$11,340,000 remains outstanding as of November 1, 2020 and which bear interest at rates ranging from 4.0% to 5.0%.

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# SERVICE AREA MAP



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## WASTEWATER SYSTEM

### Introduction

The City manages, operates, and maintains four utilities. Two of these are wastewater related—water quality control facilities (the “WQC”) and the wastewater collection system (the “WWC”). The Enterprise consists of the treatment and disposal facilities located at the WQC and the piping, pump stations and related appurtenances of the WWC.

### Service Area

The Enterprise services the current City limits, a portion of north Ceres, the unincorporated community of Empire, and isolated unincorporated Stanislaus County land within the City’s Sphere of Influence (“SOI”). Wastewater from north Ceres and unincorporated areas is treated by the City under sewer service agreements with such jurisdictions. Consistent with the City’s updated Urban Area General Plan, the service area includes the City’s SOI boundary, Empire, and north Ceres. The City provides wastewater (sewer) service to a population of over 200,000 within the City limits and to about 900 customers within the now-dissolved Empire Sanitary District. The City collects wastewater from north Ceres but does not bill the customers directly. Ceres bills the customers and the City directly charges Ceres as a single customer.

Population and land use projections prepared for the 2016 Wastewater Master Plan (“WWMP”) indicate that the areas extending to the SOI boundaries will only be partially developed by the end of 2035. Full build-out of the SOI is not expected until the year 2057. By 2035, the number of municipal customers is projected to increase at an average annual growth rate of 1.3 percent to a total service population of 270,900.

In addition to municipal customers, the City serves the industrial customers in the Beard Industrial Park. The industrial customers include seasonal canneries and year-round food processors. The canneries’ wastewater during canning season (July through September) is segregated in a different pipeline from the domestic customers. The canneries pay a different rate than municipal customers. While the wastewater load produced by the canneries is significant, the cannery process water is directly land-applied at the Jennings Ranch (described below) instead of undergoing the wastewater treatment process.

### History

Prior to 1910, wastes from the City were discharged without treatment into the Tuolumne River. From 1910 through the late 1940s, the City’s wastewater system was comprised of a sewage processing tank with ponds. In 1946, plans were made to take industrial waste into the treatment plant. The City, with a population at that time of 20,000, was faced with constructing a treatment facility to accept wastes equivalent to a contributing population of 400,000 persons during the three-month canning season. Sewer service charges were first collected in the late 1940s, and connection charges were first imposed in 1967. The City continues to be home to a number of food processors, and summer food processing sewer discharges are now equivalent to a contributing population of more than 1,000,000 persons.

### System Description

**General.** The current wastewater system (the “System”) of the Enterprise consists of a collection system with over 70 miles of trunk sewers (greater than 15”) and approximately 620 miles of sanitary sewers. There are 42 wastewater lift stations. Another 32 miles of sewers that are privately owned or are associated with north Ceres are connected to the City’s collection system. Aside from localized septic systems, all wastewater generated within the service area of the Enterprise receives treatment at the City’s wastewater treatment facilities. Trunk sewers, sanitary sewers and lift stations have been built as development occurs and are rehabilitated or replaced as needed. Overall, the age of pipes and lift stations in the System range from new to 50-60 years old. A program for rehabilitating and replacing sewer pipes and lift stations is included as part of the capital improvement plan. See “—Master Plan Update, Capital Improvement Plan and Future Capital Needs.”

The City's treatment facilities treat over 7.3 billion gallons of wastewater annually. The average daily domestic flow into the City's treatment system is currently about 20 million gallons per day (mgd).

Modesto's treatment facilities consist of two treatment plants that operate in series, connected by two 6.5 mile-long outfall pipelines. The Sutter Primary Treatment Facility ("Sutter Facility") is located at the south end of Sutter Avenue adjacent to the Tuolumne River. The Sutter Facility has been built and upgraded in phases beginning in the 1960's. The Sutter Facility provides primary treatment and solids handling. At the Sutter Facility, settleable and floatable organic and inorganic constituents are removed from the wastewater, through screening, grit removal and primary clarification. Solids from the primary clarifiers are then processed through the anaerobic digesters. In addition, the Sutter Facility is subject to flooding from high river levels in the adjacent Tuolumne River. See "RISK FACTORS—Earthquakes, Floods and Other Natural Disasters." Most of the primary treatment and solids handling facilities at the Sutter Facility are aging and nearing their useful life. The City plans to relocate most of the primary treatment equipment at the Sutter Facility to the Jennings Facility in the future. See "—Master Plan Update, Capital Improvement Plan and Future Capital Needs."

Primary effluent from the Sutter Facility is pumped through the two 6.5-mile-long outfall pipelines to the Jennings Treatment Facility ("Jennings Facility"), located next to the San Joaquin River on Jennings Road near West Zeering Road for additional treatment. The Jennings Facility was originally constructed beginning in the late 1960's and has since been upgraded including as described in the following paragraph. The Jennings Facility includes secondary treatment, tertiary treatment, and a 2,526-acre ranch (the "Jennings Ranch"). The secondary treatment facilities at the Jennings Facility primarily consist of three fixed-film reactor towers, 334 acres of oxidation ponds, and 126 acres of recirculation channels. Secondary effluent from the Jennings Facility is used for irrigation of the City's ranch land, stored in reservoirs, or discharged to the San Joaquin River during the months of October through May. The 2008 National Pollutant Discharge Elimination System permit (the "2008 NPDES Permit") allowed for this seasonal discharge into the San Joaquin River. However, the 2008 NPDES Permit, including prior extensions thereto, expired in May 2018 and discharge requirements are now subject to the 2016 National Pollutant Discharge Elimination System permit (the "2016 NPDES Permit") as part of the North Valley Regional Recycled Water Program ("NVRWP"). The 2016 NPDES Permit allows discharge into the Delta Mendota Canal ("DMC"), subject to discharge limits on various constituents. The 2016 NPDES Permit expires in March 2021. See also "—Permitting Issues" below.

Prior to the expiration of the 2008 NPDES Permit, the City began upgrading its wastewater treatment facilities to provide biological nutrient removal ("BNR") and tertiary treatment, which produces highly treated water that is suitable for year-round discharge to the San Joaquin River. The 2.3 mgd Phase 1 Tertiary Treatment Facility was built in 2010, and the 12.6 mgd Phase 2 BNR/Tertiary Treatment Facilities was completed in 2015. Both facilities are located at the Jennings Facility and consist of fine screens, biological nutrient removal aeration basins, membrane bio-reactor basins, and ultraviolet disinfection. Because the tertiary water is also suitable for recycling, the City completed the construction of a new recycled water pump station, pipelines and appurtenances for the NVRWP, which is currently delivering up to 14.9 mgd of the City's recycled water to the Del Puerto Water District. This \$50 million project was funded by the 2016 State Loan and a \$15 million State grant under Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act of 2014 ("Proposition 1"). The Del Puerto Water District reimburses the City for: (1) all 2016 State Loan debt service, (2) one-half of the debt service cost savings resulting from the Proposition 1 grant, (3) costs to operate and maintain the recycled water delivery facilities, and (4) pays \$30 per acre-foot for the recycled water. The Del Puerto Water District revenues are included in the projections provided in the table under the heading, "WASTEWATER SYSTEM FINANCES—Projected Debt Service Coverage." Sales to the Del Puerto Water District commenced in February 2018.

During the three-month canning season, between early July through late September, segregated cannery process water is separately piped to the Sutter Facility for preliminary treatment and then pumped directly to the Jennings Facility, where it is blended with secondary effluent from the storage ponds and used for irrigation at the Jennings Ranch.

The Enterprise currently generates approximately 5.0 mgd of secondary treated effluent. It uses low-capital-intensive irrigation as its primary discharge method. Approximately 3.6 billion gallons of both secondary and tertiary

treated wastewater is discharged to the City-owned Jennings Ranch annually. The Jennings Ranch is managed in a public/private partnership in which the lessee uses the reclaimed water to grow fodder crops

Sixty-four commercial and industrial facilities are currently permitted under the City’s mandatory pre-treatment program. Periodic monitoring is performed to ensure compliance with local and federal limits and to confirm that high quality effluent is available for irrigation, discharge to the San Joaquin River, and to minimize impacts to the treatment facilities.

**Permitting Issues**

The Central Valley Regional Water Quality Control Board (the “RWQCB”) regulates water quality in the Central Valley under the authority of the Federal Clean Water Act and California’s Porter-Cologne Water Control Act. The RWQCB issues wastewater discharge permits through the National Pollutant Discharge Elimination System (“NPDES”). Wastewater treatment plants are required under the State and federal law to meet various requirements for the operation, treatment, monitoring and disposal/discharge of wastewater.

The City currently discharges its recycled water into the DMC under the requirements of the 2016 NPDES Permit. In addition, the City received an updated river discharge permit in (Permit No. CA0079103, Order R5-2017-0064, the “2017 NPDES Permit”). The 2017 NPDES Permit expires in July 2022. The City expects its recent wastewater treatment upgrades previously described to meet the 2017 NPDES Permit requirements. The NVRWWP recycling plant (described above) is currently permitted to discharge 14.9 mgd average daily discharge flow into the DMC and may be expanded to 19.1 mgd average daily discharge flow to the San Joaquin River upon completion of the future tertiary treatment plant upgrades. With the NVRWWP recycling plant, the City established water rights to its tertiary treated (recycled) water and relocated its primary discharge from the San Joaquin River to the DMC. However, the 2017 NPDES Permit still allows the City to discharge into the San Joaquin River, under certain conditions, whenever discharge into the DMC is not allowed due to nonoperation while undergoing repairs or temporary outages. However, since the NVRWWP started, there has not been any discharge into the San Joaquin River.

Land discharge is regulated by a separate Waste Discharge Requirement permit (the “1999 WDR Permit”). About 2.0 billion gallons of wastewater are disposed of each year through evaporation and percolation from the treatment system and from application to pastureland. Approximately 3.6 billion gallons per year of treated secondary effluent, plus 1 billion gallons of cannery waste, are discharged to land. Land discharge limitations onto the Jennings Ranch are based on biochemical oxygen demand (“BOD”) loading for the combined secondary-treated and cannery process water and are set forth in the table below.

**TABLE 1  
BOD Loading**

**Secondary Effluent Only**

BOD 30-day Maximum Loading Rate	50 lbs/day
BOD Daily Maximum	300 lbs/day

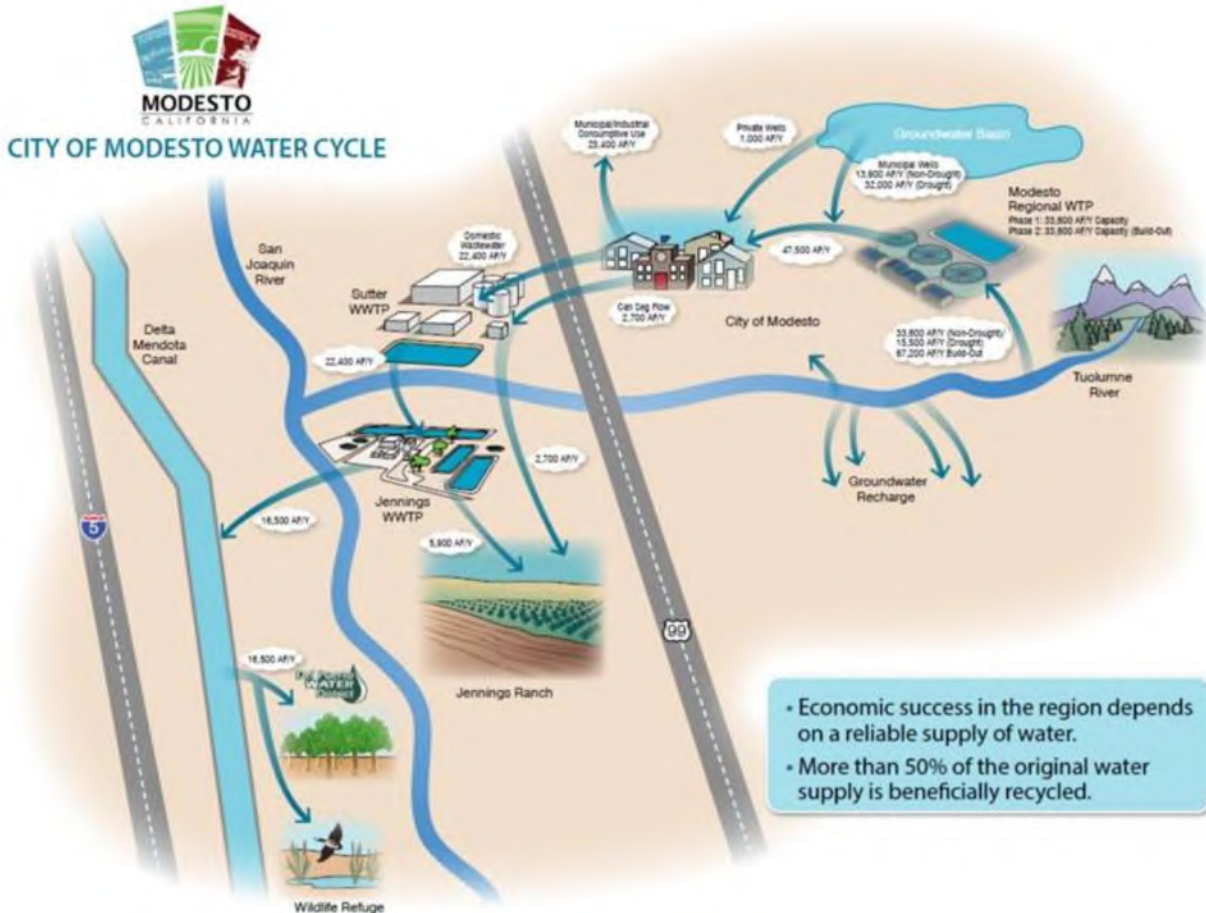
**Combined Cannery and Secondary Effluent  
(During Canning Season Only)**

BOD 7-Day Average	400 lbs/day
BOD 30-Day Average	150 lbs/day
BOD Seasonal Average	100 lbs/day

Other reporting requirements include effluent groundwater monitoring and pond monitoring. In addition, the City must ensure that biosolids and other organic residuals are applied in accordance with agronomic rates. This means that the number of tons per hectare or acre is determined based on the amount of nutrients in the biosolids/residuals

and the amount of nutrients needed by the crop being grown which includes salinity. The City closely monitors these requirements and has been in full compliance.

Below is a map of the City's water and wastewater facilities showing the water cycle.



### Master Plan Update, Capital Improvement Plan and Future Capital Needs

In 1991, the City recognized that the Enterprise had reached the capacity provided by its last expansion in 1984, which had been funded by a federal Clean Water Grant. The City commenced a wastewater planning process to determine the most cost-effective approach for implementing the next increment of capacity. Based on considerable input from customers, regulators and the community at large, the City developed the 1995 Wastewater Master Plan (the "1995 Wastewater Master Plan"). As part of its annual budget process, the City prepares a rolling ten-year capital improvement program for the Sewer Enterprise Fund in accordance with the 1995 Wastewater Master Plan and incorporating current needs which were unknown in 1995. The 1995 Wastewater Master Plan outlined capital improvements to be undertaken over the ensuing 20 to 40 years. These capital improvements generally fall into two categories: 1) treatment plant improvements and 2) collection system improvements.

The City updates its Wastewater Master Plan approximately every 5-10 years. The City's Wastewater Master Plan was updated in 2007 and supplemented in 2008, and most recently updated in 2016. The 2007 Wastewater Master Plan ("2007 Wastewater Master Plan") contained several parts: a condition assessment of the existing wastewater treatment facilities, a summary of regulatory requirements, a list of recommended improvements, and a description of the Capital Improvement Plan ("CIP"). Soon after the 2007 Wastewater Master Plan was adopted, City population growth and corresponding influent wastewater flows dropped with the slowing economy, and the Central Valley Regional Water Quality Control Board ("Regional Board") adopted significantly more restrictive discharge

limits. As a result, a 2008 Wastewater Treatment Master Plan Supplement (“2008 Supplement”) was prepared to address these changes and revise the CIP for wastewater treatment. Significant system improvements were constructed in accordance with the 2007 Wastewater Master Plan and the 2008 Supplement, including upgrades to the wastewater treatment processes from secondary to tertiary treatment with the Phase 1 and 2 BNR/Tertiary Treatment Plant projects, repair and replacement of deficient pipeline infrastructure with the Emerald Trunk Primary Outfall Rehabilitation projects and recovering pipeline and treatment plant capacity with the Storm Drain Cross Connection Removal at Garrison Park Storm Drain project.

Each wastewater master plan derives its name not from the year of adoption, but from the year in which the initial studies and report are completed. Initial studies and the report for the 2016 Wastewater Master Plan (“2016 Wastewater Master Plan”) began in 2016. The 2016 Wastewater Master Plan was adopted following completion of the environmental impact report required by the California Environmental Quality Act in January 2020. The 2016 Wastewater Master Plan addresses current deficiencies and identifies improvements that will help the City adapt to changing conditions. Major topics that are addressed in the 2016 Wastewater Master Plan include:

- Lower population projections and wastewater flows.
- Changes in the City’s Planning Area and General Plan land use.
- Updating the hydraulic model.
- Approach for maximizing production and off-site delivery of recycled water with the Biological Nutrient Removal (“BNR”)/Tertiary Treatment Facilities.
- Construction of new primary treatment and solids handling facilities at the Jennings Facility to replace the aging facilities at the Sutter Facility.
- Reliability improvements at the Sutter Plant headworks (screening and grit removal).
- Reduction of domestic wastewater loadings on the existing secondary treatment system resulting from the operation of the BNR/tertiary facilities.
- Improved reliability and expanded capacity for the cannery process water flows.
- Potential regulatory requirements and compliance strategies related to the land application of treated municipal effluent, cannery process water, and biosolids.

In 2016, a cost of service study (the “2016 City of Modesto Sewer Rate and Fee Study”) was conducted in order to match projected rate increases to the needed capital improvements for the existing rate base and for new development. The majority of funding for capital wastewater projects is allocated for critical capacity projects and deferred maintenance projects. After conducting a Proposition 218 hearing in April 2016, the City Council adopted a new 5-year sewer rate increase, from Fiscal Year 2016-17 through Fiscal Year 2020-21, and new capacity fees in 2016, reflecting the results and recommendations of the 2016 City of Modesto Sewer Rate and Fee Study. These annual rate increases are capped at approximately 6% per year. The City reviews the rates annually and may revise rates to be lower if excess funds are available. On September 22, 2020, the City Council approved a rate increase of 4.01% to be effective January 1, 2021. See “WASTEWATER SYSTEM FINANCES—Rates.”

Set forth below is a table setting forth projected sources and uses of funds for the Wastewater Master Plan through Fiscal Year 2025-26, based, in part, on the 2016 Wastewater Master Plan. City management believes that the capital improvements shown in the table below will maintain the System in compliance with all applicable legal requirements and prudent industry standards. The City continuously re-prioritizes its CIP based on affordability (customer rates), System needs, minimum debt service coverage policy of 1.50x, and a minimum fund balance policy of, after the prepayment of the 2011 State Loan, 25% of operating expenses plus one-year of 2016 State Loan debt service. While the 2011 State Loan was still outstanding this minimum fund balance also included one year of 2011 State Loan debt service. *The projections may be affected by various factors and there can be no assurance that they will be achieved and any variation from projected sources and uses of funds may be material.*

**TABLE 2  
CITY OF MODESTO  
Wastewater System  
Capital Improvement Program Projects**

<b>Project Detail</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>	<b>FY 2022-23</b>	<b>FY 2023-24</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>
Project Expenditures Included In Pay As You Go (not in Wastewater Master Plan)	\$11,587,200	\$12,482,000	\$6,269,000	\$630,000	\$0	\$0
Project Expenditures Included In Pay As You Go (Included in Wastewater Master Plan) Priority Projects	\$10,350,000	\$8,250,000	\$15,500,000	\$15,600,000	\$15,360,000	\$7,240,000
Collection System - Capacity	\$100,000	\$169,680	\$1,159,870	\$2,506,084	\$3,092,597	\$4,668,490
Collection System -Rehab	\$2,595,000	\$2,350,461	\$2,593,093	\$3,000,000	\$3,000,000	\$4,000,000
Collection System - Reliability	\$0	\$0	\$0	\$0	\$0	\$0
Collection System - New Services	\$5,339,150	\$0	\$283,140	\$3,537,631	\$3,954,658	\$1,050,000
Existing Collections	\$1,051,000	\$50,000	\$0	\$0	\$0	\$0
Existing Wastewater Treatment	\$9,190,000	\$2,555,000	\$2,545,000	\$0	\$0	\$0
Cannery Segregation <sup>(1)</sup>	\$0	\$153,383	\$0	\$5,657,126	\$5,016,046	\$12,000,000
Reprioritized Wastewater Treatment	\$69,000	\$2,226,824	\$4,650,000	\$4,000,000	\$3,000,000	\$5,000,000
Renewal and Replacement Expenditures	\$1,245,468	\$1,245,468	\$2,875,468	\$2,875,468	\$2,875,468	\$1,245,468
<b>Total Capital Improvement Program</b>	<b>\$41,526,818</b>	<b>\$29,482,816</b>	<b>\$35,875,571</b>	<b>\$37,806,309</b>	<b>\$36,298,769</b>	<b>\$35,203,958</b>
- Grants	\$0	\$0	\$0	\$0	\$0	\$0
- Canneries	\$0	\$153,383	\$0	\$5,657,126	\$5,016,046	\$12,000,000
- Bonds/Parity Debt <sup>(2)</sup>	\$0	\$20,000,000	\$20,000,000	\$0	\$0	\$0
- Internally Generated Funds (Wastewater Funds) <sup>(3)</sup>	\$41,526,818	\$9,329,433	\$15,875,571	\$32,149,183	\$31,282,723	\$23,203,958
<b>Total Sources of Funding</b>	<b>\$41,526,818</b>	<b>\$29,482,816</b>	<b>\$35,875,571</b>	<b>\$37,806,309</b>	<b>\$36,298,769</b>	<b>\$35,203,958</b>

<sup>(1)</sup> Cannery Segregation is funded by the canneries.

<sup>(2)</sup> The City plans to issue approximately \$40 million in new money bonds in late 2021

<sup>(3)</sup> Assumes rate increases per annum as indicated in Table 19. See "Table 19 -- CITY OF MODESTO WASTEWATER ENTERPRISE

PROJECTED DEBT SERVICE COVERAGE" below. Rate increases for Fiscal Year ending June 30, 2020 have been implemented. On September 22, 2020, the City Council approved a rate increase of 4.01% for Fiscal Year ending June 30, 2021 which goes into effect on January 1, 2021. Rate increases for Fiscal Years ending June 30, 2022 through June 30, 2026 have not yet had a Proposition 218 hearing or been approved by the City Council.

Source: City of Modesto Department of Finance.

## Management

The Enterprise is operated under the management and control of the City Council. Currently, day-to-day management is provided by William Wong, Director of Utilities; Ben Koehler, Acting Water Quality Control Plant Manager; Robert Englent, Wastewater Collection Manager; Thomas Sinclair, Environmental Regulatory Compliance Manager; Monte Hamilton, Wastewater Maintenance Superintendent under the general supervision of Scotty Douglass, Deputy City Manager and Joseph Lopez, City Manager.

Brief resumes of the senior staff of the Enterprise are presented below:

**William Wong – Utilities Director.** Will Wong has a B.S. in Civil Engineering from University of California at Davis and is a California-licensed Civil Engineer. He has over 26 years of experience working on water and wastewater infrastructure projects, and has been with the City for over 19 years. He is currently the City of Modesto’s Utilities Director, overseeing the Department’s Wastewater Operations and Maintenance, Water Operations and Maintenance, and Engineering Services Divisions.

**Ben Koehler – Acting Wastewater Treatment Plant Manager, Chief Plant Operator.** Ben Koehler has over 8 years of experience in the wastewater industry. He has been with the City of Modesto for approximately 7 years. For the past 1.5 years, he has managed the Sutter Primary and Jennings Secondary, Tertiary treatment facilities. He is currently the Acting Wastewater Plant Manager whose responsibility is to oversee the entire operation of the City wastewater treatment facilities. He actively coordinates with the Utilities Engineering staff to ensure the City has the plans and equipment to meet compliance with current regulatory requirements.

**Robert Englent – Wastewater Collection System Manager.** Robert Englent has been in the wastewater industry for 26 years, holds a California Water Environment Association (“CWEA”) wastewater collections Grade IV certification and a California General Engineering Contractors license (inactive). Robert’s experience includes management of wastewater collection systems, asset management, computerized maintenance management systems, planning/scheduling, purchasing, and warehouse management. Robert is currently the Wastewater Collection System Manager for the City, overseeing all aspects of operation, maintenance, repair, and replacement of the wastewater and storm water collections systems.

**Thomas W. Sinclair – Environmental Regulatory Compliance Manager.** Thomas W. Sinclair has a B.S. in Geology and Oceanography from San Jose State University, San Jose, California. He has over 39 years of multi-disciplinary experience in environmental, safety, and regulatory compliance. Thomas’s experience includes ISO 14001 certification, laboratory management, hazardous material and waste management, U.S. DOT compliance, groundwater remediation, storm water, and wastewater treatment. He is currently the Environmental Regulatory Compliance Manager of Modesto Utilities Department overseeing safety and regulatory compliance.

**Monte Hamilton- Plant Maintenance Superintendent.** Monte Hamilton has over 26 years of experience in the water and wastewater industry and over 36 years in mechanical repair experience ranging from power plant mechanic through operations and maintenance of water and wastewater plant, holding a variety of licenses and certifications such as: Water treatment, distribution, Grade IV Mechanical Technologist and Collection System Maintenance Grade IV.

The City is conducting an internal process to develop a succession plan for senior management, which includes formal training and lines of succession.

## Employees

The Utilities Director has primary responsibility for the management of the wastewater treatment facilities and wastewater collection system, as well as for the water system and storm drains. As of July 13, 2020, the Enterprise has allocated 138 full-time employees. Employees are represented by the Modesto City Employees Association and Modesto Confidential and Management Association whose current Memorandum of Understanding expires in 2023. The City has never experienced a labor strike.

## Retirement Programs

**Pension Plans.** The City’s permanent employees, including Enterprise employees, are covered by the California Public Employees Retirement System (“CalPERS”) through agent multiple-employer defined benefit plans administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov). The foregoing internet address is included for reference only, and the information on the internet site is not incorporated by reference herein.

The City’s defined benefit pension plans, the Miscellaneous Plan and the City’s Safety Plan, provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members (who must be public employees) and beneficiaries. Benefit provisions and all other requirements of the plans are established by State statute, including the Public Employees’ Pension Reform Act of 2013 which primarily affects new pension plan members enrolled after 2012, and City resolutions. No employees assigned to the Enterprise participate in the City’s Safety Plan.

Set forth below is a table summarizing the funding status of the City’s Miscellaneous Plan for the four Fiscal Years ended June 30, 2019:

**TABLE 3  
CITY OF MODESTO  
Funding Status  
Fiscal Years 2015-16 through 2018-19**

<i>Fiscal Year</i>	<i>Accrued Liability</i>	<i>Market Value of Assets (MVA)</i>	<i>Unfunded Liability</i>	<i>Funded Ratio</i>	<i>Annual Covered Payroll</i>
2015-16	421,909,284	304,402,635	117,506,649	72.1%	45,374,121
2016-17	443,855,982	326,849,221	117,006,761	73.6%	48,479,267
2017-18	474,834,279	342,310,119	132,524,160	72.1%	49,545,472
2018-19	490,376,850	352,917,082	137,459,768	72.0%	50,717,747

*Source: CalPERS, Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2019.*

The CalPERS Board of Administration has adjusted and may in the future further adjust certain assumptions used in the CalPERS actuarial valuations, which adjustments may increase the City’s required contributions to CalPERS in future years. One of the most significant factors used in determining the liability and the funding requirements is the rate of return that investments will yield prior to making payments, known as the discount rate. CalPERS has approved an incremental reduction in the discount rate to be used in its actuarial valuation from 7.5% to 7.0% over the three Fiscal Years 2017-18 to 2019-20, which is expected to result in an increase in the unfunded liability and the contributions required to meet those obligations. In February 2018, CalPERS revised its amortization policy to reduce the amortization period for gains and losses from a 30-year period to a 20-year period for new gains/losses established on or after June 30, 2019 which will begin to affect contribution rates in Fiscal Year 2020-21. See “Table 6—CITY OF MODESTO Required and Projected Future Employer Contribution Miscellaneous Plan Fiscal Years 2020-21 through 2025-26” below. The City has taken into account future increases in the CalPERS contribution rates in its forecasts of salary and benefit projections shown in the table under the heading, “WASTEWATER SYSTEM FINANCES—Projected Debt Service Coverage.”

Effective for the Fiscal Year ended June 30, 2015, the City adopted Governmental Accounting Standards Board (“GASB”) Statement No. 68, affecting the reporting of pension liabilities for accounting purposes. Under GASB Statement No. 68, the City is required to report the Net Pension Liability (i.e., the difference between the Total Pension Liability and the Pension Plan’s Net Position or market value of assets) in its financial statements.

In accordance with applicable State law, the contribution rate for all public employers is determined annually by the actuary and is effective on the July 1 following notice of a change in rate. Funding contribution amounts are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate applied to annual payroll is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the actuarially determined amounts, net of contributions by employees, necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. The cost of the Miscellaneous Plan is funded through bi-weekly contributions from employees and from employer contributions by the City.

The employer contribution rates are established, and may be amended, by CalPERS. Set forth below is a table showing the City's required employer and employee contribution rates for the Miscellaneous Plan (as a percentage of annual covered payroll) for the four Fiscal Years ended June 30, 2020. The City does not pick up any payments on behalf of its employees.

**TABLE 4**  
**CITY OF MODESTO**  
**Historical Employer and Employee Contribution Rates**  
**Fiscal Years 2016-17 through 2019-20**

<i>Fiscal Year</i>	<i>Employee Contribution Rate as Percentage of Annual Covered Payroll</i>	<i>Employer Contribution Rate as Percentage of Annual Covered Payroll</i>
2016-17	6.933%	7.406%
2017-18	6.846%	7.079%
2018-19	6.802%	7.43%
2019-20	6.755%	7.922%

*Source: CalPERS, Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2019.*

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The Enterprise is allocated its portion of the City’s required contribution for the Miscellaneous Plan. This allocation is based on eligible employee wages. Set forth below is a table showing the City’s required contributions to its CalPERS Miscellaneous Plan for the four Fiscal Years ended June 30, 2017 through 2020 and the amount in each year allocated to the Enterprise:

**TABLE 5  
CITY OF MODESTO  
WASTEWATER SYSTEM  
Historical Employer and Employee Contribution Rates  
for the City and Enterprise Allocation  
Fiscal Years 2016-17 through 2019-20**

<i>Fiscal Year</i>	<i>City Required Contribution</i>	<i>Amount Allocated to the Enterprise</i>
2016-17	\$7,623,800	\$1,313,072
2017-18	8,640,500	1,652,652
2018-19	10,238,250	1,715,695
2019-20	12,154,118	2,014,420

*Sources: CalPERS, Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2019; City of Modesto Finance Department.*

The City has made all actuarially required payments to CalPERS for its Pension Plans on a timely basis.

CalPERS provided the City with the following projected contributions from Fiscal Year ended June 30, 2021 through June 30, 2026:

**TABLE 6  
CITY OF MODESTO  
Required and Projected Future Employer Contributions  
Miscellaneous Plan  
Fiscal Years 2020-21 through 2025-26**

<i>Fiscal Year</i>	<i>Total Contributions<sup>(1)</sup></i>	<i>Allocated to Enterprise</i>
2020-21	\$13,621,872	\$2,372,930
2021-22	15,021,047	2,616,666
2022-23	16,171,786	2,817,125
2023-24	16,908,027	2,945,378
2024-25	17,732,439	3,088,991
2025-26	18,220,081	3,173,938

<sup>(1)</sup> Total contribution consists of the normal cost plus the UAL payment. Figures are for the City as a whole for its Miscellaneous Plan only.

*Source: CalPERS, Miscellaneous Plan of the City of Modesto, Annual Valuation Report as of June 30, 2019.*

Approximately 17.42% of these contributions are expected to be allocable to the Wastewater Enterprise as indicated in the table above and these amounts are included in the line item “Total Operating Expenditures, Net of Depreciation” shown in the projected debt service coverage table. See “Projected Debt Service Coverage” below.

Future increases in required CalPERS contributions will impact the City’s reserve levels and require future action to either reduce expenses through service reductions or increase revenues through tax or service rate increases.

The City’s ability to increase taxes is subject to Constitutional limitations. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Proposition 218—*Article XIII C* and —*Article XIII D*.” The City cannot provide any assurances that the City’s required contributions to CalPERS in future years will not significantly increase (or otherwise vary) from any past or current projected levels of contributions. As noted above, as of June 30, 2019, the unfunded liability of the City’s Miscellaneous Plan was \$137,459,768. Stock markets in the U.S. and globally saw significant declines attributed to COVID-19 concerns and given the continuing uncertainty regarding the length and scope of the pandemic, similar future declines are possible which could result in a significant increase in the City’s unfunded pension liability and future pension costs.

**Retiree Health Benefits.** In addition to the defined benefit pension plan described above, the City also maintains its own program providing “other post-employment benefits” (“OPEB”) to eligible retirees, including health care and disability coverage and death benefits. All full-time employees hired before January 1, 2011, except firefighters who receive a cash payout, are eligible to convert accumulated grandfathered sick leave upon retirement to a Retirement Health Savings account. Such converted amounts are included in the total OPEB liability below. All employees hired on or after January 1, 2011 will not be eligible to participate in the sick leave conversion. Any sick leave accumulated after January 1, 2011 cannot be converted to a Retirement Health Savings account and has no cash value at retirement.

The City has no obligation to pay the health insurance allowance for new retirees. At June 30, 2019, 312 retirees or surviving spouses met the various eligibility requirements and were receiving medical benefits or contributions to their Retirement Health Savings account; 137 retirees are receiving dental benefits. Based on eligibility status, these retirees or surviving spouses may participate in any health plan made available to active City employees. The City has several plans with different contribution levels and benefit provisions. City contributions vary up to 100% of annual premium cost, depending on the employee’s Medicare eligibility, year of hire, year of retirement, age and employee group.

The City’s contributions toward the cost of its OPEB program are generally funded on a pay-as-you-go basis. The City’s OPEB liability for the Fiscal Years ended June 30 of 2018 and 2019 are set forth below:

**TABLE 7**  
**CITY OF MODESTO**  
**Schedule of Changes in the OPEB Liability and Related Ratios**  
**Fiscal Years 2017-18 through 2018-2019**

<i>Measurement Period</i>	<b>FY 2017-2018</b>	<b>FY 2018-2019</b>
	June 30, 2017	June 30, 2018
<b>Total OPEB liability</b>		
Service cost	\$ 935,427	\$ 963,490
Interest	892,669	1,038,035
Differences between expected and actual experience	-	(468,009)
Changes of assumptions	(1,600,635)	(1,306,633)
Benefit payments	(2,430,468)	(2,733,246)
Net change in total OPEB liability	(2,203,007)	(2,506,363)
Total OPEB liability - beginning	31,601,528	29,398,521
Total OPEB liability - ending (a)	<u>\$ 29,398,521</u>	<u>\$ 26,892,158</u>
Covered-employee payroll	\$ 55,637,076	\$ 49,647,245
Total OPEB liability as a Percentage of Covered-Employee Payroll	52.84%	54.17%

*Source: Bartel Actuarial Study of the City of Modesto, as of June 30, 2019.*

The following table provides a schedule of contributions for the City's OPEB liability that is based on the most recent actuarial valuation as of January 1, 2019.

**TABLE 8**  
**CITY OF MODESTO**  
**Schedule of OPEB Contributions**  
**Fiscal Year 2016-2017 through 2019-2020**

Fiscal Year	2016-2017	2017-2018	2018-2019	2019-2020
Actuarially Determined Contribution (ADC)	\$ 2,527,076	\$ 2,430,468	\$ 2,733,246	\$ 2,377,048
Contributions in Relation to the ADC	(2,527,076)	(2,430,468)	(2,733,246)	(2,377,048)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered-Employee Payroll	\$ 49,552,706	\$ 55,637,076	\$ 57,903,435	\$ 49,647,245
Contributions as a Percentage of Covered-Employee Payroll	5.10%	4.37%	4.72%	4.79%

*Source: City of Modesto, Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2019.*

Beginning in the Fiscal Year ended June 30, 2018, the City adopted Governmental Accounting Standards Board ("GASB") Statement No. 75, affecting the reporting of OPEB liabilities for accounting purposes. GASB No. 75 requires the OPEB liability of the City to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

Additional information regarding the City's retirement plans and OPEB, including information regarding the assumptions used to determine the pension and OPEB liabilities and the funding requirements therefor, can be found in Notes III(F) and III(G) and the Required Supplementary Information to the City's audited financial statements included in the City's comprehensive annual financial report for the Fiscal Year ended June 30, 2019, attached hereto as Appendix B.

The Enterprise is allocated its portion of the City's required contribution for OPEB. This allocation is based on eligible employee wages. Set forth below is a table showing the City's required and actual contributions to its OPEB Plan for the three Fiscal Years ended June 30, 2017 through 2019. Approximately 7.74% of the actual contributions in each year were allocated to the Enterprise.

**TABLE 9**  
**CITY OF MODESTO**  
**Other Post-Employment Benefits (OPEB)**  
**Historical Employer and Employee**  
**Contribution Rates for the City**  
**Fiscal Years 2016-17 through 2018-19**

<i>Fiscal Year</i>	<i>City Required Contribution</i>	<i>Actual Contribution</i>	<i>Actual Amount Allocated to the Enterprise</i>
2016-17	\$ 2,527,076	\$ 2,527,076	\$178,274
2017-18	2,430,468	2,430,468	201,281
2018-19	2,733,246	2,733,246	215,962

*Source: City of Modesto, Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2019*

The City projects the following OPEB contributions for calendar years 2020 through 2025:

**TABLE 10**  
**CITY OF MODESTO**  
**Projected Future Employer OPEB Contributions**  
**Calendar Years 2020 through 2025**

<i>Calendar Year</i>	<i>Total Contribution</i>	<i>Allocable to the Enterprise</i>
2020	\$2,806,762	\$217,243
2021	2,989,202	231,364
2022	3,183,500	246,403
2023	3,390,427	262,419
2024	3,610,805	279,476
2025	3,845,507	297,642

*Source: City of Modesto Department of Finance.*

Approximately 7.74% of these contributions are expected to be allocable to the Enterprise as noted in the table above and such amounts are included in “Total Operating Expenditures, Net of Depreciation” shown in the projected debt service coverage table. See “WASTEWATER SYSTEM FINANCES—Projected Debt Service Coverage” below.

Future increases in OPEB contributions will impact the City’s reserve levels and require future action to either reduce expenses through service reductions or increase revenues through tax or service rate increases. The City’s ability to increase taxes is subject to Constitutional limitations. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Proposition 218—*Article XIIC* and —*Article XIID*.” The City cannot provide any assurances that the City’s required contributions OPEB in future years will not significantly increase (or otherwise vary) from any past or current projected levels of contributions.

**Insurance**

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/occurrence as follows: workers’ compensation \$750,000; liability \$1,000,000. 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 risk pool. This pool covers City claims between \$1 million and \$5 million. Commercial insurance covers claims over \$5,000,000 in two excess layers of \$10,000,000 each and five additional layers of \$5,000,000 each for total coverage of \$50,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past five Fiscal Years.

The City currently maintains insurance against damage to the Enterprise. Coverage thereunder is covered by a commercial property insurance policy with a blanket limit of \$581,599,541 but damage resulting from earthquakes is not covered.

## Wastewater System Users

The Enterprise's customer base consists primarily of residential accounts although a portion of revenues comes from industrial customers. The breakdown of accounts by category and percentage of total operating revenues are as follows for Fiscal Year 2019-20:

**TABLE 11**  
**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Customer Base by Type of Account**  
**Fiscal Year 2019-20**

<i>Category</i>	<i>Number of Accounts</i>	<i>Percentage of Total Accounts</i>	<i>Percentage of Total Operating Revenues</i>
Residential	58,668	94.68%	45.56%
Commercial	3,250	5.24	9.61
Industrial	49	0.08	27.39
Total	61,967	100.00%	82.56%

Source: City of Modesto Finance Department.

The 10 largest users of the Enterprise accounted for approximately 22.10% of total service charge revenue in Fiscal Year 2019-20, nine of which are included in the industrial category in the prior table. The largest users, in terms of amounts billed to each during the past Fiscal Year, are listed below:

**TABLE 12**  
**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Ten Largest Users of Sewer Facilities**  
**As of June 30, 2020**

<i>Users</i>	<i>Sewer Fee Operating Revenue</i>	<i>% of Sewer Fee Operating Revenue</i>
1) E & J Gallo Winery	\$ 2,083,065	3.87%
2) Stanislaus Food Products	2,024,129	3.76
3) Foster Farms	1,800,976	3.35
4) City of Ceres	1,480,133	2.75
5) Del Monte Foods	1,312,819	2.44
6) Frito-Lay, Inc.	1,075,067	1.99
7) Nestle Food Company	673,661	1.25
8) Rizo Lopez Foods	617,532	1.14
9) Sunopta	489,225	0.91
10) Seven Up Bottling	348,433	0.64
Total (Top Ten Customers)	\$ 11,905,040	22.10%
Total (All Customers)	\$ 53,759,934	

Source: City of Modesto Finance Department.

The Del Puerto Water District makes payments to the Enterprise for recycled water in the amount of \$30 per acre foot. See "WASTEWATER SYSTEM—System Description—General" above. In addition, the Del Puerto Water District will pay or reimburse the City for: (1) all 2016 State Loan debt service, (2) one-half of the debt service cost savings resulting from the Proposition 1 grant and (3) costs to operate and maintain the recycled water delivery

facilities. In Fiscal Year 2019-20 these payments were \$2,570,000 and are expected to increase in Fiscal Year 2020-21 to approximately \$2,943,000 per year. The Del Puerto Water District revenues are included in the projections provided in the table under the heading, “WASTEWATER SYSTEM FINANCES—Projected Debt Service Coverage.”

### **PCE Litigation**

The City of Modesto Redevelopment Agency brought an action in 1998 against numerous defendants, alleging causes of action for strict liability, negligence, negligence per se, continuing trespass, private and public nuisance, private and public nuisance per se, response costs and declaratory relief under the Carpenter-Presley-Tanner Hazardous Substance Account Act (Health & Safety Code Section 25300 *et seq.*), ultrahazardous activity, and cost recovery under the Polanco Redevelopment Act (Health & Safety Code Section 33459 *et seq.*) (San Francisco County Superior Court Case No. 999345). Because the City had to provide certain related cleanup efforts, simultaneously with the filing of that action, the City, along with the City of Modesto Sewer District No. 1, brought another action against a nearly identical group of defendants seeking damages for solvent contamination under many of the same legal theories; but this action did not include a Polanco Redevelopment Act cause of action (San Francisco County Superior Court Case No. 999643). The defendants included chlorinated solvent manufacturers, distributors of solvents and dry cleaning equipment, chlorinated solvent equipment manufacturers, and dry cleaning retailers.

The complaints alleged that two cleaning solvents, perchloroethylene (“PERC” or “PCE”) and trichloroethylene, cause risks to health and the environment, that dry cleaners customarily dumped solvent wastewater into the public sewer systems, and that dry cleaners experienced a habitual problem of chlorinated solvents leaking into the environment. According to the complaints, the defendants who manufactured and supplied solvents and equipment instructed dry cleaners that chlorinated solvents could be discharged into sewers and/or failed to issue recalls or warnings regarding the equipment and solvents.

The plaintiffs, including the City, tried five “bellwether” suits before a jury from February to June of 2006, and won a verdict for compensatory damages of \$3.1 million and a verdict for punitive damages of \$175 million, later lowered to \$12 million. The remainder of the case was then tried to a second jury and the Court. The second trial resulted in a jury verdict of \$18,320,000. This verdict was vacated by the trial court based upon the statute of limitations, and all parties appealed. The Court of Appeal issued an opinion reversing the trial court on several issues in early 2018 and remanded the case for further proceedings. The parties are now engaged in simultaneous trial preparation and settlement discussions. The litigation remains active, but previous settlements and insurance payments will continue to off-set the City’s costs of litigation for the foreseeable future. It is not anticipated that the cost/settlement ratio will change dramatically in the 15 months following the issuance of the Series 2020 Bonds, which is as far as the City believes reasonable forecasting may be done on the cost issue.

## **WASTEWATER SYSTEM FINANCES**

### **Rate Setting and Budget Process**

The City reviews its budgetary progress on a quarterly basis. In accordance with California law, the City Council may, from time to time and at its discretion, fix, alter, change, amend or revise any user fees, connection charges and all other fees related to the Enterprise. Proposition 218, passed by the California electorate in 1996 potentially affects the City’s ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition under Proposition 218. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Proposition 218—*Article XIIC* and —*Article XIID*.”

### **Proposition 218 Process**

In November 1996, citizens of the State of California passed a Constitutional amendment known as Proposition 218. This amendment changed the process for increasing property-related fees within the state. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Proposition 218—*Article XIIC* and —*Article XIID*” herein. For the City, sewer rates are treated as a

property-related fee and, pursuant to Proposition 218, require a protest hearing by the property owners prior to instituting a rate increase. Under the protest hearing process, property owners within the service area are mailed a rate increase notice and protest form detailing the proposed rate increase. To oppose the rate increase, the property owner must return the protest form to the City. To support the rate increase, there is no action required on the part of the property owner. If a significant number of protests are returned to the City no later than the end of the protest hearing, the City may not approve the proposed rate increase. If the protest fails with 50% or less, then the City can approve a rate increase not to exceed the rate increase detailed in the protest form. The rate increases for the services of the Enterprise which took effect on January 1, 2020 remain in place until the next rate increase goes into effect. On September 22, 2020, the City Council approved a rate increase of 4.01% for Fiscal Year 2020-21 which is effective January 1, 2021. These rate increases were all approved following the procedures required by Proposition 218. The City expects to undertake its next rate review process in the next year covering wastewater rates for Fiscal Year 2021-22 through 2026-27.

**Rates**

The Enterprise collects its sewer service charges on the City’s monthly utility bill, which includes water, sewer, storm drain and garbage. If charges are not paid, the City begins the process of initiating a lien on the user’s property and may discontinue sewer service to the user. Historically, less than 1% of billed amounts for sewer service charges has been written off as bad debt. In March 2020, the Enterprise instituted a program which allowed small businesses in the City to defer their utility payments for up to 90 days. This program expired on July 31, 2020 and did not have a significant impact on payments to the Enterprise. However, receivable delinquencies have increased from approximately 0.5% of Net Revenues to approximately 0.8% of Net Revenues since the beginning of the COVID-19 pandemic. See “INTRODUCTION—COVID-19 Pandemic.”

For the average single-family residence, the current monthly sewer charge is \$40.17 as of July 1, 2020. A schedule of commercial sewer rates is set forth below as of July 1, 2020:

**TABLE 13  
CITY OF MODESTO  
Schedule of Commercial Sewer Rates**

<i>Commercial Group</i>	<i>Monthly Account Charge</i>	<i>Additional Charge Per 100 cubic feet (ccf) of Waste</i>
Group 1 <sup>(1)</sup>	\$4.50	\$3.55
Group 2 <sup>(2)</sup>	4.50	4.70
Group 3 <sup>(3)</sup>	4.50	5.85
Group 4 <sup>(4)</sup>	4.50	7.23

(1) No food, just toilets or working facilities.

(2) Commercial laundromats, service stations, hotels without food.

(3) Industrial laundromats, hotels with food.

(4) Restaurants, bakeries, auto steam, markets.

Source: *City of Modesto.*

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A schedule of industrial sewer rates is set forth below as of July 1, 2020:

**TABLE 14**  
**CITY OF MODESTO**  
**Schedule of Industrial Sewer Rates**

Flow Per Million Gallons	\$3,212
Excess Biochemical Oxygen Demand (BOD) Per 1,000 Pounds	238
Excess Suspended Solids (SS) Per 1000 Pounds	471

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*Source: City of Modesto.*

Residential, commercial and industrial rates have increased during the past five years. Below are the residential rate increases for the last five years, as well as approved increases through 2020-21. As part of its annual budget process, the City may lower rates if its excess revenues allow the City to maintain its covenants and compliance with its coverage and reserve policies while imposing such lower rates. Currently, the City does not anticipate rates to be lowered as part of the next budget process.

**TABLE 15**  
**CITY OF MODESTO**  
**Schedule of Residential Sewer Rate Increases**

<i>Fiscal Year</i>	<i>Residential Rate Percent Increase</i>
2014-15	1.97%
2015-16	2.96
2016-17	5.76
2017-18	5.98
2018-19	5.78
2019-20	6.12
2020-21	4.01

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*Source: City of Modesto.*

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**Comparative Monthly Wastewater Service Charges.** The City’s residential charges as of July 1, 2020 are set forth in the table below with a comparison to other Central Valley cities.

**TABLE 16  
CITY OF MODESTO  
WASTEWATER SYSTEM  
Monthly Sewer Charge Comparison  
Residential Service  
As of July 1, 2020**

<u>City</u>	<u>Monthly Residential Charge</u>
Tracy	34.00
<b>Modesto</b>	<b>40.17</b>
Waterford	44.01
Turlock	44.16
Stockton	46.75

*Source: City of Modesto.*

**Connection Fees.** The Enterprise imposes connection fees on a one-time basis to new users of the sewer system and to users that significantly expand their usage. The fees have three components:

- Connection charge: \$2,643 per Equivalent Dwelling Unit for residential. Commercial and industrial property are charged based on type of business.
- Sub-trunk sewer charge: Approximately \$645/acre
- Connection (lateral) charge: \$33 per linear foot of lot frontage adjacent to the sewer line

Connection fees are treated as contributed capital and are used only for capital projects, not for operations.

The most recent cost of service study and a connection fee study made recommendations for new rate structures for the next five years to fund the capital improvement program. Such new rate structures were adopted in April 2016.

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**Comparative Connection Fees.** The current Connection Fees and a comparison of the City’s Connection Fees to those of other Central Valley and Northern California cities are set forth in the table below.

**TABLE 17  
CITY OF MODESTO  
WASTEWATER SYSTEM  
Wastewater Connection Fees Comparison  
As of July 1, 2019**

<i>City</i>	<i>Connection Fee</i>
Fresno <sup>(1)</sup>	\$2,241
Stockton	2,264
<b>Modesto</b>	<b>2,643</b>
Turlock	2,820
Lodi <sup>(2)</sup>	3,071
Tracy	6,727

<sup>(1)</sup> Connection fees are based on the size of the lot & location.

<sup>(2)</sup> Connection fees are based on the size of the water meter.

Source: *City of Modesto.*

### Financial Information

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into seven generic funds within three broad fund types, and a fourth category of accounting entities, the account groups, as follows:

Governmental Funds	General Fund Special Revenue Funds Capital Project Funds
Proprietary Funds	Debt Service Funds Enterprise Funds Internal Service Funds
Fiduciary Funds	Private Purpose Trust Fund Agency Funds

Enterprise funds are used to account for operations that are financed in a manner similar to private business enterprises in that the costs of providing goods and services to the general public on a continuing basis are financed or recovered primarily through user charges. The City accounts for the operations of the sewer, storm drain, and water systems, airport, golf, community center, parking, compost, and bus service systems on this basis. Enterprise funds are accounted for using the accrual basis of accounting. Unbilled utility services receivables are recorded at year-end. Property and equipment owned by enterprise funds are stated at historical cost where available and at estimated cost when original cost is not available. Depreciation is charged to operations using the straight-line method over the estimated useful lives of the assets, which are 30 years for buildings, 20 years for improvements, 10 years for furnishings and equipment and 75 years for pipelines.

See Appendix B – “CITY OF MODESTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FY 2018-19” for the City’s comprehensive annual financial report. The financial information in Appendix B does not account for the potential effects of COVID-19. For further information concerning the potential effects of COVID-19 on the City and the Enterprise, see “INTRODUCTION—COVID-19 Pandemic” above.

## Historical Debt Service Coverage

The following table shows debt service coverage for the Sewer Enterprise Fund for the Fiscal Years ended June 30, 2015 through June 30, 2019.

**TABLE 18**  
**CITY OF MODESTO SEWER ENTERPRISE**  
**HISTORICAL DEBT SERVICE COVERAGE**  
**Fiscal Years Ended June 30, 2015 through June 30, 2019**  
**(In Thousands of Dollars)**

Fiscal Year Ending June 30	2015	2016	2017	2018	2019
<b>GROSS REVENUES:</b>					
Operating Revenue					
Service Charges	\$43,408,271	\$44,796,050	\$46,042,925	\$47,778,973	\$54,172,626
Del Puerto Water District (Debt Service)	--	--	--	\$640,592	\$1,010,549
Del Puerto Water District (DS Cost Savings)	--	--	--	\$104,303	\$64,189
Del Puerto Water District (O&M)	--	--	--	\$261,891	\$423,010
Del Puerto Water District (DPWD Water Sales)	--	--	--	\$74,371	\$322,983
Interest Income	453,271	579,520	609,224	549,645	1,192,458
Rental Income	501,959	502,627	503,969	504,678	505,407
Miscellaneous Income	301,693	-22,108	860,880	269,454	188,121
Change in Fair Market Value	-202,624	22,108	-491,415	-449,054	1,199,336
Direct Charges/Cost Distribution	1,210,854	1,226,515	1,804,338	2,859,497	1,872,224
Transfers from Other Funds	165,919	173,058	165,919	462,734	573,513
Developmental Fees <sup>(1)</sup>	1,014,026	1,686,652	1,425,098	1,473,011	1,141,200
<b>GROSS REVENUES</b>	<b>\$46,853,368</b>	<b>\$48,964,422</b>	<b>\$50,920,938</b>	<b>\$54,530,096</b>	<b>\$62,665,616</b>
<b>OPERATING EXPENSES:</b>					
Operating Expenditures, Net of Depreciation	\$20,383,489	\$24,115,325	\$24,402,900	\$25,678,429	\$25,726,745
Allocated Indirect Administration Costs	615,916	665,616	642,202	848,937	853,289
Property Taxes <sup>(2)</sup>	138,980	142,526	136,993	83,956	141,587
Recycled Water	--	--	--	377,800	615,822
Other Uses (Transfers Out)	68,640	68,640	68,640	280,669	629,879
<b>TOTAL OPERATING EXPENSES<sup>(3)</sup></b>	<b>\$21,207,025</b>	<b>\$24,992,107</b>	<b>\$25,250,735</b>	<b>\$27,269,791</b>	<b>\$27,967,322</b>
<b>NET OPERATING REVENUES</b>	<b>\$25,646,343</b>	<b>\$23,972,315</b>	<b>\$25,670,203</b>	<b>\$27,260,305</b>	<b>\$34,698,294</b>
<b>DEBT SERVICE<sup>(4)</sup>:</b>					
Series 2005 Bonds <sup>(5)</sup>	\$3,539,469	\$3,721,135	\$0	\$0	\$0
Series 2006A Bonds <sup>(5)</sup>	729,721	849,151	629,476	508,881	1,250
2011 State Loan <sup>(6)</sup>	0	0	7,894,560	10,025,183	7,512,697
Series 2015 Bond	0	0	2,787,062	2,774,024	2,776,495
2016 State Loan <sup>(7)</sup>	0	0	1,500	1,000	1,105,895
Series 2018A Refunding Bonds	0	0	0	338,695	562,070
<b>TOTAL DEBT SERVICE</b>	<b>\$4,269,190</b>	<b>\$4,570,286</b>	<b>\$11,312,598</b>	<b>\$13,647,783</b>	<b>\$11,958,407</b>
<b>NET REVENUES AFTER DEBT SERVICES</b>	<b>\$21,377,153</b>	<b>\$19,402,029</b>	<b>\$14,357,605</b>	<b>\$13,612,522</b>	<b>\$22,739,887</b>
<b>DEBT SERVICE COVERAGE<sup>(8)</sup></b>	<b>6.01</b>	<b>5.25</b>	<b>2.27</b>	<b>2.00</b>	<b>2.90</b>
(Net Operating Revenues/ Total Debt Service)					
Capital Projects Funded by Wastewater	\$16,768,852	\$21,094,814	\$14,013,897	\$11,141,420	\$17,152,642
Fund Balance	\$78,109,157	\$76,416,372	\$76,760,080	\$79,231,182	\$84,818,428

(1) Developmental fees are connection charges. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS—Additional Bonds and Parity Debt" for a discussion of how connection charges are treated for additional bonds purposes.

(2) Property taxes paid for property outside of City limits.

(3) Increase of approximately 17.8% from Fiscal Year ended June 30, 2015 to Fiscal Year ended June 30, 2016 largely driven by the 12.6 mgd Phase 2 BNR/Tertiary Treatment Facilities completed in 2015. See "WASTEWATER SYSTEM—System Description—General."

(4) See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS—Outstanding Parity Debt."

(5) Refunded. The Series 2005 Bonds were refunded on November 1, 2015. The Series 2006A Bonds were refunded on April 20, 2018. Debt service in Fiscal Year 2018-19 on the Series 2006A Bonds is for arbitrage rebate costs.

(6) To be refunded by the Series 2020 Bonds.

(7) Debt service commenced in Fiscal Year 2018-19 after draw down period was complete.

(8) Decline in debt service coverage for Fiscal Year ended June 30, 2017 reflects first payment of 2011 State Loan, which funded the Phase 2 BNR/Tertiary Treatment Facilities. Results differ in minor respects from the summary table in the City's CAFR. See Appendix B – "CITY OF MODESTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FY 2018-19."

Source: City of Modesto Finance Department.

## Projected Debt Service Coverage

The following table sets forth projected operating revenues, Operating Expenses and debt service coverage for the Sewer Enterprise Fund for the Fiscal Years ending June 30, 2020 through June 30, 2024. The projections of amounts, and timing for receipts and disbursements in the table, are updated for growth assumptions and assume projected rate increases (See “WASTEWATER SYSTEM FINANCES—Rates”). The impact of COVID-19 on projected income and expenses for the Enterprise are currently not significant and have been incorporated below. However, the long-term impact is still uncertain. See “RISK FACTORS—COVID-19 Related Matters” below. The following table also assumes no optional or special mandatory redemption of the Series 2020 Bonds or prepayment of the Existing Parity Debt. *The following projections are based on the City’s current circumstances and currently available information and are believed to be reasonable. The projections may be affected by various factors and there can be no assurance that they will be achieved and any variation from projected operating results may be material.*

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**TABLE 19**  
**CITY OF MODESTO WASTEWATER ENTERPRISE**  
**PROJECTED DEBT SERVICE COVERAGE**  
**Fiscal Years Ending June 30, 2020 through June 30, 2024**  
**(In Thousands of Dollars)**

Fiscal Year Ending June 30	2020 <sup>(1)</sup>	2021	2022 <sup>(2)</sup>	2023 <sup>(2)</sup>	2024 <sup>(2)</sup>
Prop 218 Rate Increase	6%	4%	NA	NA	NA
Rate Increase Effective Date	1/1/2020	1/1/2021	NA	NA	NA
<b>GROSS REVENUES:</b>					
Operating Revenue					
Service Charges	\$53,583,406	\$55,190,908 <sup>(3)</sup>	\$56,798,410 <sup>(4)</sup>	\$56,798,410 <sup>(4)</sup>	\$56,798,410 <sup>(4)</sup>
Del Puerto Water District (Debt Service)	1,148,553	1,154,276	1,152,162	1,152,162	1,152,162
Del Puerto Water District (DS Cost Savings)	85,000	85,000	85,000	85,000	85,000
Del Puerto Water District (O&M)	841,339	1,208,605	1,234,277	1,260,463	1,287,172
Del Puerto Water District (DPWD Water Sales)	495,000	495,000	495,000	495,000	495,000
Interest Income	330,000	516,315	329,583	370,101	343,966
Rental Income	522,744	504,744	504,744	504,744	504,744
Direct Charges/Cost Distribution	2,373,255	2,664,871	2,718,168	2,772,532	2,827,982
Transfers from Other Funds	521,355	521,355	521,355	521,355	521,355
Developmental Fees <sup>(5)</sup>	565,500	565,500	565,500	565,500	565,500
<b>GROSS OPERATING REVENUES</b>	<b>\$60,466,152</b>	<b>\$62,906,574</b>	<b>\$64,404,200</b>	<b>\$64,525,267</b>	<b>\$64,581,291</b>
<b>OPERATING EXPENSES</b>					
Total Operating Expenditures, Net of Depreciation	\$33,011,678	\$33,208,882	\$33,872,804	\$34,550,260	\$35,241,265
Property Taxes <sup>(6)</sup>	153,400	156,468	159,597	162,789	166,045
Recycled Water	826,669	1,283,605	1,309,277	1,335,463	1,362,172
Other Uses (Transfers Out) <sup>(7)</sup>	1,092,542	68,640	68,640	68,640	68,640
<b>TOTAL OPERATING EXPENSES</b>	<b>\$35,084,289</b>	<b>\$34,717,595</b>	<b>\$35,410,319</b>	<b>\$36,117,152</b>	<b>\$36,838,122</b>
<b>NET OPERATING REVENUES</b>	<b>\$25,381,863</b>	<b>\$28,188,980</b>	<b>\$28,993,881</b>	<b>\$28,408,114</b>	<b>\$27,743,169</b>
<b>DEBT SERVICE<sup>(8)</sup></b>					
2011 State Loan <sup>(9)</sup>	\$8,819,955	\$7,212,834	\$0	\$0	\$0
Series 2015 Bond	2,782,658	2,776,631	2,784,602	2,784,358	909,130
2016 State Loan	1,153,663	1,154,276	1,152,162	1,152,162	1,152,162
Series 2018A Bonds	561,530	563,513	555,400	555,400	555,400
Series 2020 Bonds	--	1,032,730	7,905,755	7,902,860	7,903,568
Future Indebtedness	--	--	--	2,180,100	2,187,800
<b>TOTAL DEBT SERVICE</b>	<b>\$13,317,806</b>	<b>\$12,739,984</b>	<b>\$12,397,918</b>	<b>\$14,574,879</b>	<b>\$12,708,059</b>
<b>NET REVENUES AFTER DEBT SERVICE</b>	<b>\$12,064,057</b>	<b>\$15,448,995</b>	<b>\$16,595,963</b>	<b>\$13,833,235</b>	<b>\$15,035,110</b>
<b>DEBT SERVICE COVERAGE</b> (Net Operating Revenues/ Total Debt Service)	<b>1.91</b>	<b>2.21</b>	<b>2.34</b>	<b>1.95</b>	<b>2.18</b>
Fund Balance Applied to Fund Capital Projects	\$29,555,761	\$41,526,818	\$9,329,433	\$15,875,571	\$32,149,183
Projected Ending Fund Balance	\$67,326,724	\$41,248,901	\$48,515,431	\$46,473,095	\$29,359,022
Minimum Reserve Required by City Policy <sup>(10)</sup>	\$18,744,690	\$17,046,508	\$10,004,741	\$10,181,450	\$10,361,692

(1) Estimated, based on unaudited results.

(2) The Proposition 218 process will be completed before the City Council approves any increase for these years.

(3) Reflects rate increase as of January 1, 2021.

(4) Reflects full year of January 1, 2021 rate increase.

(5) Developmental fees are connection charges. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS—Additional Bonds and Parity Debt" for a discussion of how connection charges are treated for additional bonds purposes.

(6) Property taxes paid for property outside of City limits, including north Ceres and the former Empire Sanitation District.

(7) Includes a one-time transfer of \$1 million to the City's water fund for the non-capital, phase 1, of the SCADA Master Plan..

(8) See "SECURITY AND SOURCES OF PAYMENT OF THE SERIES 2020 BONDS—Outstanding Parity Debt."

(9) To be refunded by the Series 2020 Bonds.

(10) Per City Policy, the City maintains a minimum reserve of 25% of Operating Expense plus one year of annual debt service on the 2016 State Loan and one year of annual debt service on the 2011 State Loan. Beginning in Fiscal Year 2021-22 the minimum reserve will no longer include one year of annual debt service on the 2011 State Loan.

Source: City of Modesto Finance Department.

## **RISK FACTORS**

The following section describes certain risk factors affecting the payment of and security for the Series 2020 Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Series 2020 Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating the Series 2020 Bonds. There can be no assurance that other risk factors will not become material in the future.

### **General**

The payment of principal of and interest on the Series 2020 Bonds is secured solely by a pledge of the Net Revenues and certain funds under the Indenture. The realization of the Net Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide wastewater services to its users, and the ability of the City to establish and maintain wastewater fees and charges sufficient to provide the required debt service coverage as well as pay for Operating Expenses.

Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net Revenues realized by the City. See “System Demand” below.

### **Earthquakes, Floods and Other Natural Disasters**

Earthquakes, floods or other natural disasters could interrupt operation of the Enterprise and cause increased costs and thereby interrupt the ability of the City to realize Net Revenues. The City is not obligated under the Indenture to have earthquake or flood insurance. According to the California Geological Survey website, the City is not one of the 100 incorporated cities within California on an Earthquake Fault Zone. The primary treatment plant site that was impacted by the 1997 Tuolumne River flooding was upgraded in Fiscal Year 1998-99 with a new Headworks and Cannery Segregation Project. This project mitigated the critical functions of the facility and the impact on those critical process and functional units at the facility from a hundred year flood event. Both the City’s treatment facilities were affected by both the Tuolumne and San Joaquin Rivers flooding in 2016. A collapsed River Sewer Trunk line increased the hydraulic flows and overloaded the treatment facilities. The River Trunk Realignment project, currently completing design, will mitigate this issue in the future. The City maintains flood insurance for areas surrounding the Tuolumne River. See “WASTEWATER SYSTEM—System Description” and “—Master Plan Update, Capital Improvement Plan and Future Capital Needs” for further information regarding planned updates to the facilities of the Enterprise to mitigate flood risk.

The 2016 Wastewater Master Plan did include a Flood Risk Analysis for the Sutter and Jennings Plants. The analysis concluded that the Sutter Plant is vulnerable to flooding from the adjacent Tuolumne River, but that providing flood protection at the Sutter Plant would not be feasible. Additionally, the analysis concluded that the levee protecting the Jennings Plant is an uncertified federal levee which would require flood control improvements as a separate program with the State and Federal agencies.

Natural disasters could also adversely affect the service area of the Enterprise, leading to reduced demand for wastewater service.

### **System Demand/Concentrated Customers**

There can be no assurance that the demand for wastewater services will occur as described in this Official Statement. Reduction in levels of demand could require an increase in rates or charges in order to comply with the covenants to fix rates and charges so as to produce Net Revenues equal to 125% of Debt Service. Moreover, although industrial users account for only 49 of the over 61,000 accounts utilizing the Enterprise as of January 2019, they are responsible for approximately 27% of the sewer fee operating revenues of the Enterprise; and the overwhelming majority of the industrial users are associated with the food or beverage industries. Nine of the ten largest customers of the Enterprise in Fiscal Year 2019-20 are in this category and accounted for 22.1% of sewer fee operating revenue

as of June 30, 2020 See “WASTEWATER SYSTEM—Wastewater System Users.” Thus, any changes in these industries and/or the particular customers who utilize the services of the Enterprise which would reduce their wastewater discharge could adversely affect the revenues of the Enterprise.

The City allocates capacity in the Enterprise to major industrial users through the issuance of Wastewater Discharge Permits. Pursuant to Section 5-6.403 of the City’s Municipal Code, whenever the annual flow from a major industrial user for a calendar year falls below 80% of the capacity allocation shown in the applicable Wastewater Discharge Permit, the major industrial user must pay a minimum sewer service charge for such calendar year based on 80% of such capacity allocation. This requirement is intended to assure that the City will receive at least 80% of the sewer service charges based on the capacity allocated to major industrial users. However, it may limit the ability of the City to reallocate unused allocated capacity in order to maximize the potential sewer fee revenue of the Enterprise.

### **COVID-19 Related Matters**

The outbreak of COVID-19, a respiratory disease which was first reported in China in late 2019, has since spread to other countries, including the United States, and is considered a pandemic by the World Health Organization. The United States State Department and the Center for Disease Control and Prevention (“CDC”), as well as other governmental authorities, have issued restrictions and warnings for the United States and a number of countries in Asia, Europe, South American and Africa, and similar restrictions and warnings may be extended to other countries in the future. The outbreak has had an adverse effect on, among other things, the world economy, global supply chain, international travel and a number of travel-related industries. The outbreak has also negatively affected travel, commerce, asset values and financial markets globally, and is widely expected to continue to negatively affect economic output worldwide and within the State and the County. Unemployment in the United States has dramatically increased as a result of the outbreak. Federal and state governments (including California) have enacted legislation and have taken executive actions designed to mitigate the negative public health and economic impacts of the outbreak.

In response to the COVID-19 outbreak, the Enterprise is proactively implementing measures intended to mitigate operational and financial impacts, including: daily wellness screenings for all employees prior to their shift; mandating use of masks for all staff, including use of other personal protection equipment for field staff; mandating all staff to follow Centers for Disease Control and Prevention social distancing and hygiene guidelines; deferring non-essential discretionary operations and maintenance activities; limiting approvals of contracts and task orders to those that are essential to key capital projects and critical tasks; limiting overtime to those activities that are necessary for safety, critical operations, or emergency management and encouraging voluntary work from home schedules for certain employees. The City has also established a Utilities Department COVID-19 Emergency Operations Plan to address potential staffing shortages and operational impacts, including for the Enterprise.

The City does not presently anticipate a material impact to the operations or financial position of the Enterprise as a result of COVID-19, in part because revenues have remained steady and there is no presently expected material increase in expenses or operational challenges. Nonetheless, the City cannot predict (i) the severity, duration or extent of the COVID-19 outbreak; (ii) the duration or expansion of governmental restrictions imposed by governmental entities other than the City that affect the City; (iii) what effect any such COVID-19 related restrictions or warnings may have on the finances or operations of the City or the Enterprise; (iv) the extent to which the COVID-19 outbreak may result in changes in demand for the services or products of the Enterprise or the ability of the Enterprise’s customers to pay for such services or products; or (v) whether or to what extent the City may provide deferrals, forbearances, adjustment or other changes to the Enterprise’s arrangements with its customers in the future but any of the foregoing factors alone or in combination with others could result in material adverse impacts to the finances or operations of the City and the Enterprise.

### **System Expenses**

There can be no assurance that the City’s expenses will be consistent with the descriptions in this Official Statement. Increases in expenses could require a significant increase in rates or charges in order to pay for City wastewater projects and comply with the rate covenant. The treatment needs are expected to be affected by growth and tightened regulatory requirements in the future. Preliminary cost estimates for capital improvements required to service build out in the City (currently expected in 2035) are in the range of \$505.3 million based on current build out

and permit requirements assumptions. These preliminary cost estimates were measured in June 1, 2017 dollars. See “WASTEWATER SYSTEM—Master Plan Update, Capital Improvement Plan and Future Capital Needs.”

### **Rate Process**

The passage of Proposition 218 by the California electorate potentially affects the City’s ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition under Proposition 218. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIC and XIID of the California Constitution.”

### **Permits and Regulation**

The wastewater operations of the City are subject to discharge permits from the State Water Resources Control Board. A number of these permits will be modified from time to time to show increased capacity. The major sewer permits are two centered on river discharge (the 2016 NPDES Permit and the 2017 NPDES Permit) and one on land discharge (the 1999 WDR Permit). See “WASTEWATER SYSTEM—Permitting Issues.”

The City-treated effluent discharge to the San Joaquin River is regulated by the State through the 2017 NPDES Permit. The renewal process includes specific “effluent limitations” that are typically maximum allowable discharge concentrations for certain constituents. Those constituents that require effluent limitations, and the process for determining the effluent limitation concentration are based on water quality objectives on the San Joaquin River, the implementation of these objectives using the State Implementation Plan (SIP), and observed concentrations in the wastewater treatment facility effluent and the San Joaquin River. The SIP also allows the City to perform additional water quality studies related to permit compliance and effluent limitations. These can be considered during the permit renewal process and can be critical to establishing accurate effluent limitations that are protective of the San Joaquin River and based on the best available science. Each permit-adopted effluent limitation violation is subject to a maximum mandatory penalty.

During the last several years, the City has successfully completed several water quality studies as part of the permitting process. The completed study list includes a copper translator study, a dilution/mixing zone study, a dissolved oxygen “far-field” modeling study, a dynamic regulatory compliance model study, and continued water quality monitoring using state-of-the-art analytical methods. To provide the best available science to the permit renewal process, the City intends to continue to collect data and perform water quality studies. The City will also increase effluent and San Joaquin River monitoring of key constituents that have been identified as ongoing and new permit issues.

In the event that the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state agencies, should impose stricter water quality standards upon the Enterprise, the City’s expenses could increase accordingly and rates and charges would have to be increased significantly to offset those expenses. It is not possible to predict the direction federal or state regulation will take with respect to water quality standards, although it is likely that, over time, both will impose more stringent standards with attendant higher costs. See “WASTEWATER SYSTEM—Permitting Issues.”

### **Limitations on Remedies and Bankruptcy**

The ability of the City to increase sewer services charges and to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest on the Series 2020 Bonds and Parity Debt may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES—Articles XIIC and XIID of the California Constitution.” Furthermore, any remedies available to the owners of the Series 2020 Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the Series 2020 Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California. Various legal opinions to be delivered concurrently with the issuance of the Series 2020 Bonds will be so qualified. In addition, the opinion to be delivered by Norton Rose Fulbright US LLP, Bond Counsel, concurrently with the issuance of the Series 2020 Bonds, will also state that the enforceability of the Indenture is subject to the limitations on the imposition of fees and charges by the City relating to the Enterprise under Article XIII C and XIII D of the California Constitution. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto. In the event the City fails to comply with its covenants under the Indenture or to pay principal of or interest on the Series 2020 Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Series 2020 Bonds.

The enforcement of the remedies provided in the Indenture could prove both expensive and time consuming. In addition, the rights and remedies provided in the Indenture may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. If the City were to file a petition under Chapter 9 ("Chapter 9") of the Bankruptcy Code (Title 11, United States Code), the Series 2020 Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture. See "INTRODUCTION—COVID-19 Pandemic" above.

Chapter 9 provides certain protections for bonds secured by "special revenues." "Special revenues" includes "receipts derived from the ownership, operation, or disposition of projects or systems of the debtor that are primarily used or intended to be used primarily to provide transportation, utility, or other services, including the proceeds of borrowings to finance the projects or systems." " The City believes that the Net Revenues and other funds pledged under the Indenture constitute "special revenues" under Chapter 9. Section 928(a) of Chapter 9 provides that special revenues received by a municipal debtor after the commencement of a Chapter 9 case remain subject to any lien resulting from the pre-petition pledge provided under the Indenture. Further, Section 922 provides that the automatic stay imposed by Chapter 9 does not stay the application of special revenues to the payment of bonded indebtedness. However, a bankruptcy court may determine that the Net Revenues and other funds pledged under the Indenture are not special revenues, or that the bankruptcy court has no power to control the municipality's use of such special revenues during the pendency of the bankruptcy case.

In a recent bankruptcy court decision, entitled *Opinion and Order Granting Motion to Dismiss Plaintiffs' Complaint Pursuant to Fed. R. Civ. P. 12(B)(1) and (B)(6)*, and filed in U.S.D.C. (Puerto Rico) Case Nos. 17-00155 and 17-00156, respectively, involving instrumentalities of the Commonwealth of Puerto Rico, the bankruptcy court reiterated that the Bankruptcy Code could not be used to invalidate consensual prepetition liens on special revenues acquired by a debtor post-petition. However, the bankruptcy court held that the "special revenue" provisions of the Bankruptcy Code (made applicable to the Commonwealth by provisions of special legislation known as PROMESA) do not require the turnover of those special revenues to bondholders during the course of a bankruptcy proceeding. Rather, the court found that Section 922(d) of the Bankruptcy Code merely authorized the debtor to permit special revenues to be turned over to bondholders to keep itself in compliance with state law, but did not give bondholders the right to compel such payments. The court further found that bondholders were prohibited by the automatic stay from enforcing their liens against the special revenues. The decision has now been appealed to the U.S. Court of Appeals for the First Circuit.

In addition, Chapter 9 provides that any application of "special revenues" to the payment of the municipality's debt obligations is subject to prior use of such moneys for the payment of "necessary operating expenses" of the municipal enterprise. There can be no assurance that a bankruptcy court would not interpret the term "necessary operating expenses" to be more expansive than the meaning afforded "Operating Costs" under the Indenture, thus potentially reducing Net Revenues available to pay the Series 2020 Bonds.

In order to confirm a plan of adjustment in any bankruptcy proceeding of the City, it must still comply with the requirements of Section 943 of the Bankruptcy Code. This requires the City to demonstrate, among other things, that it is not prohibited by state law from taking any action necessary to carry out the proposed plan, including with respect to its use of special revenues. However, because Section 943 was not likewise amended by Congress when the "special revenues" provisions were enacted, it is possible that, without the consent and over the objection of the Trustee and

the Bondholders, the bankruptcy court may permit the alteration of the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources and uses, covenants (including tax-related covenants and call protection), and other terms or provisions of the Indenture as amended and the Series 2020 Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

### **Cybersecurity**

The Enterprise relies on a complex technology environment to conduct its operations. As a recipient and provider of personal, private, and sensitive information, the City and its departments and offices including the Enterprise face multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computers and other sensitive digital networks and systems. The City has implemented several preventive measures to protect against cybersecurity threats. These include, but are not limited to, firewalls, email filtering, web content filtering, anti-malware, endpoint protection, and maintaining current patch levels on operating systems, network equipment, and endpoint devices. To date, neither the City nor the Enterprise has experienced any cyberattacks that have resulted in major operational disruptions or financial consequences.

The City currently maintains insurance coverage with respect to certain information security and privacy liability claims which include the Enterprise.

### **Limited Obligations**

The Series 2020 Bonds are limited obligations of the City and are not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues of the Enterprise. The obligation of the City to make debt service payments on the Series 2020 Bonds does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

The City is obligated under the Indenture to make debt service payments on the Series 2020 Bonds solely from Net Revenues. There is no assurance that the City can succeed in operating the Enterprise such that the Net Revenues in the amounts projected in this Official Statement will be realized.

## **CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES**

### **Tax Limitations – Proposition 13**

Article XIII A of the State Constitution, known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIII A limits the maximum *ad valorem* tax on real property to 1% of “full cash value,” and provides that such tax shall be collected by the counties and apportioned according to State statutes. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest or redemption charges on (1) indebtedness approved by the voters prior to July 1, 1978, and (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition.

Section 2 of Article XIII A defines “full cash value” to mean the county assessor’s valuation of real property as shown on the Fiscal Year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. 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 taxing jurisdiction, or may be reduced in the event of declining property value 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. Such legislation further provides that each county will levy the maximum tax permitted by Article XIII A, which is \$1.00 per \$100 of assessed market value. The legislation further establishes the method for allocating the taxes collected by each county among the taxing agencies in the county.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

The effect of Article XIII A on the City’s finances 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 outstanding general obligation bonds and unissued bonds authorized prior to July 1, 1978. Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

### **Spending Limitations**

At the statewide special election of November 6, 1979, the voters approved an initiative entitled “Limitation of Government Appropriations” which added Article XIII B to the California Constitution. Under Article XIII B, State and local governmental entities have an annual “appropriations limit” which limits the ability to spend certain moneys which are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the “appropriations.”

### **Proposition 62**

A statutory initiative (“Proposition 62”) was adopted by the voters voting in the State at the November 4, 1986 General Election which (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency’s legislative body and by a majority of the electorate of the governmental entity, (2) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction, (3) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (4) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires that any tax imposed by a local governmental entity on or after March 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988.

### **Proposition 218**

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges.

**Article XIII D.** Article XIII D established procedural requirements for imposition of assessments, which are defined as any charge on real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements include the conducting of a public hearing and an election by mailed ballot, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. The City does not currently impose standby charges or assessments for its Wastewater System.

Article XIID conditions the imposition or increase of any “fee” or “charge” upon there being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIID defines “fee” or “charge” to mean levies (other than *ad valorem* or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a “property-related service.” One of the requirements of Article XIID is that before a property-related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and notice must be mailed to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

Article XIID provides that nothing in Proposition 218 shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The California Supreme Court decisions in *Richmond v. Shasta Community Services District*, 32 Cal. 4th 409 (2004) (“Richmond”), and *Bighorn Desert View Water Agency v. Verjil*, 39 Cal. 4th 206 (2006) (“Bighorn”) have clarified uncertainty surrounding the applicability of Section 6 of Article XIID to service fees and charges. In Richmond, the California Supreme Court upheld a Court of Appeal decision that water connection fees (which included a capacity charge for capital improvements to the water system and a fire suppression charge) imposed by the Shasta Community Services District were not property related fees or charges subject to Article XIID because a water connection fee results from the property owner’s voluntary decision to apply for the connection. In both Richmond and Bighorn, however, the Court stated that a fee for ongoing water service through an existing connection is imposed “as an incident of property ownership” within the meaning of Article XIID, rejecting, in Bighorn, the water agency’s argument that consumption based water charges are not imposed “as an incident of property ownership” but as a result of the voluntary decisions of customers as to how much water to use.

The City has followed the notice, hearing and protest procedures in Article XIID in connection with wastewater rate increases since its Fiscal Year 2016–17 rate increases, and plans to follow such notice, hearing and protest procedures in connection with future rate increases.

In addition to the procedural requirements of Article XIID, under Article XIID all property-related fees and charges, including those which were in existence prior to the passage of Proposition 218 in November 1996, must meet the following substantive standards:

- (1) Revenues derived from the fee or charge cannot exceed the funds required to provide the property-related service.
- (2) Revenues derived from the fee or charge must not be used for any purpose other than that for which the fee or charge was imposed.
- (3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- (4) No 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. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIID (relating to assessments).
- (5) No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to property owners.

On April 20, 2015, the California Fourth District Court of Appeal issued a decision in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, 235 Cal.App.4th 1493 (2015), holding that the City of San Juan

Capistrano's tiered water rates (or inclining block rates) that were in effect from February 1, 2010 through June 30, 2014 violated the requirement of Proposition 218 that a fee or charge for property-related services, such as water delivery, must be proportional to the cost of providing service. In interpreting Proposition 218, the Court of Appeal emphasized that tiered water rates, or inclining block rates, that go up progressively in relation to usage are compatible with Proposition 218. However, the court concluded that Article XIID requires that each tier must reflect the actual costs of service for property owners falling in each of the tiers. The court further concluded that the city had the burden of proof to demonstrate compliance with Proposition 218 and that the city failed to meet its burden of proof in demonstrating that its tiered water rates corresponded to the actual costs of providing service to each tier.

It is City policy to conduct periodic cost of service studies and as part of the most recent study, completed in January 2016, the City focused efforts on developing a strong and clear administrative record for its rates and charges. The City will be undertaking a new study prior to the end of Fiscal Year 2020-21 to cover rates for the Enterprise between Fiscal Year 2021-22 and 2026-27. The City believes that its established and proposed rates for wastewater service comply with the substantive standards of Article XIID. However, due to the uncertainties of evolving case law and potential future judicial interpretations of Proposition 218, the City is unable to predict at this time whether Proposition 218 could be interpreted, for example, to further limit fees and charges for wastewater services and/or to require stricter standards for the allocation of costs among customers and customer classes. See "WASTEWATER SYSTEM FINANCES—Rates."

*Article XIIC.* 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 XIIC does not define the terms "local tax," "assessment," "fee" or "charge." The California Supreme Court held in *Bighorn* that the provisions of Article XIIC applied to rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. The City and its City Attorney do not believe that Article XIIC grants to the voters within the City the power to repeal or reduce rates and charges in a manner that would be inconsistent with the contractual obligations of the City.

The interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and the City is unable to predict the outcome of such determinations, or what, if any, further implementing legislation will be enacted. No assurance can be given that the courts will not further interpret Article XIIC and Article XIID to limit the ability of the City to impose, levy, charge and collect increased fees and charges for wastewater services, or the voters of the City will not, in the future, approve initiatives which seek to repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City's wastewater service fees and charges, which are the source of Net Revenues pledged to the payment of debt service on the Series 2020 Bonds.

## **Proposition 26**

Proposition 26, which amended Articles XIII A and XIIC of the California Constitution, was approved by the electorate at the November 2, 2010 election. Proposition 26 imposes a majority voter approval requirement on local governments such as the City with respect to certain fees and charges for general purposes, and a two-thirds voter approval requirement with respect to certain fees and charges for special purposes, unless the fees and charges are expressly excluded. Proposition 26, according to its supporters, was intended to prevent the circumvention of tax limitations imposed by the voters in California Constitution Articles XIII A, XIIC and XIID pursuant to Proposition 13, approved in 1978, Proposition 218, approved in 1996, and other measures. Proposition 26 expressly excludes from its scope "a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the local government of providing the service or product" and "assessments and property-related fees imposed in accordance with the provisions of Article XIID." The City believes that its wastewater fees and charges meet the criteria for exclusion under Proposition 26 and that the initiative is not intended to, and would not, apply to fees for wastewater services charged by the City. The City is unable to predict, however, how Proposition 26 will be interpreted by the courts or what its ultimate impact will be.

## **Other Initiatives**

Articles XIII A, XIII B, XIII C and XIII D and Propositions 62 and 26 were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives have been and could be proposed and adopted affecting the City's revenues or ability to increase revenues. Neither the nature and impact of these measures nor the likelihood of qualification for ballot or passage can be anticipated by the City.

### **TAX MATTERS (TAXABLE BONDS - SERIES 2020A)**

The issuance and delivery of the Series 2020A Bonds is subject to delivery of the opinion of Bond Counsel, based upon existing provisions of the laws of the State of California, that interest on the Series 2020A Bonds is exempt from personal income taxes of the State of California.

The following is a general summary of the United States federal income tax consequences of the purchase and ownership of the Series 2020A Bonds. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the Series 2020A Bonds in light of the investor's particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax-exempt organizations, financial institutions, brokers-dealers and persons who have hedged the risk of owning the Series 2020A Bonds). This summary is therefore limited to certain issues relating to initial investors who will hold the Series 2020A Bonds as "capital assets" within the meaning of Section 1221 of the Code, and who acquire such Bonds for investment and not as a dealer or for resale. Prospective investors should note that no rulings have been or will be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed herein, and no assurance can be given that the IRS will not take contrary positions. A form of Bond Counsel's anticipated opinion is included as Appendix D.

**INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SERIES 2020A BONDS.**

#### **Payments of Stated Interest on the Bonds.**

The stated interest paid on the Series 2020A Bonds will be included in the gross income, as defined in Section 61 of the Code, of the beneficial owners thereof and be subject to U.S. federal income taxation when received or accrued, depending on the tax accounting method applicable to the beneficial owners thereof.

#### **Original Issue Discount.**

If a substantial amount of the Series 2020A Bonds of any stated maturity is purchased at original issuance for a purchase price (the "Issue Price") that is less than their face amount by more than one quarter of one percent times the number of complete years to maturity, the Series 2020A Bonds of such maturity will be treated as being issued with "original issue discount." The amount of the original issue discount will equal the excess of the principal amount payable on such Series 2020A Bonds at maturity over the Issue Price of such Series 2020A Bonds, and the amount of the original issue discount on the Series 2020A Bonds will be amortized over the life of the Series 2020A Bonds using the "constant yield method" provided in the Treasury Regulations. As the original issue discount accrues under the constant yield method, the beneficial owners of the Series 2020A Bonds, regardless of their regular method of accounting, will be required to include such accrued amount in their gross income as interest. This can result in taxable income to the beneficial owners of the Series 2020A Bonds that exceeds actual cash distributions to the beneficial owners in a taxable year.

The amount of the original issue discount that accrues on the Series 2020A Bonds each taxable year will be reported annually to the IRS and to the beneficial owners. The portion of the original issue discount included in each

beneficial owner's gross income while the beneficial owner holds the Series 2020A Bonds will increase the adjusted tax basis of the Series 2020A Bonds in the hands of such beneficial owner.

### **Premium.**

If a beneficial owner purchases a Series 2020A Bond for an amount that is greater than its stated redemption price at maturity, such beneficial owner will be considered to have purchased the Series 2020A Bond with "amortizable bond premium" equal in amount to such excess. A beneficial owner may elect to amortize such premium using a constant yield method over the remaining term of the Series 2020A Bond and may offset interest otherwise required to be included in respect of the Series 2020A Bond during any taxable year by the amortized amount of such premium for the taxable year. Bond premium on a Series 2020A Bond held by a beneficial owner that does not make such an election will decrease the amount of gain or increase the amount of loss otherwise recognized on the sale, exchange, redemption or retirement of a Series 2020A Bond. However, if the Series 2020A Bond may be optionally redeemed after the beneficial owner acquires it at a price in excess of its stated redemption price at maturity, special rules would apply under the Treasury Regulations which could result in a deferral of the amortization of some bond premium until later in the term of the Series 2020A Bond. Any election to amortize bond premium applies to all taxable debt instruments held by the beneficial owner on or after the first day of the first taxable year to which such election applies, and may be revoked only with the consent of the IRS.

### **Medicare Contribution Tax.**

Pursuant to Section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals beginning January 1, 2013. The additional tax is 3.8% of the lesser of (i) net investment income (defined as gross income from interest, dividends, net gain from disposition of property not used in a trade or business and certain other listed items of gross income), or (ii) the excess of "modified adjusted gross income" of the individual over \$200,000 for unmarried individuals (\$250,000 for married couples filing a joint return and a surviving spouse). Holders of the Series 2020A Bonds should consult with their tax advisors concerning this additional tax, as it may apply to interest earned with respect to the Series 2020ABonds as well as gain on the sale of a Series 2020A Bond.

### **Disposition of Series 2020A Bonds and Market Discount.**

A beneficial owner of Series 2020A Bonds will generally recognize gain or loss on the redemption, sale or exchange of a Bond equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the beneficial owner's adjusted tax basis in the Series 2020A Bonds. Generally, the beneficial owner's adjusted tax basis in the Series 2020A Bonds will be the beneficial owner's initial cost, increased by the original issue discount previously included in the beneficial owner's income to the date of disposition. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner's holding period for the Series 2020A Bonds.

Under current law, a purchaser of Series 2020A Bonds who did not purchase the Series 2020A Bonds in the initial public offering (a "subsequent purchaser") generally will be required, on the disposition of the Series 2020A Bonds, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued "market discount." Market discount is the amount by which the price paid for the Series 2020A Bonds by a subsequent purchaser is less than the sum of Issue Price and the amount of original issue discount previously accrued on the Series 2020A Bonds. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire Series 2020A Bonds with market discount. As an alternative to the inclusion of market discount in income upon disposition, a subsequent purchaser may elect to include market discount in income currently as it accrues on all market discount instruments acquired by the subsequent purchaser in that taxable year or thereafter, in which case the interest deferral rule will not apply. The re-characterization of gain as ordinary income on a subsequent disposition of Bonds could have a material effect on the market value of the Series 2020A Bonds.

### **Legal Defeasance.**

If the City elects to defease the Series 2020A Bonds by depositing in escrow sufficient cash and/or obligations to pay when due outstanding Series 2020 Bonds (a “legal defeasance”), under current tax law, a beneficial owner of Series 2020A Bonds may be deemed to have sold or exchanged its Series 2020A Bonds. In the event of such a legal defeasance, a beneficial owner of Series 2020A Bonds generally would recognize gain or loss in the manner described above. Ownership of the Series 2020A Bonds after a deemed sale or exchange as a result of a legal defeasance may have tax consequences different from those described above, and each beneficial owner should consult its own tax advisor regarding the consequences to such beneficial owner of a legal defeasance of the Series 2020A Bonds.

### **Backup Withholding.**

Under Section 3406 of the Code, a beneficial owner of the Series 2020A Bonds who is a United States person, as defined in Section 7701(a)(30) of the Code, may, under certain circumstances, be subject to “backup withholding” on payments of current or accrued interest on the Series 2020A Bonds. This withholding applies if such beneficial owner of Series 2020A Bonds: (i) fails to furnish to payor such beneficial owner’s social security number or other taxpayer identification number (“TIN”); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends or other “reportable payments” as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the Series 2020A Bonds. Beneficial owners of the Series 2020 Bonds should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

### **Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations.**

Under Sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the rate of 30% on periodic income items arising from sources within the United States, provided such income is not “effectively connected,” within the meaning of Section 864 of the Code, with the conduct of a United States trade or business. Assuming the interest received by the beneficial owners of the Series 2020A Bonds is not treated as effectively connected income, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as “portfolio interest” within the meaning of Sections 871 and 881 of the Code. Interest will be treated as portfolio interest under such sections if: (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial owner; (ii) such interest is treated as not effectively connected with the beneficial owner’s United States trade or business; (iii) interest payments are not made to a person within a foreign country which the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the Series 2020A Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such beneficial owner is not a controlled foreign corporation, within the meaning of Section 957 of the Code; and (vi) such beneficial owner is not a bank receiving interest with respect to the Series 2020A Bonds pursuant to a loan agreement entered into in the ordinary course of the bank’s trade or business.

Assuming payments with respect to the Series 2020A Bonds are treated as portfolio interest within the meaning of Sections 871 and 881 of the Code, then no backup withholding under Section 1441 and 1442 of the Code and no backup withholding under Section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8BEN, Form W-8EXP or Form W-8IMY, as applicable, provided the payor does not have actual knowledge that such person is a U.S. person.

### **Foreign Account Tax Compliance Act.**

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to a foreign financial institution, unless the foreign financial institution enters into an agreement with the U.S. Treasury

to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, the Foreign Account Tax Compliance Act (“FATCA”) imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest and principal under the Series 2020A Bonds and sales proceeds of Series 2020A Bonds held by or through a foreign entity. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and will apply to “foreign passthru payments” but no earlier than two years after the date of publication of final regulations defining the term “foreign passthru payment.” Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

### **Reporting of Interest Payments.**

Subject to certain exceptions, interest payments made to beneficial owners with respect to the Series 2020A Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099, which will reflect the name, address and TIN of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a Bond for U.S. federal income tax purposes.

A copy of the form of opinion of Bond Counsel relating to the Series 2020 Bonds is included in Appendix D hereto.

## **TAX MATTERS (TAX-EXEMPT BONDS – SERIES 2020B)**

### **Federal Tax Exemption**

In the opinion of Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel to the City, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance by the City with certain covenants in the Indenture, the Tax Certificate and other documents pertaining to the Series 2020B Bonds and requirements of the Internal Revenue Code of 1986, as amended (the “Code”) and assuming compliance by the State of California Water Resources Control Board (“State Water Board”) with covenants and representations with respect to the prepayment of the 2011 State Loan, regarding the use, expenditure and investment of proceeds of the Series 2020B Bonds and the timely payment of certain investment earnings to the United States, interest on the Series 2020B Bonds is not included in the gross income of the owners of the Series 2020B Bonds for federal income tax purposes. Failure by the City or the State Water Board to comply with such covenants and requirements may cause interest on the Series 2020B Bonds to be included in gross income retroactive to the date of issuance of the Series 2020B Bonds.

In the further opinion of Bond Counsel, interest on the Series 2020B Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral federal income 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 Series 2020B 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, the Tax Certificate or other documents pertaining to the Series 2020B Bonds may be changed, and certain actions may be taken or not 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 effect of any change to any document pertaining to the Series 2020B Bonds or of any action taken or not taken where such change is made or action is taken or not taken without the approval of Norton Rose Fulbright US LLP or in reliance upon the advice of counsel other than Norton Rose Fulbright US LLP with respect to the exclusion from gross income of the interest on the Series 2020B Bonds for federal income tax purposes.

Bond Counsel's opinion is not a guarantee of result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and judicial decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of examining the tax-exempt status of the interest on municipal obligations. If an examination of the Series 2020B Bonds is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Series 2020B Bonds would have no right to participate in the examination process. In responding to or defending an examination of the tax-exempt status of the interest on the Series 2020B Bonds, the City may have different or conflicting interests from the owners. Additionally, public awareness of any future examination of the Series 2020B Bonds could adversely affect the value and liquidity of the Series 2020B Bonds during the pendency of the examination, regardless of its ultimate outcome.

### **Tax Accounting Treatment of Bond Premium and Original Issue Discount**

***Bond Premium.*** To the extent a purchaser acquires a Series 2020B Bond at a price in excess of the amount payable at its maturity, such excess will constitute "bond premium" under the Code. The Code and applicable Treasury Regulations provide generally that bond premium on a tax-exempt obligation is amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations) based on the obligation's yield to maturity (or shorter period in the case of certain callable obligations). The amount of premium so amortized reduces the owner's basis in such obligation for federal income tax purposes, though such amortized premium is not deductible for federal income tax purposes. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. Bond Counsel is not opining on the accounting for bond premium or the consequence to a Series 2020B Bond purchaser of purchasing a Series 2020B Bond with bond premium. Persons considering the purchase of Series 2020B Bonds with bond premium should consult with their own tax advisors with respect to the determination of bond premium on such Series 2020B Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such Series 2020B Bonds.

***Original Issue Discount.*** The excess, if any, of the stated redemption price at maturity of Series 2020B Bonds of a particular maturity over the initial offering price to the public of the Series 2020 Bonds of that maturity at which a substantial amount of the Series 2020B Bonds of that maturity is sold to the public is "original issue discount." Original issue discount accruing on a Series 2020B Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes under the same conditions and limitations as are applicable to interest payable on such Bond. Original issue discount on a Series 2020B Bond or a particular maturity purchased pursuant to the initial public offering at the initial public offering price at which a substantial amount of the Series 2020B Bonds of that maturity is sold to the public accrues on a semiannual basis over the term of the Series 2020B Bond on the basis of a constant yield; and within each semiannual period accrues on a ratable daily basis. The amount of original issue discount on a Series 2020B Bond accruing during each period is added to the adjusted basis of such Bond, which will affect the amount of taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers that purchase Series 2020B Bonds other than at the initial offering price.

Bond Counsel is not opining on the accounting for or consequence to a Series 2020B Bond purchaser of bond premium or original issue discount. Accordingly, persons considering the purchase of Series 2020B Bonds with bond premium or original issue discount should consult with their own tax advisors with respect to the determination of bond premium or original issue discount on such Series 2020B Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such Series 2020B Bonds.

## **Information Reporting and Backup Withholding**

Interest paid on the Series 2020B Bonds will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the Series 2020B 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 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 are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner’s federal income tax liability so long as the required information is furnished to the IRS.

## **State Tax Exemption**

In the further opinion of Bond Counsel, interest on the Series 2020 Bonds is exempt from personal income taxes imposed by the State of California.

## **Future Developments**

Existing law may change to reduce or eliminate the benefit to owners of the Series 2020B Bonds of the exclusion of the interest on the Series 2020B Bonds from gross income for federal income tax purposes or of the exemption of interest on the Series 2020B Bonds from State of California personal income taxation. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Series 2020B Bonds. Prospective purchasers of the Series 2020B Bonds should consult with their own tax advisors with respect to any proposed or future change in tax law.

## **ABSENCE OF LITIGATION**

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the execution or delivery of the Series 2020 Bonds or the Indenture or in any way contesting or affecting the validity of the foregoing or any proceedings of the City taken with respect to any of the foregoing. There is no action, suit or proceeding known by the City to be pending or threatened, restraining or enjoining the City in any way which could have a material adverse effect on the Enterprise, the ability of the City to increase rates or to pay scheduled debt service on the Series 2020 Bonds.

## **FINANCIAL STATEMENTS**

The City’s Comprehensive Annual Financial Report (“CAFR”) for the Fiscal Year ended June 30, 2019, is included in Appendix B to this Official Statement. The CAFR as of and for year ended June 30, 2019 has been audited by Macias Gini & O’Connell LLP, certified public accountants (the “Auditor”), as stated in its report appearing in Appendix B. The Series 2020 Bonds are special, limited obligations of the City payable solely from the Net Revenues and other funds pledged under the Indenture. The financial information in Appendix B does not account for the potential effects of COVID-19. For further information concerning the potential effects of COVID-19 on the City and the Enterprise, see “INTRODUCTION—COVID-19 Pandemic” above.

The financial statements of the City are public documents and the City has not requested nor did the City obtain permission from the Auditor to include the CAFR and the Auditor’s report in an Appendix to this Official Statement. Accordingly, the Auditor has made no representation in connection with inclusion of the audit herein that there has been no material change in the financial condition of the City or the System since the most recent audit was concluded. The Auditor has not been engaged to perform and have not performed, since the date of its report included in Appendix B, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Official Statement.

## **RATINGS**

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P") is expected to assign a rating of "AA" to the Series 2020 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 rating may be obtained from the rating agency furnishing such rating at the following address: S&P, 55 Water Street, New York, New York 10041. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2020 Bonds.

## **UNDERWRITING**

The Series 2020A Bonds are being purchased by BofA Securities, Inc., Citigroup Global Markets Inc., and J.P. Morgan Securities LLC (collectively, the "Underwriters") at a purchase price of \$68,748,503.43, such amount being equal to the principal amount of the Series 2020A Bonds, less an underwriting discount of \$91,496.57. The Series 2020B Bonds are being purchased by the Underwriters at a purchase price of \$33,865,372.66, such amount being equal to the principal amount of the Series 2020B Bonds, plus an original issue premium of \$8,429,723.90, less an underwriting discount of \$34,351.24. The obligation of the Underwriters to make such purchase is subject to certain terms and conditions set forth in the purchase contract related to the Series 2020 Bonds. The purchase contract relating to the Series 2020 Bonds provides that the Underwriters will purchase all of the Series 2020 Bonds if any are purchased. The Series 2020 Bonds may be offered and sold by the Underwriters to certain dealers and others at prices lower than such public offering price, and such public offering price may be changed, from time to time, by the Underwriters.

The following paragraphs have been provided by the Underwriters:

BofA Securities, Inc., one of the Underwriters of the Series 2020 Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the Series 2020 Bonds.

Citigroup Global Markets Inc., an Underwriter of the Series 2020 Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts with respect to the Series 2020 Bonds.

J.P. Morgan Securities LLC ("JPMS"), the Underwriter of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Series 2020 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2020 Bonds that such firm sells.

## **MUNICIPAL ADVISOR**

The City has retained PFM Financial Advisors LLC, San Francisco, California, as municipal advisor with respect to the issuance of the Series 2020 Bonds. PFM Financial Advisors LLC 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. PFM Financial Advisors LLC is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

## **LEGAL PROCEEDINGS**

The validity of the Series 2020 Bonds and certain other legal matters are subject to the approving opinion of Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel. A copy of the proposed form of the opinion of Bond Counsel is attached as Appendix D 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 Underwriters by Nixon Peabody, LLC; for the City by the City Attorney and by Norton Rose Fulbright US LLP, San Francisco, California, Disclosure Counsel and for the Trustee by the Law Offices of Samuel D. Waldman.

## **CONTINUING DISCLOSURE**

The City has covenanted for the benefit of the owners of the Series 2020 Bonds to provide certain financial information and operating data and the City by not later than the 31<sup>st</sup> of March following the end of the City's Fiscal Year (presently June 30) commencing with the report for the City's Fiscal Year 2019-20 (the "Annual Reports"), which shall be due March 31, 2021, 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 Digital Assurance Certification, L.L.C. ("DAC"), as Dissemination Agent on behalf of the City, with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access System ("EMMA"). The notices of material events will be filed by DAC, as Dissemination Agent on behalf of the City, with the MSRB through EMMA 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 E – "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's Department of Finance has taken responsibility for ongoing compliance with the Rule.

Except as set forth in this paragraph, during the five years preceding the date of this Official Statement, the City has not failed to comply in all material respects with its prior continuing disclosure obligations entered into in connection with the Rule. In February 2018, the underlying rating on the City's Community Facilities District No. 2004-1 (Village One #2) 2014 Special Tax Refunding Bonds (the "2014 Special Tax Bonds") was upgraded and the City did not file a material event notice. The underlying rating on the 2014 Special Tax Bonds is still lower than the insured rating and DAC does not serve as dissemination agent for the 2014 Special Tax Bonds.

## **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 City and the purchasers or holder of any Series 2020 Bonds.

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**APPENDIX A**

**CERTAIN INFORMATION REGARDING THE CITY OF MODESTO**

The following information with respect to the City is presented for information purposes only. The Series 2020 Bonds do not constitute an indebtedness of the City within the meaning of any constitutional, statutory or charter limitations and the City is not obligated to levy any *ad valorem* taxes therefor or to use any other funds of the City to pay debt service on the Series 2020 Bonds. **The information in this Appendix A predates the COVID-19 pandemic unless specifically referenced. For further information concerning the potential effects of COVID-19 on the City and the Enterprise, see “INTRODUCTION—COVID-19 Pandemic” in the forepart of this Official Statement.**

**General Description**

The City, which is the county seat of Stanislaus County, was incorporated in 1884. It covers approximately 37.4 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 the City and County of San Francisco.

The City Council (the “Council”) appoints the City Clerk and Auditor, the City Attorney, and the City Manager. The City Manager heads the executive branch of government, implements Council directives and policies, 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 public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services. 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.

**TABLE A-1  
CITY OF MODESTO  
Population Estimate<sup>(1)</sup>**

<i>Calendar Year</i>	<i>City of Modesto</i>	<i>Stanislaus County</i>	<i>State of California</i>
2016	214,044	539,515	39,131,307
2017	216,881	547,357	39,398,702
2018	218,674	550,964	39,586,646
2019	220,126	554,018	39,695,376
2020	222,335	557,709	39,782,870

<sup>(1)</sup> As of January 1.

Source: California State Department of Finance, Population Estimates for City, County and State Population, 2011-2020 with 2010 Benchmark.

## Employment

The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 2015 through 2019. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

**TABLE A-2**  
**MODESTO METROPOLITAN STATISTICAL AREA**  
**Industry Employment and Labor Force**  
**(Annual Averages)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<u>Civilian Labor Force</u>					
Employment	218,000	221,800	224,100	227,500	228,800
Unemployment	22,900	20,900	18,100	15,800	14,700
Unemployment Rate	9.5%	8.6%	7.5%	6.5%	6.0%
<u>Wage and Salary Employment:</u>					
Total Farm	14,600	14,900	14,300	14,400	14,800
Total Nonfarm	166,400	171,500	174,800	179,200	181,100
Natural Resources, Mining and Construction	8,500	9,000	9,300	10,200	10,500
Manufacturing	21,300	21,800	21,400	21,600	21,400
Wholesale Trade	5,800	6,000	6,100	6,300	6,200
Retail Trade	22,400	22,700	23,200	23,200	22,800
Transport., Warehousing, Utilities	7,500	8,200	7,700	8,000	8,800
Information	900	1,000	1,000	1,000	1,000
Financial Activities	5,200	5,300	5,300	5,300	5,300
Professional and Business Services	14,200	14,600	14,900	15,400	15,300
Educational and Health Services	30,900	32,200	32,600	33,600	30,900
Leisure and Hospitality	18,800	18,700	19,200	19,300	19,200
Other Services	5,300	5,400	5,700	5,800	5,900
Federal Government	800	800	800	800	800
State Government	1,900	2,000	2,100	2,200	2,100
Local Government	23,900	24,800	25,500	26,600	27,300
Total All Industries	181,000	186,300	189,200	193,600	195,900

Note: Totals may not add up because of rounding.

Source: Labor Division of the California State Employment Development Department.

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## Major Employees

The following table summarizes the largest employers in the County of Stanislaus as of June 30, 2019.

**TABLE A-3  
COUNTY OF STANISLAUS  
Largest Employers  
as of June 30, 2019**

<u>No.</u>	<u>Company Name</u>	<u>No. Employees</u>
1.	E & J Gallo Winery	6,700
2.	Stanislaus County	4,048
3.	Modesto City Schools	3,200
4.	Doctors Medical Center	2,600
5.	Memorial Medical Center	2,400
6.	Foster Farms Poultry	2,200
7.	Del Monte Foods Inc.	2,010
8.	Stanislaus Food Products	1,875
9.	Save Mart Supermarkets	1,650
10.	Turlock Unified School District	1,500

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Source: *City of Modesto.*

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**Commercial Activity**

The following table shows the dollar volume of taxable transactions in the City of Modesto from 2015 through 2019.

**TABLE A-4  
CITY OF MODESTO  
Taxable Transactions  
Calendar Years 2015 through 2019  
(in Thousands of Dollars)**

<b>Retail Outlets</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Motor Vehicle and Parts Dealers	\$246,567	\$263,747	\$252,304	\$228,695	\$224,837
Home Furnishings and Appliance Stores	137,561	149,096	153,682	159,528	152,958
Building Material And Garden Equip. and Supplies	154,052	165,913	172,798	177,802	177,136
Food and Beverage Stores	149,024	150,726	155,484	161,334	159,738
Gasoline Stations	200,713	185,485	211,768	242,906	262,836
Clothing and Clothing Accessories Stores	260,777	268,348	261,562	262,644	262,644
General Merchandise Stores	398,374	435,576	439,803	439,547	432,196
Food Services and Drinking Places	366,841	384,710	403,575	411,865	433,824
Other Retail Group	239,830	239,710	239,772	232,663	243,681
<b>Total Retail and Food Services</b>	<b>\$2,153,739</b>	<b>\$2,243,311</b>	<b>\$2,290,749</b>	<b>\$2,316,985</b>	<b>\$2,345,449</b>
All Other Outlets	552,799	547,532	597,735	657,422	610,245
<b>Totals All Outlets</b>	<b>\$2,706,538</b>	<b>\$2,790,843</b>	<b>\$2,888,484</b>	<b>\$2,974,407</b>	<b>\$2,955,694</b>

Source: State of California, Board of Equalization.

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The following table shows the dollar volume of taxable transactions in the County of Stanislaus from 2015 through 2019.

**TABLE A-5  
COUNTY OF STANISLAUS  
Taxable Transactions  
Calendar Years 2015 through 2019**

<b>Retail Outlets</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Motor Vehicle and Parts Dealers	\$4,546,934	\$3,858,111	\$3,606,285	\$5,407,541	\$8,895,827
Furniture and Home Furnishings Stores	30,352,236	37,081,340	31,461,536	32,875,606	41,192,208
Building Material and Garden Equip. and Supplies	11,735,240	14,346,501	16,961,639	21,239,774	26,485,726
	290,740	209,019	706,863	2,198,177	1,291,288
Food and Beverage Stores	856,077	845,835	949,280	1,274,276	4,068,482
Gasoline Stations					
Clothing and Clothing Accessories Stores	25,864,503	30,364,117	34,168,538	44,151,259	50,644,869
General Merchandise Stores	23,998,109	28,529,789	30,504,036	36,329,111	42,991,318
Food Services and Drinking Places	2,781,548	4,121,577	5,129,994	3,024,530	1,413,230
Other Retail Group	107,233,640	126,924,935	146,968,151	169,082,602	220,689,799
<b>Total Retail and Food Services</b>	<b>207,659,027</b>	<b>246,281,224</b>	<b>270,125,674</b>	<b>315,582,876</b>	<b>397,672,747</b>
All Other Outlets	721,691,192	942,806,022	755,740,807	690,584,762	806,330,218
<b>Totals All Outlets</b>	<b>929,350,219</b>	<b>1,189,087,246</b>	<b>1,025,866,481</b>	<b>1,006,167,638</b>	<b>1,204,002,965</b>

Source: State of California, Board of Equalization.

### Construction Trends

“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. Multifamily 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 of Modesto for calendar years 2015 through 2019.

**TABLE A-6  
CITY OF MODESTO  
Residential and Nonresidential Building Permit Valuations  
and Total Residential Building Permits**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<b>Permit Valuation</b>					
New Single-family	\$4,292,856	\$14,433,404	\$23,800,808	\$21,428,412	\$21,173,429
New Multi-family	\$300,000	0	\$25,800,000	\$280,000	\$10,800,000
Res. Alterations & Additions	\$7,395,794	\$4,911,603	\$10,499,153	\$10,315,164	\$9,000,959
Total Residential	\$11,988,650	\$19,345,007	\$60,099,961	\$32,023,576	\$40,974,388
New Commercial	\$7,630,000	\$4,604,510	\$21,295,586	\$8,940,300	\$14,899,100
New Industrial	0	0	\$9,500,000	\$3,100,000	\$7,662,000
New Other	\$3,985,749	\$7,793,413	\$10,217,282	\$70,356,893	\$16,898,036
Non-Res. Alterations & Additions	\$13,744,379	\$18,177,113	\$24,510,447	\$19,158,973	\$43,326,295
Total Nonresidential	\$25,360,128	\$30,575,036	\$65,523,315	\$101,556,166	\$82,785,431
Total All Building	\$37,348,778	\$49,920,043	\$125,623,276	\$133,579,742	\$123,759,819
<b>New Dwelling Units</b>					
Single Family	32	129	201	191	173
Multiple Family	4	0	83	4	101
Total	36	129	284	195	274

Note: Totals may not add up because of rounding.

Source: *Building Permit Summary, Construction Industry Research Board and City of Modesto.*

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## Agriculture

The following table summarizes historical agricultural production within the County for calendar years 2015 through 2019.

**TABLE A-7  
STANISLAUS COUNTY  
Agricultural Production  
2015-2019**

<i>Commodity</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Apiary	\$ 74,794,900	\$ 76,768,000	\$ 80,706,000	\$ 89,041,000	\$ 109,523,000
Field Crops	256,892,000	185,744,000	207,574,000	212,742,000	214,113,000
Fruit and Nut Crops	1,647,390,000	1,248,457,000	1,392,747,000	1,390,010,000	1,484,057,000
Livestock & Poultry	731,506,000	622,473,000	582,477,000	588,352,000	636,561,000
Livestock & Poultry Products	729,031,000	649,556,000	715,117,000	680,197,000	659,186,000
Nursery Products	169,887,000	204,797,000	271,049,000	220,953,000	227,537,000
Organic Products	89,413,000	99,696,000	199,409,000	193,609,000	61,415,000
Other Agriculture	22,019,000	17,738,000	19,793,000	23,540,000	25,018,000
Seed Crops <sup>(1)</sup>	740,000	-	-	-	-
Vegetable Crops	157,659,000	156,182,000	179,320,000	171,546,000	180,994,000
<b>TOTALS</b>	<b><u>\$3,879,331,900</u></b>	<b><u>\$3,261,411,000</u></b>	<b><u>\$3,648,192,000</u></b>	<b><u>\$3,569,990,000</u></b>	<b><u>3,598,404,000</u></b>

<sup>(1)</sup> After 2015 Seed Crops are no longer a tracked commodity.

Source: Stanislaus County Department of Agriculture.

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**APPENDIX B**

**CITY OF MODESTO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FY 2018-19**

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DoMo First Fridays! - Downtown Modesto

# City of Modesto

Comprehensive Annual Financial Report  
FY 2018-2019 | Fiscal Year Ended June 30, 2019



CITY OF  
**MODESTO**  
CALIFORNIA



CITY OF  
**Modesto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**Fiscal Year Ended June 30, 2019**

Prepared by  
Finance Department



**CITY OF MODESTO**  
 June 30, 2019  
**TABLE OF CONTENTS**

**INTRODUCTORY SECTION**

Transmittal Letter ..... iii - x  
 Certificate of Achievement for Excellence in Financial Reporting ..... xi  
 City of Modesto Organizational Chart ..... xii

**FINANCIAL SECTION**

Independent Auditors' Report ..... 3-5  
 Management's Discussion and Analysis ..... 6-15  
 Basic Financial Statements:  
   Government-wide Financial Statements:  
     Statement of Net Position ..... 19  
     Statement of Activities ..... 20-21  
   Fund Financial Statements:  
     Balance Sheet – Governmental Funds ..... 22  
     Reconciliation of the Balance Sheet of Governmental Funds to the  
       Statement of Net Position – Governmental Activities ..... 23  
     Statement of Revenues, Expenditures, and Changes in Fund Balances -  
       Governmental Funds ..... 24  
     Reconciliation of the Statement of Revenues, Expenditures, and  
       Changes in Fund Balances of Governmental Funds to the Statement of Activities –  
       Governmental Activities ..... 25  
     Statement of Net Position – Proprietary Funds ..... 26  
     Statement of Revenues, Expenses, and Changes in Fund Net Position -  
       Proprietary Funds ..... 27  
     Statement of Cash Flows – Proprietary Funds ..... 28-29  
     Statement of Fiduciary Net Position – Fiduciary Funds ..... 30  
     Statement of Changes in Fiduciary Net Position - Private Purpose Trust Fund ..... 31  
   Notes to Basic Financial Statements ..... 32-78  
 Required Supplementary Information:  
   Schedule of Changes in the Net Pension Liability and Related Ratios ..... 81-82  
   Schedule of Plan Contributions ..... 83  
   Schedule of Changes in the OPEB Liability and Related Ratios ..... 84  
   Schedule of Contributions ..... 85  
   Schedule of Revenues – Budget (GAAP Basis) and Actual – General Fund ..... 86  
   Schedule of Expenditures by Function – Budget (GAAP Basis) and Actual – General Fund ..... 87  
   Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis)  
     and Actual - Housing and Community Development Special Revenue Fund ..... 88  
   Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis)  
     and Actual – Transportation Special Tax Special Revenue Fund ..... 89  
   Notes to Required Supplementary Information ..... 90-91  
 Combining and Individual Fund Statements and Schedules:  
   Nonmajor Governmental Funds:  
     Combining Balance Sheet ..... 98-100  
     Combining Statement of Revenues, Expenditures, and Changes in  
       Fund Balances ..... 102-104

Schedules of Revenues, Expenditures, and Changes in Fund Balance –	
Budget (GAAP Basis) and Actual:	
Operating Grants Special Revenue Fund.....	105
Local Transportation Special Revenue Fund.....	106
Traffic Safety Special Revenue Fund .....	107
Downtown Improvement District Special Revenue Fund.....	108
Strategic Planning and Development Special Revenue Fund .....	109
Nonmajor Enterprise Funds:	
Combining Statement of Net Position .....	112-113
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position.....	114-115
Combining Statement of Cash Flows.....	116-119
Internal Service Funds:	
Combining Statement of Net Position .....	122-123
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position.....	124-125
Combining Statement of Cash Flows.....	126-129
Agency Funds:	
Statement of Changes in Assets and Liabilities.....	132

## STATISTICAL SECTION

Financial Trends:	
Net Position by Component .....	136
Changes in Net Position .....	137-138
Fund Balances of Governmental Funds .....	139
Changes in Fund Balances of Governmental Funds.....	140
Revenue Capacity:	
Water Utility System .....	141
Debt Capacity:	
Ratio of Outstanding Debt by Type.....	142
Computation of Direct and Overlapping Debt.....	143
Computation of Legal Debt Margin .....	144
Revenue Bond Coverage, Wastewater Revenue Bonds.....	145
Demographic and Economic Information:	
Demographic and Economic Statistics .....	146
Principal Employers .....	147
Principal Property Taxpayers .....	148
Operating Information:	
Full-Time City Government Employees by Function .....	149
Operating Indicators by Function .....	150
Capital Asset Statistics by Function/Program .....	151

## CONTINUING DISCLOSURE SECTION

Continuing Disclosure Requirements Information.....	156-166
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# **INTRODUCTORY SECTION**





## Department of Finance

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December 11, 2019

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Modesto:

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for the City of Modesto (the City). The City of Modesto City Charter and Municipal Code require that a complete CAFR, which is comprised of financial statements and reports on the finances of the City, be submitted to the City Council at the end of each fiscal year. This report fulfills that requirement for the year ended June 30, 2019.

City management assumes full responsibility for the completeness and reliability of the information contained in this report. We believe the data fairly represents 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 a particular control requires estimates and judgments by management.

The Modesto City Charter also requires an annual audit be performed by an independent certified public accountant selected by the Modesto City Council. The accounting firm of Hudson Henderson and Company, Inc. was selected in 2018 to perform the City's annual financial audits. The auditors have issued an unmodified ("clean") opinion on the financial statements for the fiscal year ended June 30, 2019, 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 Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The auditors' 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 auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A is designed to be read in conjunction with this transmittal letter.

### **City of Modesto Profile**

Modesto is located in the heart of California's San Joaquin Valley and is the County Seat of Stanislaus County. It is also the retail, service and financial center of Stanislaus County. The City currently occupies a land area of 37.4 square miles and serves a population of 215,030. The City has a diverse economy and population with a strong sense of community pride.

Incorporated as a municipal city in 1884, the City adopted its City Charter on March 12, 1951, with a Council-Manager form of government. The Modesto City Council (Council) is the City's legislative body and is made up of seven elected officials serving overlapping 4-year terms. The Mayor is elected at-large by the entire City; while the six Councilmembers are elected by district and are limited to two terms.

The Council sets policy and tax rates, approves budgets, and passes ordinances and resolutions, which govern the City. The Council also appoints citizens to advisory boards, committees and commissions as well as appoints the City Manager, City Attorney, City Clerk and City Auditor. The City Manager is responsible for carrying out Council policy and managing the day-to-day affairs of the City.

The City is a “full-service” city including police and fire; public works; water and sewer; community and economic development; parks, recreation and neighborhoods; public transportation; and cultural and convention visitor services.

The City’s financial reporting entity includes all funds and activities of the City 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 there is a financial benefit/burden relationship when the City or management has operational responsibility over the component unit. These component units are the Modesto Public Financing Authority and the City of Modesto Community Facilities Districts.

The annual operating budget serves as the foundation for the City’s financial planning and control. The proposed budget is adopted annually prior to July 1, by City Council ordinance. The Council’s legally adopted budget level is at the fund level. Throughout the fiscal year, the budget may be modified. The City Council has also adopted fiscal policies that delineate the delegated budget control authority to the following parties: the City Council, the City Manager and the Director of Finance.

### **Local Economy**

Modesto is the county seat for fast-growing Stanislaus County. A major center for local commerce, the City attracts thousands to its environs for work, shopping and entertainment. Major employment sectors include manufacturing, healthcare, education and retail. Modesto and its surrounding communities contain canneries, packing plants and warehouses which ship agricultural products across the nation and the world. An active farm to table movement has been spearheaded by the area’s large production of nuts, dairy, poultry and other locally grown products.

The unemployment rate within the county-wide Modesto Statistical Area (MSA) decreased during the 2018-2019 fiscal year. As of June 30, 2019, the MSA’s unemployment rate was recorded at 6.5%, which is down from the 7.2% rate of a year ago. Total non-farm employment in the MSA is projected to grow by 21,300 jobs to 192,800 during the ten year period 2016 to 2026. For the same period, the industry sector consisting of Health Care and Social Assistance shows the highest percentage increase of 31.9% adding 9,400 jobs followed by Educational Services which is projected to grow by 30.9% and add 9,600 jobs. Transportation, Warehousing and Utilities is expected to grow by 29.3% and add 2,400 jobs. The next fastest growing industry sectors are Federal Government, Leisure and Hospitality, Mining, Lodging and Construction which are forecasted to add 4,700 jobs by 2026.

According to Zillow, the ZHVI (Zillow Home Value Index) homes listed in the City of Modesto as of September 30, 2019 is \$319,950, an increase of 4.1% over 2018, and the median rent price is \$1,550, with the Modesto MSA at \$1,600. CoStar Realty Information stated the average Modesto MSA asking rent as \$1,258 with an average per square foot per month rate of \$1.45, representing an annual increase of 5%. Modesto building permit activity during fiscal year 2018-2019 ended with a total of 4,335 permits issued with a valuation of \$112,433,029.

Modesto is a prime and central location for business, and has attracted both start-ups and expanding firms. Specialized health care facilities like HealthSouth and Central Valley Specialty Hospital have chosen to expand their services and operations in Modesto. There is also a strong culture of entrepreneurship and innovation. Datapath, a technology management company with headquarters in Modesto, has been recognized by Inc. Magazine as one of the fastest-growing private companies in America. E&J Gallo Winery, also based in Modesto, is the world’s largest privately owned winery and the

leading US exporter of California wines. The Gallo Glass Company is a state of the art glass manufacturer and a leading producer of wine and spirits glass bottles in the US.

### **Entertainment and Tourism**

Modesto features vibrant arts, entertainment, sports and cultural expression. With the newly relaunched Convention and Visitor's Bureau and Tourism Marketing District, Modesto is committed to attracting visitors by promoting and marketing Modesto as a convention, sports, tourism, and leisure travel destination.

Downtown Modesto is home to the world-class Gallo Center that brings national and international entertainment, arts and multicultural programming to the Central Valley region. Downtown, you can experience the Historic Graffiti Cruise Route, the Legends of the Cruise Walk of Fame, and the Classic Community Mural Series celebrating the cruising culture phenomenon born in Modesto and immortalized by native son George Lucas in American Graffiti. Live entertainment is a prominent feature in the Civic Plaza and nearby clubs, and a busy calendar of entertaining and educational events can be experienced just across the street at the Modesto Centre Plaza.

Baseball with the Modesto Nuts baseball team is just minutes from the city center, and golfers enjoy two-highly rated 18-hole courses and a municipal course year-round. Modesto is gaining recognition for its bike routes and trails, and is a frequent host city for the Tour-de-France rated Amgen Tour of California bicycle race. Water lovers have river parks and kayaking.

The McHenry Mansion and McHenry Museum anchor the city's loving preservation of its historical heritage, drawing visitors from all over the world. The city's annual Architectural Festival offers free tours, exhibits, workshops and films in the iconic State Theatre featuring one of the best collections of mid-century modernism in the nation. Arts live year round with monthly Art Walks, and seasonal activities including the Graffiti Cruise, parades, the Modesto on Ice downtown skating rink, the Dickens Faire, ModShop arts and crafts walk, and PorchFest community music stroll bring joy to residents and visitors. Modesto truly offers something great for everyone.

### **Our Strategic Priorities**

During 2019, the City continued to utilize the 2015-2018 Strategic Plan to incorporate input from newly elected Councilmembers and to reaffirm our strategic priorities. Our priorities bring the City's vision and values to life in our community and define our overall direction as a city. It also confirms our commitment to our citizens. While the priorities are individually important, they are also interconnected and cannot be addressed in isolation. In addition, they are the basis of our scorecard that measures success and upon which our performance metrics are built.

- **Healthy Economy and Great Quality of Life:** Increase the City's proactive economic development efforts by creating and preserving jobs, strengthening our economic base and enhancing the City's revenue base.
- **Vibrant Infrastructure and Sustainable Environment:** Strengthen and maintain a safe infrastructure of City roads, water supply, storm sewers, transit and airport needs for residents, businesses and visitors.
- **Great Safe Neighborhoods:** Explore new approaches to public safety, working in partnership with the community to reduce crime and maintain a safe and inviting community in which to live, work and play. Increase collaboration with neighborhoods and school districts to achieve quality of life improvements, and safe neighborhoods through supporting community self-reliance, problem solving and public/private partnerships.
- **Effective, Responsive and Transparent Government:** Enhance the organization's commitment to develop new and creative methods to leverage technology, market organization strengths and remain dedicated to seeking efficiencies and continuous improvement.

### **Long-Term Financial Planning**

The City continues to refine its 10-year forecasting model and update estimates and assumptions used to project future operations. At the end of fiscal year 2018-19, General Fund Balance was as follows: Restricted and Nonspendable - \$4.9 million; Committed - \$18.4 million; Assigned - \$0.5 million; and Unassigned \$1.7 million. The Committed Fund Balance allows the City to respond to unplanned circumstances and maintain adequate working capital to meet its cash flow needs.

The City's long-term maintenance of a stable fund balance is a direct reflection of the Mayor and Council's leadership and prudent fiscal management.

### **SIGNIFICANT EVENTS / ACCOMPLISHMENTS**

#### *Healthy Economy & Great Quality of Life*

- Volunteers range from community members and local clubs to large groups such as corporations seeking to participate in local clean-ups, volunteering at community centers, programs and special events. Over the last year approximately 3,597 volunteers worked a total of 17,317 hours at 533 individual events which amounted to a total leveraged value of \$498,371.
- Through collaboration with the Modesto Police Department, Parks Recreation and Neighborhood Department was able to offer two Crime Scene Investigation (CSI) Camps serving 50 local youth. All participants learned about the many aspects of police work from Police Officers, Detective, Community Service Officers, Crime Scene Investigators, Traffic Officers, and the many Technicians that make up the Police Department. Each week of camp ended with the kids learning how to process a crime scene.
- The Mary Grogan Soccer Complex served 5,735 community members in drop-in activities. During Fiscal Year 18/19 had over 1,700 bookings equaling over 8,100 hours of booked rentals.
- The City of Modesto, in partnership with The Modesto Peace Life Center, Modesto Junior College, and several other partners sponsored the 25th Anniversary Martin Luther King Commemoration Event. This year's event featured the much honored author, commentator, professor, preacher, and dynamic speaker, Dr. Michael Eric Dyson. Over 700 community members attended the positive night of civic engagement through word and music at Modesto Junior College.
- The City of Modesto Parks, Recreation and Neighborhoods Department partnered with the Modesto City Schools Student, Parent & Community Support Services team to present the 5th Annual Westside Community "Back to School" event at the Neighborhood Center at Marshall Park. The free community event provided an exciting evening program focused on health, safety & community resources. The evening's festivities included guest speakers, kids' activities, games, prizes, face painting, a bounce house, and the event highlight "Backpack Giveaway." The event served approximately 1,800 participants.
- The Kids Connect Community Celebration at Marshall Park, in partnership with the Stanislaus County Department of Child Support Services, provided a variety of community resource information to families and featured cultural group performances, musical entertainment, child activities, a bounce house, and guest speakers for approximately 360 participants
- Completion of the John Thurman Field Improvements – Replacement of Upper Box Seats and Video Board.
- The City Council adopted a significant amendment to the land use and circulation elements of the General Plan in March 2019.
- The City Council approved eight retail cannabis dispensaries in December 2018, of which four are currently open and operating.
- Continued the successful TI (Tenant Improvement) Tuesday Program and processed 51 projects helping businesses fast-track their building permit review time, thus reducing time and costs for these businesses.
- The Public Works Transit Division began utilizing 5 electric buses and public Wi-Fi in Modesto Area Express service.
- The Public Works Transit Division implemented mobile ticketing Modesto Area Express to allow easier purchasing and use of bus fare.

- Increased community engagement with the first Modesto Police and Fire Departments softball game hosted by the Modesto Nuts to raise charity funds.

### Great Safe Neighborhoods

- Recertified 106 Crime Free Multi-Housing properties hold bi-monthly meetings and reinstated 8-hour Manager Training.
- City of Modesto is ranking #1 in cities its size in California for National Night Out and #5 in the nation.
- Increased the number of Business Watch Groups by 20% and Business Watch Meetings by 25%.
- Community Engagement Activities increased by 123%.
- Modesto Police Department (MPD) hosted 7 Town Hall Meetings and 3 Coffee with Cops events throughout the City.
- Five (5) firefighters graduated from the academy in August, and several Engineers and a Battalion Chief joined celebrated their promotions.
- Five (5) new engines and two ladder trucks were placed into service.
- Placed a new California Office of Emergency (OES) grant funded HazMat rig into service, this apparatus is able to serve throughout the County and State during HazMat incidents.
- Approval of two new apartment complexes in Kiernan Business Park, totaling 306 dwelling units. Approval of a new 50-unit apartment complex at Rumble Road and Conant Avenue.
- Approval of the Almond Grove subdivision for 246 single-family lots in the Fairview area of southwest Modesto.
- Approval of the Woodglen subdivision for 367 single-family lots and a 7-acre multi-family site on the north side of Pelandale Avenue west of Tully Road.
- Partnered with the Housing Authority to provide funding to rehabilitate 40 affordable rental units which will serve those who are homeless or at risk of homelessness.
- Partnered with STANCO to acquire a transitional housing into to serve four women with mental health issues who are homeless or at risk of homelessness.
- Provided 22 homeowner grants and loans to address health and safety concerns and maintain the affordable housing stock in the City.
- Completed LED lighting installation at the 10<sup>th</sup> Street Garage and Centre Plaza Parking lot.
- The Public Works Community Forestry increased pruning by over 47%, for a total increase of 2,800 pruned trees compared to Fiscal Year 2017-18.
- Staff registered 2,545 people in fee based recreational programs such as swimming, tennis, soccer, art, dance, day camps, archery, etc.
- 253 financial assistance “Leisure Bucks” vouchers were issued to Low-Income Youth, Seniors and Disabled adults. A total of \$13,443 in assistance was given.
- The Police Department’s license plate reader program was expanded with the installation of cameras at the intersection of Briggsmore and McHenry Avenues.
- The Police Department partnered with the Department of Justice on an investigation that resulted in the takedown of more than 30 gang members committing acts of violence in the City.

### Vibrant Infrastructure & Sustainable Environment

- Completion of the Dennett Dam Project removed the remnants of Dennett Dam in the Tuolumne River and provided habitat restoration to approximately 200 feet of river channel. The removal included the installation of temporary cofferdams, a bypass channel and constant pumping to dewater the site for demolition and excavation activities.
- Staff coordinated fifteen-(15) community meetings to engage the neighboring residents of César E. Chavez, Mancini, and Mellis Park, in efforts to submit a competitive grant application for Proposition 68 State Wide Park Development and Community Revitalization Program. Over 600 community members attended the span of the meetings and provided valuable input on the issues and needs of the park, along with community base design for each specific park.
- Completed design and right-of-way acquisition for the State Route 132 project.
- Completed pavement rehabilitation of 0.9 miles of Claus Road from Gomes Road to Briggsmore Avenue.

- Completed pavement rehabilitation of more than 20 equivalent lane miles in the Lakewood Neighborhood.



- Completed pavement rehabilitation of 3.0 miles of Standford Avenue from Dale Road to Sherwood Avenue (Measure L project).



- Completed pavement rehabilitation of 1.8 miles of Carpenter Road from Chicago Avenue to Torrid Avenue (Measure L Project).
- The Public Works Solid Waste Division converted 109,668 tons of waste into energy, which powered 19,000 homes with renewable energy and composed 53,242 tons of organic material.

- Completed 8 street paving projects throughout Modesto, paving 137,735 square feet with average cost of \$2.49 per square foot.
- The 4 million gallon Industrial Tank was completed in Summer 2019. This is the last of the major "Downstream Improvements" needed to efficiently deliver domestic water to our customers in South Modesto.
- Construction of the Del Rio Tank, Well & Pump Station Project began in December 2018 and is expected to be complete in Summer 2020. The project will increase service reliability, correct existing supply and pressure deficiencies for the City's Del Rio Water System.
- Construction of the City's new Corporation Yard for the Utilities Departments Water Services Division commenced in October 2018 and is expected to be complete in December 2019. The City's first vertical design build project will consolidate three locations operated by Water Services into a single site.
- Successfully drilled three new domestic wells (Well 70, 71 & 72) that will in Fiscal Year 18/19. These new wells are currently being finalized so that construction of the above ground improvements and are expected to begin construction in FY 19/20.
- Headworks and Dryden Box Project began construction. The project consists of diverse improvements at the Sutter Wastewater Treatment Plant including: screens, compactors, parshall flume, grit basins, massive in-ground concrete structures, and sewer trunk line installations.
- The Ceres Trunk Project is nearly complete, which is comprised of approximately 3,500 LF of sewer trunk, rehabilitation of the existing trunk section crossing the HWY 99 and the installation of a secondary trunk line for reliability.
- Construction of the Area 2 Cross Connection Removal – Roosevelt Park Project began which is comprised of six existing sewer cross connections to be removed, a new underground storm drain system and renovations to Roosevelt Park. This project received a \$4 million Proposition 84 grant.
- For FY 18/19, the City water system has shown an average monthly water production reduction of 25.03% as compared to the State's baseline of June 2013. This reduction represents an average of 406 million gallons of water saved each month! The Water Services Division maintains approx. 1,000 miles of water mains, 72,362 water services, and currently has 77 water wells in service. During FY 18/19, Water Services Division staff performed 7,906 water quality samples, responded 4,689 water service calls, and made 8,260 water conservation contacts.
- Completed Trash Assessment of all priority land use areas with the City and identified opportunities to mitigated potential trash impacts to the Tuolumne River that include a mixture of full capture devices and best management practices.

#### Effective Responsive & Transparent Government

- Installed 5 new groundwater monitoring wells at the Compost Facility site in compliance with the Regional Water Quality Control Board's Composting General Order.
- Successful implementation of PerfectMind system for facility and park rentals and recreational program registration.
- Completed the implementation of Phase I of the City's new Business License software which will allow businesses to submit their payments online.
- Completed the implementation of our new utility billing online portal which provides an easier way to view utility bills online and make online payments.
- Procedural Justice training was deployed throughout the Modesto Police Department focusing on how law enforcement can improve trust and relationships with their communities by using principles to evaluate their policies, procedures and training.
- Completed 95% of Citywide upgrade of Network and Communication System, which provides access to over 3,000 endpoint access to City resources.
- Completed Upgrade of Chambers and Master Control facility for Education and Government Channel. Replaced aged projector with digital TV displays to improve audience viewing and upgraded microphones and speakers for better sound quality. Overhauled the Master Control Facility to improve quality and reliability of video transmission and recordings.
- Improved Website experience by implementing ADA Website tool to identify non-compliant items for remediation.

- Implemented the new Lucity, Enterprise Asset Management Software that has enhanced productivity by integrating Geographic Information Systems (GIS) and providing field staff the capability to receive work orders remotely, (utilizing a mobile device) so they can resolve the issue and close out the work order without the need to return to the office to do so.

### **Awards / Acknowledgments**

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, 2018. This was the 36<sup>th</sup> consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

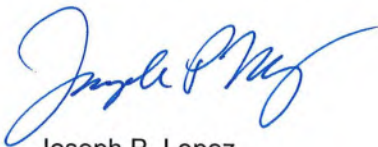
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Comprehensive Annual Financial Report (CAFR) is the result of the cooperative work of many people. We wish to convey our appreciation to all of the City departments and members of the Finance Department team who prepared and contributed to its successful completion. Without their hard work, this report would not be possible.

In addition, the City submitted and received an award from the GFOA for its third year for the Popular Annual Financial Report (PAFR) for fiscal year ended June 30, 2018. A PAFR presents financial information in a manner that appeals to the reader, is understandable and shows creativity and usefulness. The PAFR award is valid for one year and the City intends to submit its 2019 PAFR to the GFOA for consideration.

Finally, we would like to express our appreciation to the City Council, City employees, and community for their leadership and support. We look forward to the next year's challenges and opportunities.

Respectfully submitted,



Joseph P. Lopez  
City Manager



DeAnna Christensen  
Director of Finance



Government Finance Officers Association

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, 2018**

*Christopher P. Morrill*

Executive Director/CEO

# CITY OF MODESTO ORGANIZATIONAL CHART



- Legend**
- Elected
  - Council Appointed
  - City Manager Appointed

**CITIZENS OF MODESTO**

**CITY COUNCIL**  
 Ted Brandvold, Mayor  
 Mani Grewal, District 1      Bill Zoslocki, District 4  
 Tony Madrigal, District 2      Jenny Kenoyer, District 5  
 Kristi Ah You, District 3      Douglas Ridenour, District 6

**CITY ATTORNEY**  
Adam Lindgren

**CITY AUDITOR**  
Vacant

**CITY CLERK**  
Stephanie Lopez

**MODESTO CITY MANAGER**  
Joseph P. Lopez

**DEPUTY CITY MANAGER OPERATIONS**

**PUBLIC WORKS**

**UTILITIES**

**PARKS, RECREATION & NEIGHBORHOODS**

**COMMUNITY & ECONOMIC DEVELOPMENT**

**Healthy Economy, Vibrant Infrastructure & Sustainable Environment**

Neighborhood Engagement, Utility and Infrastructure Maintenance and Repair, Recycling and Waste Removal, Community Programming and Neighborhood Development, Environmental Compliance, Construction Management, Economic Development, Transportation Management, Land Acquisition and Development

**POLICE DEPARTMENT**

**FIRE DEPARTMENT**

**PUBLIC RELATIONS**

**Safe Neighborhoods**

Emergency Service Calls, Dispatch, Rescue, Hazardous Materials Control, Fire Prevention, Safety Education, Crime Prevention and Mapping, Patrols, Traffic Enforcement, Gang Enforcement

**DEPUTY CITY MANAGER SUPPORT**

**BUDGET**

**FINANCE**

**HUMAN RESOURCES**

**INFORMATION TECHNOLOGY**

**INNOVATION & PERFORMANCE MANAGEMENT**

**Effective Responsive & Transparent Government**

Driving Performance and Innovation, Recruitment and Testing, Customer Service Delivery, Innovation in Service delivery, Accessible Technology Implementation, Information Dissemination, Community Outreach

# **FINANCIAL SECTION**





## **INDEPENDENT AUDITORS' REPORT**

To the City Council  
City of Modesto, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto, California (the City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of plan contributions, schedule of changes in the OPEB liability and related ratios, schedule of contributions, and budgetary comparison schedules for the General Fund and Housing and Community Development Special Revenue Fund, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules, statistical section and the continuing disclosure section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section, statistical section and continuing disclosure section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

HUDSON HENDERSON & COMPANY, INC.

*Hudson Henderson & Company, Inc.*

Fresno, California  
December 11, 2019

# Management's Discussion and Analysis

This section of the City of Modesto (the City) comprehensive annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2019. 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 2019 fiscal year by \$1,109,443,626 (*total net position*). Of this amount, \$143,454,894 is restricted for a specific purpose (*restricted net position*), \$1,009,329,066 is invested in capital assets, net of related debt and (\$43,340,334) is unrestricted (*unrestricted net position*).
- The City's total deferred outflow of resources decreased by \$4,722,102 compared to the prior year. The City's total deferred inflow of resources decreased by \$2,215,734 compared to the prior year.
- The City's total net position increased by \$60,889,871 compared to the prior year. This increase is attributed to additions made to the City's infrastructure and capital improvements.
- As of June 30, 2019, the City's governmental funds reported combined fund balances of \$131,301,714, a decrease of \$2,657,564 in comparison with the prior year.
- As of June 30, 2019, 6.81% of the General fund balance of \$1,742,785 is available to meet the City's current and future needs (*General Fund unassigned fund balance*).
- At the end of the fiscal year, the General Fund balance was \$25,582,870 or 20.6% of total General Fund expenditures. Of this, \$2,209,485 is the restricted fund balances. The unassigned fund balance of \$1,742,785 represents 1.3% of total General Fund outflows. The City Council has adopted a goal of maintaining an 8% unassigned fund balance amount based on General Fund outflows.
- The City's total long-term liabilities showed a net decrease of \$17,717,191 in comparison with the prior year. This decrease was attributed to reduction in debt from the principal payments made during the fiscal year.

## 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 the City finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all the City assets and liabilities, deferred outflows of resources and deferred inflow of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, Compost, Airport, Bus, Golf, Community Center and Abatement and Public Nuisance operations.

## Management's Discussion and Analysis (*continued*)

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 or the City has operational responsibility for the entities. Examples are the Community Facilities Districts, Redevelopment Successor Agency of the City of Modesto and the Modesto Public Financing Authority.

**The government-wide financial statements can be found on pages 19-21 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, Housing and Community Development Fund and Transportation Special Tax Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

**The governmental funds financial statements can be found on pages 22-25 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, Compost, Airport, Bus, Golf, Community Center and Abatement and Public Nuisance 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 with the exception of portions of the compensated absences that have been included within business-type activities. The rest of 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, Sewer and Bus 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 26-29 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

## Management's Discussion and Analysis *(continued)*

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 30-31 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 32-78** of this report.

**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. This section also includes the schedules for net pension liability and OPEB.

**Required supplementary information can be found on pages 81-91 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 98-132** of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,109,443,626 at the close of the most recent fiscal year.

#### Net Position

	Governmental activities		Business-type activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$246,108,781	\$243,103,994	\$281,130,823	\$261,380,685	\$527,239,604	\$504,484,679
Capital assets	439,689,132	418,014,444	926,872,707	904,169,388	1,366,561,839	1,322,183,832
Total assets	<u>685,797,913</u>	<u>661,118,438</u>	<u>1,208,003,530</u>	<u>1,165,550,073</u>	<u>1,893,801,443</u>	<u>1,826,668,511</u>
Deferred outflow s of resources	60,664,344	70,743,496	45,442,749	40,085,699	106,107,093	110,829,195
Current and other liabilities	310,234,095	303,343,367	146,601,151	132,037,995	456,835,246	\$435,381,362
Long-term liabilities	89,612,581	92,513,335	333,748,552	348,564,989	423,361,133	441,078,324
Total liabilities	<u>399,846,676</u>	<u>395,856,702</u>	<u>480,349,703</u>	<u>480,602,984</u>	<u>880,196,379</u>	<u>876,459,686</u>
Deferred inflow s of resources	8,559,554	10,481,112	1,708,977	2,003,153	10,268,531	12,484,265
Net position:						
Net investment in capital assets	401,515,805	377,529,238	607,813,261	571,811,118	1,009,329,066	949,340,356
Restricted net position	127,885,787	130,192,278	15,569,107	21,071,542	143,454,894	151,263,820
Unrestricted net position	(191,345,565)	(182,197,396)	148,005,231	130,146,975	(43,340,334)	(52,050,421)
Total net position	<u>\$338,056,027</u>	<u>\$325,524,120</u>	<u>\$771,387,599</u>	<u>\$723,029,635</u>	<u>\$1,109,443,626</u>	<u>\$1,048,553,755</u>

The largest portion of the City's net position, \$1,009,329,066 or 91.0%, reflects its investment in capital assets (e.g. land, water rights, buildings, improvements, furnishings and equipment, buses and fare boxes, pipelines, and infrastructure), less any related debt used to acquire those assets that are 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 debt and related deferred outflows and inflows, 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 position represents *unrestricted net position* of (\$43,340,334) or (3.9%).

The remaining balance of the City's net position of \$143,454,894 or 12.9% represents resources that are subject to external restrictions on how they may be used.

## Management's Discussion and Analysis *(continued)*

The City's net position increased by \$60,889,871 during the current fiscal year was largely due to the additions associated with the City's infrastructure and capital improvements.

The following table indicates the changes in net position for governmental and business-type activities, as well as comparative data for the prior year:

	Governmental activities		Business-type activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$28,975,356	\$32,463,928	\$158,963,772	\$150,864,635	\$187,939,128	\$183,328,563
Operating grants and contributions	6,591,435	5,802,634	25,668,280	17,858,762	32,259,715	23,661,396
Capital grants and contributions	8,831,664	3,062,292	5,198,721	7,196,698	14,030,385	10,258,990
General revenues:						
Taxes	61,114,320	59,468,267	201,931	207,849	61,316,251	59,676,116
Intergovernment revenue not restricted for specific purpose	85,826,338	76,641,006	-	-	85,826,338	76,641,006
Unrestricted investment earnings	5,753,083	726,199	7,290,802	1,047,604	13,043,885	1,773,803
Miscellaneous	3,421,783	818,542	1,528,727	1,472,809	4,950,510	2,291,351
Total revenues	200,513,979	178,982,868	198,852,233	178,648,357	399,366,212	357,631,225
Expenses:						
General government	13,973,768	15,432,617	-	-	13,973,768	15,432,617
Community development	15,720,280	17,268,926	-	-	15,720,280	17,268,926
Highways and streets	23,937,423	22,997,140	-	-	23,937,423	22,997,140
Public works	3,472,405	8,674,538	-	-	3,472,405	8,674,538
Parks and recreation	15,680,980	4,456,508	-	-	15,680,980	4,456,508
Public safety	111,059,794	120,629,673	-	-	111,059,794	120,629,673
Interest on long-term debt	2,402,299	2,510,224	-	-	2,402,299	2,510,224
Water	-	-	62,745,688	56,526,729	62,745,688	56,526,729
Sewer	-	-	41,216,914	41,444,220	41,216,914	41,444,220
Bus	-	-	24,276,760	20,538,934	24,276,760	20,538,934
Parking	-	-	1,899,479	1,553,258	1,899,479	1,553,258
Storm drain	-	-	7,157,290	5,202,444	7,157,290	5,202,444
Compost	-	-	8,477,947	9,652,175	8,477,947	9,652,175
Airport	-	-	1,646,800	1,578,654	1,646,800	1,578,654
Golf	-	-	3,052,785	2,616,077	3,052,785	2,616,077
Community center	-	-	1,541,592	1,780,010	1,541,592	1,780,010
Abatement and Public Nuisance	-	-	63,312	351,557	63,312	351,557
Total expenses	186,246,949	191,969,626	152,078,567	141,244,058	338,325,516	333,213,684
Change in net position before transfers	14,267,030	(12,986,758)	46,773,666	37,404,299	61,040,696	24,417,541
Transfers	(1,675,373)	(354,287)	1,675,373	354,287	-	-
Total transfers	(1,675,373)	(354,287)	1,675,373	354,287	-	-
Change in net position	12,591,657	(13,341,045)	48,449,039	37,758,586	61,040,696	24,417,541
Net position - beginning	325,524,120	309,111,010	723,029,635	690,285,159	1,048,553,755	999,396,169
Prior year adjustments	(59,750)	29,754,155	(91,075)	(5,014,110)	(150,825)	24,740,045
Net position - ending	\$338,056,027	\$325,524,120	\$771,387,599	\$723,029,635	\$1,109,443,626	\$1,048,553,755

**Governmental activities.** Governmental activities increased the City's net position by \$12,531,907. This increase was due to the on-going results of implementing GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other than Pension" which generated a reduction of the net OPEB liability by \$1.9 million. The long-term liabilities decrease was attributed to the principal payments of about \$2.6 million and \$0.8 million in claim reductions made during the fiscal year. Operating and capital grants contributions increased by \$6.6 million due to on-going efforts on grant funding opportunities. Intergovernmental revenue increased by \$9.1 million due to establishing the new revenue source beginning in Fiscal Year 2017-18 from the Stanislaus County county-wide, 25 year, half-cent sales tax increase known as Measure L. Measure L will be utilized to fund local transportation improvements.

## Management's Discussion and Analysis (*continued*)

Expenses in total decreased compared to the prior year by \$5,722,677 due to the City's payment made to the California Public Employment Retirement system (CalPERS) for their annual unfunded accrued liability.

**Business-type activities.** Business-type activities increased the City's net position by \$48,357,964. This increase is attributed to a healthy net position in our Water and Sewer Fund which generated an increase in net position by \$44.1 million and increase in our business-type capital assets. The Sewer fund has been able to manage their operational revenues due to a rate increase on July 1, 2018 of 6% to ensure they meet the debt ratio requirements set by Council. In addition, the Water Fund implemented a rate increase of 9% on January 1, 2019 to manage their debit ratio requirements and their capital needs for the City's water infrastructure.

### 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, *unassigned 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, 2019, the City's governmental funds reported combined fund balances of \$131,301,714 a decrease of \$2,657,564 from the prior year. The total unassigned fund balance for the governmental funds was (\$1,066,518), which includes a positive \$1,742,785, which represents the General Fund unassigned fund balance that is available to meet the City's current and future needs. The remainder of fund balance is *nonspendable, restricted, committed and assigned* to indicate that it is *not* available for new spending because certain constraints have been placed on the use of the balances. The unassigned fund balance for the General Fund increased by \$47,309.

The General Fund is the chief operating fund of the City. At June 30, 2019, unassigned fund balance of the General Fund was \$1,742,785 while total fund balance was \$25,582,870. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 1.4% of total General Fund expenditures, while total fund balance represents 20.57% of that same amount. The prior year ratios were 1.1% and 22.52%, respectively.

The Housing and Community Development fund accounts for the grants and funds received to disburse for projects developed and administered under the Housing and Community Development Act. At June 30, 2019, total fund balance was \$30,928,788, an increase of \$3,207,154 from prior year. This increase is attributed to new program income received to fund future low income project activity.

The Transportation Special Tax fund accounts for state-collected, locally-shared gas tax, 25 year, ½ cent sales tax Measure L, and SB-1 (Road Repair and Accountability Act of 2017) monies. At June 30, 2019, total fund balance was \$17,499,878, an increase of \$3,054,905 from prior year. This increase is attributed to the inflow of a full year of SB-1 funding compared to a partial amount in the prior year.

Revenues of governmental funds totaled \$190,501,002 in fiscal year 2018-19, which represents an increase of \$11,191,753 from fiscal year 2017-18.

Expenditures of governmental funds totaled \$193,922,912 in fiscal year 2018-19, representing an increase of \$33,244,950 from fiscal year 2017-18.

## Management's Discussion and Analysis (continued)

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 2019		FY 2018		% Change
	Amount	Percent	Amount	Percent	
Taxes	\$61,114,320	32.1%	\$59,468,267	33.2%	2.8%
Licenses and permits	344,855	0.2%	153,226	0.1%	125.1%
Intergovernmental	96,174,839	50.5%	85,629,758	47.8%	12.3%
Charges for services	23,226,714	12.2%	25,467,795	14.2%	-8.8%
Special assessments	4,260,281	2.2%	5,715,030	3.2%	-25.5%
Interest and rent	2,219,282	1.2%	1,574,347	0.9%	41.0%
Net increase (decrease) in fair value	1,294,543	0.7%	(645,593)	-0.4%	-300.5%
Fines and forfeits	1,143,506	0.6%	1,127,877	0.6%	1.4%
Miscellaneous	722,662	0.4%	818,542	0.4%	-11.7%
<b>Total</b>	<b>\$190,501,002</b>	<b>100.0%</b>	<b>\$179,309,249</b>	<b>100.0%</b>	<b>6.2%</b>

- Taxes – Revenues for property and business license taxes came in higher than the prior year due to an ongoing positive upturn in the economy and increased collection and compliance efforts by the City staff.
- Intergovernmental – Revenues increased by \$10.5 million due to an increase in the revenue source for the Stanislaus County county-wide, 25 year, half-cent sales tax increase known as Measure L to assist with the funding for local transportation improvements for the City.
- Charges for Services – Revenues decreased by \$2.2 million due to the Capital Facility Funds collecting an increase revenue for the building permits issued in 2018 for all new construction or additional square footage built within the City of Modesto.
- Special assessments: Revenue decreased by \$1.4 million due to an increase in building permits issued in the Community Facility District Village One #2 during FY 2017-18. No major building permits were issued in 2018-19 to generate an on-going increase in revenue.
- Interest and Net increase in fair value – Revenues increased due to increases to our interest earnings based on on-going improvements to the City's investment strategy which has increased our return on investment in the City's portfolio.

The following table presents expenditures by function compared to prior year amounts.

### Expenditures by Function – Governmental Funds

Exp by Function	FY 2019		FY 2018		% Change
	Amount	Percent	Amount	Percent	
General government	\$12,262,797	6.3%	\$11,837,635	7.4%	3.6%
Community development	13,796,154	7.1%	13,234,820	8.2%	4.2%
Highways and streets	10,102,646	5.2%	8,936,163	5.6%	13.1%
Public works	3,017,247	1.6%	6,509,418	4.1%	-53.6%
Parks and recreation	13,843,885	7.1%	3,420,453	2.1%	304.7%
Public safety	97,411,634	50.2%	92,341,706	57.5%	5.5%
Capital outlay	38,522,334	19.9%	19,037,250	11.8%	102.4%
Debt Service-principal retirement	2,562,498	1.3%	2,849,343	1.8%	-10.1%
Debt Service-interest charges	1,897,384	1.0%	2,114,488	1.3%	-10.3%
Debt Service-other	506,333	0.3%	396,686	0.2%	27.6%
<b>Total</b>	<b>\$193,922,912</b>	<b>100.0%</b>	<b>\$160,677,962</b>	<b>100.0%</b>	<b>20.7%</b>

## Management’s Discussion and Analysis (continued)

The following provides an explanation of the expenditures by function that changed significantly over the prior year:

- Highways and Streets – Expenditures increased by \$1,166,483 or 13.1% over the prior year, due to a reduction in street related projects compared to the prior year.
- Parks and recreation – Expenditures increased by \$10,423,432 or 304.7% over the prior year, due to the re-organizational change to move the operating park maintenance and various parks facilities from Public Works and Community Economic Development to Parks and Recreation.
- Public safety – Expenditures increased by \$5,069,928 or 5.5% over the prior year, due to an increase of expenses for police services. These increases were attributed to continuous increases to workers’ compensation cost for police, information technology and police equipment and salary and benefit increase for the police department.
- Capital outlay – Expenditures increased by \$19,485,084 or 102.4% reflects an increase due to an increase in construction projects related to State Route 132 West Express project in the amount of \$19.4 million.

Other financing sources and uses are presented below to illustrate changes from the prior year:

	FY 2019	FY 2018	Increase/(Decrease)	
			Amount	Percent
Transfers in	\$21,496,638	\$10,707,217	\$10,789,421	100.8%
Transfers out	(20,760,150)	(13,568,675)	(7,191,475)	53.0%
Sale of assets	87,608	154,458	(66,850)	-43.3%
Net financing (uses)	\$824,096	(\$2,707,000)	\$3,531,096	-130.4%

Transfers - The City uses interfund transfers to: (1) move resources from a fund to other funds that will utilize them in accordance with statutory and budgetary requirements, (2) utilize unrestricted resources 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 pay debt service to the funds that are responsible for payment as those payments become due.

- The net financing (uses) from governmental funds for 2019 were \$824,096 compared to \$(2,707,000) in the prior year. This net transfer is to various City funds including transferring funds from the General Fund, Capital Facility Fee funds, Fleet Fund, Measure L Capital Fund and the Public Financing Authority to cover the debt service payments, fleet replacement, funding for capital projects and various transfers to cover City grant matches.

The fund balance of the City’s General Fund decreased by \$1,162,712 during the fiscal year. This result is consistent with the City Council’s budgetary direction to reduce spending and identify additional revenue sources that would allow the General Fund to retain an unrestricted reserve that meets the City Council’s adopted 8% unassigned fund balance amount based on General Fund outflows.

**Proprietary funds.** The City’s proprietary fund disclosures provide the same type of information found in the government-wide financial statements, but in more detail.

## Management's Discussion and Analysis *(continued)*

The following table shows actual revenues, expenses and results of operations of enterprise funds for the current fiscal year:

	Major Funds			Nonmajor Funds	
	Water	Sewer	Bus	Other	Total
Operating revenues	\$76,806,740	\$56,726,373	\$3,176,134	\$21,418,279	\$158,127,526
Operating expenses	(55,552,772)	(37,479,496)	(24,237,441)	(23,693,594)	(140,963,303)
Operating income (loss)	21,253,968	19,246,877	(21,061,307)	(2,275,315)	17,164,223
Nonoperating revenues (expenses), net	(3,096,720)	2,766,272	22,763,424	2,158,505	24,591,481
Income (loss) before capital contributions and transfers	18,157,248	22,013,149	1,702,117	(116,810)	41,755,704
Contributions and transfers	(584,399)	4,473,685	663,221	2,321,587	6,874,094
Changes in net position	<u>\$17,572,849</u>	<u>\$26,486,834</u>	<u>\$2,365,338</u>	<u>\$2,204,777</u>	<u>\$48,629,798</u>

The Water fund had a 9.0% rate increase in January 2019 and the Sewer fund had a rate increase of 6.0% in July 2018. Based on these rate increases the Water and Sewer funds had an increase in their operating revenue which increased their net position.

A pollution remediation liability was reported for the Water and Sewer fund in the amounts of \$8,179,540 and \$7,230,328, respectively based on net recoveries the City has received from various settlements. Additional information regarding these liabilities can be found under Note II-N.

### GENERAL FUND BUDGETARY HIGHLIGHTS

Budget to actual information for the General Fund is presented as Required Supplementary Information, beginning on **page 86-87** of this report.

While the City Council amended the budget several times through the year, the differences between the original budget and the final amended budget for the General Fund were increased overall mainly due to an increase in intergovernmental revenue, charges for services and fines and forfeit revenue. The estimated revenues increased about \$413,340 while total appropriations were increased \$602,333. These amendments 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 \$2,722,142 more than final estimates. Variances in Property Taxes \$470,138, Business License Taxes \$2,068,205, Intergovernmental \$1,070,184 and Interest and Rent Revenue \$536,921 were due to an increase in collection and compliance efforts and increases in property values.

Expenditures, overall, were \$5,722,633 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, 2019, amounted to \$1,366,561,839 (net of accumulated depreciation). The total increase in the City's investment in capital assets compared to 2018 was 3.0%.

## Management's Discussion and Analysis (continued)

Capital assets net of depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year.

	Governmental		Business-type		Total		Increase (decrease)	
	2019	2018	2019	2018	2019	2018	Percent Change	\$ Change
Land	\$33,315,549	\$28,486,969	\$34,511,762	\$34,453,868	\$67,827,311	\$62,940,837	8%	\$4,886,474
Capitalized interest	-	-	6,377,963	7,273,825	6,377,963	7,273,825	-12%	(895,862)
Buildings	11,296,297	12,182,014	32,474,814	34,456,293	43,771,111	46,638,307	-6%	(2,867,196)
Improvements	56,043,331	51,358,075	208,531,497	135,928,019	264,574,828	187,286,094	41%	77,288,734
Furnishings and equipment	3,414,170	3,057,257	5,341,815	5,420,938	8,755,985	8,478,195	3%	277,790
Intangible assets	2,797,538	3,164,415	24,751	36,239	2,822,289	3,200,654	-12%	(378,365)
Equipment pool	16,825,119	18,857,425	-	-	16,825,119	18,857,425	-11%	(2,032,306)
Service animals	19,584	16,046	-	-	19,584	16,046	22%	3,538
Water rights	-	-	250,758,682	262,699,572	250,758,682	262,699,572	-5%	(11,940,890)
Streets	211,213,953	192,817,087	-	-	211,213,953	192,817,087	10%	18,396,866
Signalization	13,805,103	4,848,397	-	-	13,805,103	4,848,397	185%	8,956,706
Bridges	30,326,497	28,500,140	-	-	30,326,497	28,500,140	6%	1,826,357
Buses & fareboxes	25,103	25,103	18,410,479	16,210,586	18,435,582	16,235,689	14%	2,199,893
Pipelines	3,007,877	-	146,817,986	137,243,577	149,825,863	137,243,577	9%	12,582,286
Construction in progress	57,599,011	74,701,516	223,622,958	270,446,471	281,221,969	345,147,987	-19%	(63,926,018)
<b>Total</b>	<b>\$439,689,132</b>	<b>\$418,014,444</b>	<b>\$926,872,707</b>	<b>\$904,169,388</b>	<b>\$1,366,561,839</b>	<b>\$1,322,183,832</b>	<b>3%</b>	<b>\$44,378,007</b>

Major capital asset events during the current fiscal year included the following:

- Improvements – The North Valley Recycled Water improvement was completed in FY 18-19 in the amount of \$48.3 million.
- Land – 6 land parcels were purchased by the City in fiscal year 2018-19 in the amount of \$4.9 million.
- Streets – The State Route 99 and Pelandale Interchange project was completed in FY 18-19 in the amount of \$29.1 million

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 45-46 of this report.

The City had major capital commitments for contracts awarded for various construction projects. As of June 30, 2019, there were major contracts awarded for water, sewer system improvements, State Route 132 Project, and major street improvements throughout the City in the amount of \$74.3 million for both governmental and business-type funds. Additional information on the City's commitments can be found in note III-D on page 68 of this report.

### Long-term debt

At June 30, 2019, the City had total long-term liabilities outstanding of \$423,361,133 net of unamortized discounts and premiums, as compared to \$441,078,324 in the prior year. This amount was comprised of \$50,915,000 of lease revenue bonds, \$46,146,545 of certificates of participation, \$25,522,898 of revenue bonds payable, \$117,047,906 of reimbursement agreement related to Modesto Irrigation District bonds, \$10,319,630 of estimated compensated absences, \$23,630,560 of claims liability, \$141,971,062 of loans payable, \$951,141 of developer advances, \$5,022,391 of capital leases, and \$1,834,000 of notes payable.

For the governmental and business activities, the long-term debt decreased was mainly due to the principal payments made during the fiscal year. Additional information on the City's long-term debt can be found in Note II-C on pages 47-60 of this report.

## Management’s Discussion and Analysis (continued)

The City maintains a current bond rating for the various bonds listed below.

<b>BONDS</b>	<b>Moody’s Rating</b>	<b>S &amp; P Rating</b>	<b>Fitch Rating</b>
Wastewater Revenue Bonds, Series 2006A	A1		AA-
Wastewater Revenue Bonds, Series 2018A		AA+/A-1+	
2008 Lease Revenue Bonds		A/A-1	A+
2008 Water Certificates of Participation	Aa1	AA+/A-1	

With the implementation of GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other than Pension, the City’s net OPEB liability as of June 30, 2019 was \$26.9 million. Additional information on the City’s net OPEB liability and Pension can be found in Notes III-F and III-G.

### **Economic Factors and Next Year’s Budget and Rates**

- *Consumer Price Index* – Growth in the CPI has been relatively stable during the past ten years and serves as a measure for the growth in the cost for supplies and services used by the City. In the fiscal year ended June 30, 2019, the CPI-Western Urban Index increased by 2.7%.
- *Utility Service Charges* - Water and Sewer utility rates have a 9.0% and 6.0% scheduled rate increase for fiscal year 2017-18. For the Water and Sewer utility rates, these planned rate increases were effective on July 2018 for Sewer and January 2019 for Water. In fiscal year 2019-20, the Water and Sewer utility rates have a 6.0% and 6.0% increase effective on April 2020 for Water and January 2020 for Sewer. These rate increases will be used to assist with maintaining the debt coverage ratio requirements and related capital improvements for the utility funds.

All of these factors were considered in preparing the City’s budget for fiscal year 2019-20.

During the current fiscal year, fund balance in the General Fund decreased by \$1,162,712, to \$25,582,870, which represents 19.2% of total General Fund outflows which exceeds the City Council’s target value of 8% unassigned fund balance amount based on General Fund outflows. The budget adopted for fiscal year 2019-20 reflects the Council policy reserve level of a minimum \$16 million emergency reserve policy. This amount is reported as part of the committed fund balance.

### **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.

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## **BASIC FINANCIAL STATEMENTS**

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**CITY OF MODOSTO**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2019**

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 65,846,320	\$ 220,357,575	\$ 286,203,895
Accounts receivable, net	2,509,914	2,196,874	4,706,788
Interest receivable	720,387	910,180	1,630,567
Utility billings receivable, net	950,586	14,325,270	15,275,856
Taxes receivable	13,449,763	-	13,449,763
Due from governments, net	19,704,696	12,918,943	32,623,639
Prepaid expenses	766,663	2,620,112	3,386,775
Internal balances	907,460	(907,460)	-
Inventories	19,022	82,422	101,444
Investments in joint ventures	8,010,105	-	8,010,105
Restricted assets:			
Cash and cash equivalents	57,159,254	18,238,352	75,397,606
Cash and cash equivalents with fiscal agent	6,203,352	10,388,555	16,591,907
Interest receivable	1,687	-	1,687
Due from governments, net	385,304	-	385,304
Reimbursement agreement	14,765,350	-	14,765,350
Notes and loan receivable, net	54,708,918	-	54,708,918
Capital assets:			
Land and construction in progress	90,914,560	258,134,720	349,049,280
Other capital assets, net of accumulated depreciation	348,774,572	668,737,987	1,017,512,559
<b>Total assets</b>	<b>685,797,913</b>	<b>1,208,003,530</b>	<b>1,893,801,443</b>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred OPEB	2,292,283	719,931	3,012,214
Deferred pensions	49,943,744	10,060,971	60,004,715
Loss on refunding	-	759,920	759,920
Accumulated decrease in fair value of hedging derivatives	8,428,317	33,901,927	42,330,244
<b>Total deferred outflows of resources</b>	<b>60,664,344</b>	<b>45,442,749</b>	<b>106,107,093</b>
<b>Total assets and deferred outflows of resources</b>	<b>746,462,257</b>	<b>1,253,446,279</b>	<b>1,999,908,536</b>
<u>LIABILITIES</u>			
Accounts payable	9,807,384	13,439,169	23,246,553
Accrued salaries and benefits	1,836,187	567,198	2,403,385
Approved loans payable	491,157	-	491,157
Interest payable	49,617	1,254,545	1,304,162
Due to other governments	244,009	-	244,009
Unearned revenue	2,064,054	15,762,416	17,826,470
Refundable deposits	4,102,755	2,669,245	6,772,000
Derivative instrument - interest swap	8,428,317	33,901,927	42,330,244
Pollution remediation liability	-	20,333,609	20,333,609
Long-term liabilities:			
Due within one year	8,590,337	17,241,791	25,832,128
Due in more than one year	81,022,244	316,506,761	397,529,005
Net OPEB liability	20,240,726	6,651,432	26,892,158
Net pension liability	262,969,889	52,021,610	314,991,499
<b>Total liabilities</b>	<b>399,846,676</b>	<b>480,349,703</b>	<b>880,196,379</b>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred OPEB	1,932,071	631,314	2,563,385
Deferred pensions	6,627,483	1,077,663	7,705,146
<b>Total deferred inflows of resources</b>	<b>8,559,554</b>	<b>1,708,977</b>	<b>10,268,531</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>408,406,230</b>	<b>482,058,680</b>	<b>890,464,910</b>
<u>NET POSITION</u>			
Net investment in capital assets	401,515,805	607,813,261	1,009,329,066
Restricted for:			
Capital projects	48,093,688	-	48,093,688
Housing and community development	57,480,291	-	57,480,291
Other purposes	22,311,808	15,569,107	37,880,915
Unrestricted	(191,345,565)	148,005,231	(43,340,334)
<b>Total net position</b>	<b>\$ 338,056,027</b>	<b>\$ 771,387,599</b>	<b>\$ 1,109,443,626</b>

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**STATEMENT OF ACTIVITIES**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
General government	\$ 13,973,768	\$ 6,387,743	\$ -	\$ -
Community development	15,720,280	12,106,237	4,610,720	-
Highways and streets	23,937,423	748,319	-	8,782,258
Public works	3,472,405	2,779,546	-	-
Parks and recreation	15,680,980	2,450,965	-	49,406
Public safety	111,059,794	4,502,546	1,980,715	-
Interest on long-term debt	2,402,299	-	-	-
Total governmental activities	<u>186,246,949</u>	<u>28,975,356</u>	<u>6,591,435</u>	<u>8,831,664</u>
Business-type activities:				
Water	62,745,688	76,806,740	584,031	61,682
Sewer	41,216,914	57,562,619	1,951,280	4,472,995
Bus	24,276,760	3,176,134	22,506,575	489,931
Parking	1,899,479	1,519,954	-	-
Storm drain	7,157,290	6,133,801	-	-
Compost	8,477,947	10,090,662	329,114	-
Airport	1,646,800	737,072	297,280	174,113
Golf	3,052,785	2,419,938	-	-
Community center	1,541,592	285,685	-	-
Abatement and public nuisance	63,312	231,167	-	-
Total business-type activities	<u>152,078,567</u>	<u>158,963,772</u>	<u>25,668,280</u>	<u>5,198,721</u>
<b>Total</b>	<b>\$ 338,325,516</b>	<b>\$ 187,939,128</b>	<b>\$ 32,259,715</b>	<b>\$ 14,030,385</b>

General revenues:

Taxes:

Utility users tax

Property taxes, levied for general purposes

Property taxes, generated by and allocated to the airport

Transient occupancy tax

Franchise tax

Business license tax, levied for general purposes

Business license tax, levied for downtown improvement district

Intergovernmental revenue not restricted to specific programs:

Intergovernmental revenue:

Sales tax (state appropriation)

Motor vehicle license fee

Transportation tax funding

Community facilities district fees

Special assessments, levied

Other

Unrestricted investment earnings

Miscellaneous

Transfers, net

Total general revenues and transfers

Changes in net position

Net position, July 1

Prior year adjustments

Net position, June 30

The notes to basic financial statements are an integral part of this statement.

Net (Expense) Revenue and  
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (7,586,025)	\$ -	\$ (7,586,025)
996,677	-	996,677
(14,406,846)	-	(14,406,846)
(692,859)	-	(692,859)
(13,180,609)	-	(13,180,609)
(104,576,533)	-	(104,576,533)
(2,402,299)	-	(2,402,299)
<u>(141,848,494)</u>	<u>-</u>	<u>(141,848,494)</u>
-	14,706,765	14,706,765
-	22,769,980	22,769,980
-	1,895,880	1,895,880
-	(379,525)	(379,525)
-	(1,023,489)	(1,023,489)
-	1,941,829	1,941,829
-	(438,335)	(438,335)
-	(632,847)	(632,847)
-	(1,255,907)	(1,255,907)
-	167,855	167,855
<u>-</u>	<u>37,752,206</u>	<u>37,752,206</u>
(141,848,494)	37,752,206	(104,096,288)
19,803,859	-	19,803,859
17,316,735	-	17,316,735
-	201,931	201,931
2,961,406	-	2,961,406
6,762,101	-	6,762,101
14,068,205	-	14,068,205
202,014	-	202,014
-	-	-
31,665,700	-	31,665,700
17,057,003	-	17,057,003
19,002,236	-	19,002,236
8,432	-	8,432
4,260,281	-	4,260,281
13,832,686	-	13,832,686
5,753,083	7,290,802	13,043,885
3,421,783	1,528,727	4,950,510
<u>(1,675,373)</u>	<u>1,675,373</u>	<u>-</u>
<u>154,440,151</u>	<u>10,696,833</u>	<u>165,136,984</u>
12,591,657	48,449,039	61,040,696
325,524,120	723,029,635	1,048,553,755
<u>(59,750)</u>	<u>(91,075)</u>	<u>(150,825)</u>
<u>\$ 338,056,027</u>	<u>\$ 771,387,599</u>	<u>\$ 1,109,443,626</u>

**CITY OF MODESTO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2019**

	General	Housing and Community Development	Transportation Special Tax	Other Governmental	Total Governmental
<b>ASSETS</b>					
Cash and cash equivalents	\$ 10,753,579	\$ 4,923,754	\$ 15,994,771	\$ 5,180,033	\$ 36,852,137
Receivables:					
Accounts, net	408,245	60,424	58,977	85,693	613,339
Interest	150,447	2,680	54,588	178,150	385,865
Utilities, net	950,586	-	-	-	950,586
Taxes	12,953,505	-	353,638	142,620	13,449,763
Due from governments	1,857,232	770,534	1,604,683	15,461,883	19,694,332
Due from other funds	3,230,977	-	-	-	3,230,977
Prepaid expenditures	386,710	7,625	1,127	4,538	400,000
Restricted assets:					
Cash and cash equivalents	2,209,485	-	-	49,566,461	51,775,946
Cash and cash equivalents with fiscal agent	-	-	-	6,054,226	6,054,226
Interest receivable	-	-	-	1,687	1,687
Due from governments	-	-	-	385,304	385,304
Notes receivable, net	-	52,427,739	-	2,281,179	54,708,918
Advances to other funds	2,336,322	-	-	-	2,336,322
<b>Total assets</b>	<b>\$ 35,237,088</b>	<b>\$ 58,192,756</b>	<b>\$ 18,067,784</b>	<b>\$ 79,341,774</b>	<b>\$ 190,839,402</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 1,643,327	\$ 137,853	\$ 406,686	\$ 6,132,550	\$ 8,320,416
Accrued salaries and benefits	1,534,877	9,012	76,772	96,444	1,717,105
Accrued interest payable	-	12,426	-	18,732	31,158
Approved loans payable	-	491,157	-	-	491,157
Due to other funds	-	-	-	2,944,365	2,944,365
Due to other governments	189,617	54,392	-	-	244,009
Unearned revenue	239,425	-	-	1,656,638	1,896,063
Refundable deposits	3,929,977	-	-	172,778	4,102,755
Advances from other funds	1,842,973	-	-	1,551,509	3,394,482
<b>Total liabilities</b>	<b>9,380,196</b>	<b>704,840</b>	<b>483,458</b>	<b>12,573,016</b>	<b>23,141,510</b>
Deferred inflows of resources:					
Unavailable revenue	274,022	26,559,128	84,448	9,478,580	36,396,178
Fund balances:					
Nonspendable	2,723,032	7,625	1,127	4,538	2,736,322
Restricted	2,209,485	30,921,163	-	58,288,857	91,419,505
Committed	18,397,817	-	-	-	18,397,817
Assigned	509,751	-	17,498,751	1,807,356	19,815,858
Unassigned	1,742,785	-	-	(2,810,573)	(1,067,788)
<b>Total fund balances</b>	<b>25,582,870</b>	<b>30,928,788</b>	<b>17,499,878</b>	<b>57,290,178</b>	<b>131,301,714</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 35,237,088</b>	<b>\$ 58,192,756</b>	<b>\$ 18,067,784</b>	<b>\$ 79,341,774</b>	<b>\$ 190,839,402</b>

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2019**

Total fund balances - total governmental funds \$ 131,301,714

Amounts reported for governmental activities in the statement of net position 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	\$ 87,728,921	
Depreciable	169,817,910	
Accumulated depreciation on general capital assets	(93,436,244)	
Infrastructure:		
Depreciable	613,643,445	
Accumulated depreciation on infrastructure	<u>(355,290,015)</u>	422,464,017

Other long-term assets are not available to pay for current-period expenditures and, therefore, are:

Deferred in the governmental funds	\$ 36,396,178	
Reimbursement agreement with Successor Agency	14,765,350	
Investments in joint ventures	<u>8,010,105</u>	59,171,633

Derivative instruments:

Rate swaps are not reported in governmental funds.	\$ (8,428,317)	
Deferred outflows of resources used to accumulate decreases in fair value of hedging derivatives also are not reported in governmental funds.	<u>8,428,317</u>	-

Internal service funds are used by management to charge the costs of activities to individual funds. The assets, liabilities, and deferred inflows of resources of internal service funds are included in governmental activities in the statement of net position.

11,744,950

Deferred outflows and inflows of resources for pension items in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

Deferred outflows of resources	\$ 47,762,238	
Deferred inflows of resources	<u>(6,269,343)</u>	41,492,895

Deferred outflows and inflows of resources for net OPEB items in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

Deferred outflows of resources	\$ 2,103,306	
Deferred inflows of resources	<u>(1,770,435)</u>	332,871

Some liabilities, are not due and payable in the current period and therefore are not reported in the funds.

Net pension liability	\$ (251,607,623)	
Net OPEB liability	(18,574,090)	
Bonds payable, and other long-term debt	(58,251,881)	
Accrued interest	<u>(18,459)</u>	<u>(328,452,053)</u>

Net position of governmental activities \$ 338,056,027

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	General	Housing and Community Development	Transportation Special Tax	Other Governmental	Total Governmental
<b>REVENUES:</b>					
Taxes	\$ 59,150,379	\$ -	\$ 1,392,951	\$ 570,990	\$ 61,114,320
Licenses and permits	295,007	-	7,566	42,282	344,855
Intergovernmental	52,496,580	6,225,719	19,002,236	18,450,304	96,174,839
Charges for services	14,051,767	569,872	740,753	7,864,322	23,226,714
Special assessments levied	-	-	-	4,260,281	4,260,281
Interest and rent	1,160,531	-	203,798	854,953	2,219,282
Net increase in fair value of investments	482,347	-	212,955	599,241	1,294,543
Fines and forfeits	852,872	-	-	290,634	1,143,506
Miscellaneous	497,076	-	77,831	147,755	722,662
Total revenues	<u>128,986,559</u>	<u>6,795,591</u>	<u>21,638,090</u>	<u>33,080,762</u>	<u>190,501,002</u>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
General government	11,764,452	-	-	498,345	12,262,797
Community development	5,969,720	2,312,366	-	5,514,068	13,796,154
Highways and streets	-	-	9,851,764	250,882	10,102,646
Public works	456,686	-	-	2,560,561	3,017,247
Parks and recreation	11,381,053	-	-	2,462,832	13,843,885
Public safety	94,077,508	-	-	3,334,126	97,411,634
Capital outlay	150,850	-	14,682	38,356,802	38,522,334
<b>Debt service:</b>					
Principal retirement	446,498	256,000	-	1,860,000	2,562,498
Interest	152,046	46,089	-	1,699,249	1,897,384
Other	-	-	-	506,333	506,333
Total expenditures	<u>124,398,813</u>	<u>2,614,455</u>	<u>9,866,446</u>	<u>57,043,198</u>	<u>193,922,912</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>4,587,746</u>	<u>4,181,136</u>	<u>11,771,644</u>	<u>(23,962,436)</u>	<u>(3,421,910)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	2,885,185	14,356	1,601,033	16,996,064	21,496,638
Transfers out	(8,723,251)	(988,338)	(10,317,772)	(730,789)	(20,760,150)
Sale of assets	87,608	-	-	-	87,608
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(5,750,458)</u>	<u>(973,982)</u>	<u>(8,716,739)</u>	<u>16,265,275</u>	<u>824,096</u>
<b>CHANGES IN FUND BALANCES</b>	<u>(1,162,712)</u>	<u>3,207,154</u>	<u>3,054,905</u>	<u>(7,697,161)</u>	<u>(2,597,814)</u>
<b>FUND BALANCES, JULY 1</b>	<u>26,745,582</u>	<u>27,721,634</u>	<u>14,444,973</u>	<u>65,047,089</u>	<u>133,959,278</u>
<b>PRIOR PERIOD ADJUSTMENTS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(59,750)</u>	<u>(59,750)</u>
<b>FUND BALANCES, JUNE 30</b>	<u>\$ 25,582,870</u>	<u>\$ 30,928,788</u>	<u>\$ 17,499,878</u>	<u>\$ 57,290,178</u>	<u>\$ 131,301,714</u>

The notes to basic financial statements are an integral part of this statement.

**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**  
**FISCAL YEAR ENDED JUNE 30, 2019**

Net change in fund balances - total governmental funds \$ (2,597,814)

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	\$ 38,522,334	
Depreciation expense	<u>(19,205,740)</u>	19,316,594

In the statement of activities, only the gain or loss on the sales and transfer of capital assets is reported, whereas in the governmental funds, the proceeds from such sales or transfer increase financial resources. Thus, the change in net position differs from the change in fund balances by the cost of the assets sold.

2,644,420

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unearned revenues	\$ 4,535,198	
Change in investments in joint ventures	<u>(934,363)</u>	3,600,835

Recognition of Successor Agency annual payment for their Reimbursement Agreement receivable associated with long-term debt.

539,400

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 position.

Principal retirement		2,562,498
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Some expenses reported in the statement of activities require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in accrued interest	\$ 1,418	
OPEB expense associated with net OPEB liability	1,043,851	
Pension expense associated with net pension liability	<u>(12,022,142)</u>	(10,976,873)

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.

(2,497,403)

Change in net position of governmental activities		\$ <u><u>12,591,657</u></u>
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The notes to basic financial statements are an integral part of this statement.

**CITY OF MESTO**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**JUNE 30, 2019**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 90,487,403	\$ 101,476,306	\$ 7,573,175	\$ 20,820,691	\$ 220,357,575	\$ 28,994,183
Receivables:						
Accounts, net	33,725	40,944	56,410	2,065,795	2,196,874	1,896,575
Interest	360,825	417,775	24,618	106,962	910,180	334,522
Utilities, net	8,322,695	5,065,482	-	937,093	14,325,270	-
Prepaid expenses	2,223,116	78,272	262,807	55,917	2,620,112	366,663
Due from governments	665,504	3,904,717	8,267,079	81,643	12,918,943	10,364
Inventories	35,435	-	-	46,987	82,422	19,022
Total current assets	<u>102,128,703</u>	<u>110,983,496</u>	<u>16,184,089</u>	<u>24,115,088</u>	<u>253,411,376</u>	<u>31,621,329</u>
Noncurrent assets:						
Advances to other funds	2,300,000	3,203,664	-	-	5,503,664	-
Restricted cash and cash equivalents	8,112,245	10,126,107	-	-	18,238,352	5,383,308
Restricted cash and cash equivalents with fiscal agent	9,360,880	377,194	-	650,481	10,388,555	149,126
Land and construction in progress	70,735,823	167,717,911	4,716,461	14,964,525	258,134,720	3,185,639
Other capital assets, net of accumulated depreciation	387,474,031	214,523,072	36,937,358	29,803,526	668,737,987	14,039,476
Total noncurrent assets	<u>477,982,979</u>	<u>395,947,948</u>	<u>41,653,819</u>	<u>45,418,532</u>	<u>961,003,278</u>	<u>22,757,549</u>
Total assets	<u>580,111,682</u>	<u>506,931,444</u>	<u>57,837,908</u>	<u>69,533,620</u>	<u>1,214,414,654</u>	<u>54,378,878</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred OPEB	298,755	215,962	46,867	158,347	719,931	188,977
Deferred pensions	3,702,615	3,651,340	641,270	2,065,746	10,060,971	2,181,506
Loss on refunding	404,463	355,457	-	-	759,920	-
Accumulated decrease in fair value of hedging derivatives	33,901,927	-	-	-	33,901,927	-
Total deferred outflows of resources	<u>38,307,760</u>	<u>4,222,759</u>	<u>688,137</u>	<u>2,224,093</u>	<u>45,442,749</u>	<u>2,370,483</u>
Total assets and deferred outflows of resources	<u>\$ 618,419,442</u>	<u>\$ 511,154,203</u>	<u>\$ 58,526,045</u>	<u>\$ 71,757,713</u>	<u>\$ 1,259,857,403</u>	<u>\$ 56,749,361</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	\$ 7,183,353	\$ 4,228,782	\$ 1,647,568	\$ 379,466	\$ 13,439,169	\$ 1,486,968
Accrued salaries and benefits	192,457	210,728	36,759	127,254	567,198	119,082
Interest payable	3,343	1,208,122	-	43,080	1,254,545	-
Due to other funds	-	-	-	286,612	286,612	-
Current portion - compensated absences	-	-	-	-	-	3,632,114
Current portion - claims liability	-	-	-	-	-	4,819,758
Current portion - long-term debt	5,445,942	8,714,065	-	400,000	14,560,007	-
Current portion - developer advances	92,294	-	-	-	92,294	-
Unearned revenue	60,975	1,871,941	12,800,099	1,029,401	15,762,416	167,991
Total current liabilities	<u>12,978,364</u>	<u>16,233,638</u>	<u>14,484,426</u>	<u>2,265,813</u>	<u>45,962,241</u>	<u>10,225,913</u>
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	1,499,392	1,169,853	-	-	2,669,245	-
Advances from other funds	-	-	-	4,445,504	4,445,504	-
Compensated absences	-	-	-	-	-	6,687,516
Claims liability	-	-	-	-	-	18,810,802
Derivative instrument - interest swap	33,901,927	-	-	-	33,901,927	-
Pollution remediation liability	8,179,540	7,230,328	-	4,923,741	20,333,609	-
Long-term debt:						
Reimbursement agreement related to MID debt	112,042,904	-	-	-	112,042,904	-
Revenue bonds payable	-	23,001,571	-	-	23,001,571	-
Loans payable	374,183	134,877,710	-	-	135,251,893	-
Certificates of participation	43,566,546	-	-	1,785,000	45,351,546	-
Developer advances	858,847	-	-	-	858,847	-
Net OPEB liability	2,661,944	1,975,457	418,877	1,595,154	6,651,432	1,666,636
Net pension liability	19,250,375	18,994,445	3,177,325	10,599,465	52,021,610	11,362,266
Total noncurrent liabilities	<u>222,335,658</u>	<u>187,249,364</u>	<u>3,596,202</u>	<u>23,348,864</u>	<u>436,530,088</u>	<u>38,527,220</u>
Total liabilities	<u>235,314,022</u>	<u>203,483,002</u>	<u>18,080,628</u>	<u>25,614,677</u>	<u>482,492,329</u>	<u>48,753,133</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred OPEB	256,927	188,360	40,371	145,656	631,314	161,636
Deferred pensions	521,764	322,055	48,028	185,816	1,077,663	358,140
Total deferred inflows of resources	<u>778,691</u>	<u>510,415</u>	<u>88,399</u>	<u>331,472</u>	<u>1,708,977</u>	<u>519,776</u>
<b>NET POSITION</b>						
Net investment in capital assets	306,545,622	216,380,288	41,653,819	43,233,532	607,813,261	17,225,115
Restricted for other purposes	6,612,853	8,956,254	-	-	15,569,107	5,383,308
Unrestricted	69,168,254	81,824,244	(1,296,801)	2,578,032	152,273,729	(15,131,971)
Total net position	<u>382,326,729</u>	<u>307,160,786</u>	<u>40,357,018</u>	<u>45,811,564</u>	<u>775,656,097</u>	<u>7,476,452</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 618,419,442</u>	<u>\$ 511,154,203</u>	<u>\$ 58,526,045</u>	<u>\$ 71,757,713</u>	<u>\$ 1,259,857,403</u>	<u>\$ 56,749,361</u>
Adjustment to reflect the consolidation of internal service fund activities					(4,268,498)	
Net position of business-type activities					<u>\$ 771,387,599</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 POSITION - PROPRIETARY FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Enterprise				Total Enterprise	Internal Service
	Water	Sewer	Bus	Other Enterprise		
<b>OPERATING REVENUES:</b>						
Charges for services	\$ 76,805,223	\$ 56,718,698	\$ 2,862,304	\$ 21,348,545	\$ 157,734,770	\$ 63,616,462
Miscellaneous	1,517	7,675	313,830	69,734	392,756	135,100
Total operating revenues	<u>76,806,740</u>	<u>56,726,373</u>	<u>3,176,134</u>	<u>21,418,279</u>	<u>158,127,526</u>	<u>63,751,562</u>
<b>OPERATING EXPENSES:</b>						
Salaries and wages	8,929,682	9,128,806	1,544,187	5,264,485	24,867,160	5,008,749
Contractual services	4,759,887	4,505,521	14,680,158	4,805,817	28,751,383	4,924,817
Utilities	2,083,772	3,167,332	167,144	594,081	6,012,329	274,713
Maintenance and supplies	2,468,379	2,466,948	2,094,101	4,284,111	11,313,539	4,568,205
Water purchases	12,376,629	-	-	-	12,376,629	-
Insurance	284,707	538,697	27,647	338,607	1,189,658	17,304,990
Claims	-	-	-	-	-	7,090,372
Employee benefits	4,869,915	5,188,596	848,565	2,937,653	13,844,729	23,290,283
Administration services	1,027,973	2,305,856	1,149,717	2,990,557	7,474,103	1,464,302
Allocated indirect administrative costs	1,424,066	853,289	370,776	599,582	3,247,713	271,618
Depreciation	17,327,762	9,324,451	3,355,146	1,878,701	31,886,060	2,991,244
Total operating expenses	<u>55,552,772</u>	<u>37,479,496</u>	<u>24,237,441</u>	<u>23,693,594</u>	<u>140,963,303</u>	<u>67,189,293</u>
<b>OPERATING INCOME (LOSS)</b>	<u>21,253,968</u>	<u>19,246,877</u>	<u>(21,061,307)</u>	<u>(2,275,315)</u>	<u>17,164,223</u>	<u>(3,437,731)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Operating grants	584,031	1,951,280	22,506,575	626,394	25,668,280	-
Gain (loss) on disposition of capital assets	86,351	(6,812)	6,175	13,938	99,652	(13,724)
Tax revenue	-	-	-	201,931	201,931	-
Tax expense	(88,527)	(141,587)	-	(27,481)	(257,595)	-
Interest income	1,457,474	1,515,286	(6,341)	310,138	3,276,557	1,635,218
Net increase (decrease) in fair value of investments	1,924,703	1,658,329	113,231	317,982	4,014,245	1,538,403
Connection fees	-	836,246	-	-	836,246	-
Rental income	45,105	505,407	143,784	834,431	1,528,727	-
Interest expense and amortization	(7,104,106)	(3,548,833)	-	(115,583)	(10,768,522)	-
Trustee and letter of credit fees	(1,751)	(3,044)	-	(3,245)	(8,040)	-
Total nonoperating revenues (expenses)	<u>(3,096,720)</u>	<u>2,766,272</u>	<u>22,763,424</u>	<u>2,158,505</u>	<u>24,591,481</u>	<u>3,159,897</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>18,157,248</u>	<u>22,013,149</u>	<u>1,702,117</u>	<u>(116,810)</u>	<u>41,755,704</u>	<u>(277,834)</u>
Capital contributions	61,682	4,472,995	489,931	174,113	5,198,721	11,533
Transfers in	144,778	180,637	381,164	2,290,813	2,997,392	2,499,131
Transfers out	(790,859)	(179,947)	(207,874)	(143,339)	(1,322,019)	(4,910,992)
<b>CHANGES IN NET POSITION</b>	<u>17,572,849</u>	<u>26,486,834</u>	<u>2,365,338</u>	<u>2,204,777</u>	<u>48,629,798</u>	<u>(2,678,162)</u>
<b>NET POSITION, JULY 1</b>	<u>364,753,880</u>	<u>280,673,952</u>	<u>37,991,680</u>	<u>43,697,862</u>		<u>10,154,614</u>
<b>PRIOR YEAR ADJUSTMENTS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(91,075)</u>		<u>-</u>
<b>NET POSITION, JUNE 30</b>	<u>\$ 382,326,729</u>	<u>\$ 307,160,786</u>	<u>\$ 40,357,018</u>	<u>\$ 45,811,564</u>		<u>\$ 7,476,452</u>
Adjustment to reflect the consolidation of internal service funds					(180,759)	
Change in net position of business-type activities					\$ 48,449,039	

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users	\$ 75,394,791	\$ 52,754,397	\$ 3,120,524	\$ 21,341,872	\$ 152,611,584	\$ 16,061
Receipts from interfund services provided	90,254	1,087,274	-	-	1,177,528	63,751,462
Payments to suppliers	(15,263,800)	(7,017,656)	(16,209,266)	(7,015,255)	(45,505,977)	(26,181,918)
Payment of insurance claims	-	-	-	-	-	(7,889,728)
Payments to employees	(12,931,861)	(13,382,727)	(2,233,069)	(7,723,915)	(36,271,572)	(27,397,645)
Payments for interfund services used	(6,413,350)	(6,555,527)	(2,341,776)	(7,834,505)	(23,145,158)	(2,814,286)
Net cash provided (used) by operating activities	<u>40,876,034</u>	<u>26,885,761</u>	<u>(17,663,587)</u>	<u>(1,231,803)</u>	<u>48,866,405</u>	<u>(516,054)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Operating grants received	584,031	1,951,280	22,506,575	626,394	25,668,280	-
Taxes received	-	-	-	201,931	201,931	-
Transfers in	144,778	180,637	381,164	2,290,813	2,997,392	2,499,131
Transfers out	(790,859)	(179,947)	(207,874)	(143,339)	(1,322,019)	(4,910,992)
Payments on advances from other funds	-	-	-	2,265,800	2,265,800	88,647
Receipts on advances to other funds	(2,250,000)	(127,691)	-	-	(2,377,691)	-
Net cash provided (used) by noncapital financing activities	<u>(2,312,050)</u>	<u>1,824,279</u>	<u>22,679,865</u>	<u>5,241,599</u>	<u>27,433,693</u>	<u>(2,234,567)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition and construction of capital assets	(25,920,625)	(21,863,463)	(5,748,141)	(1,140,011)	(54,672,240)	(2,867,203)
Proceeds from sale of capital assets	86,352	7,561	6,175	12,755	112,843	157,094
Proceeds of debt issues	-	144,227	-	-	144,227	-
Principal repayments	(5,335,947)	(8,473,178)	-	(380,000)	(14,189,125)	-
Interest paid	(7,645,758)	(3,548,833)	-	(76,292)	(11,270,883)	-
Trustee and letter of credit fees	(1,751)	(3,044)	-	(3,245)	(8,040)	-
Capital contributions	61,682	4,472,995	489,931	174,113	5,198,721	-
Connection fees for capital purposes	-	836,246	-	-	836,246	-
Net cash provided (used) by capital and related financing activities	<u>(38,756,047)</u>	<u>(28,427,489)</u>	<u>(5,252,035)</u>	<u>(1,412,680)</u>	<u>(73,848,251)</u>	<u>(2,710,109)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Interest received	1,358,647	644,431	(11,288)	254,070	2,245,860	1,568,017
Net increase (decrease) in the fair value of investments	1,924,703	1,658,329	113,231	317,982	4,014,245	1,538,403
Rental income received	45,105	505,407	143,784	834,431	1,528,727	-
Net cash provided (used) by investing activities	<u>3,328,455</u>	<u>2,808,167</u>	<u>245,727</u>	<u>1,406,483</u>	<u>7,788,832</u>	<u>3,106,420</u>
Net increase (decrease) in cash and cash equivalents	3,136,392	3,090,718	9,970	4,003,599	10,240,679	(2,442,957)
CASH AND CASH EQUIVALENTS, JULY 1	<u>104,824,136</u>	<u>108,888,889</u>	<u>7,563,205</u>	<u>17,467,573</u>	<u>238,743,803</u>	<u>36,969,574</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 107,960,528</u>	<u>\$ 111,979,607</u>	<u>\$ 7,573,175</u>	<u>\$ 21,471,172</u>	<u>\$ 248,984,482</u>	<u>\$ 34,526,617</u>
<b>RECONCILIATION TO STATEMENT OF NET POSITION:</b>						
Cash and cash equivalents	\$ 90,487,403	\$ 101,476,306	\$ 7,573,175	\$ 20,820,691	\$ 220,357,575	\$ 28,994,183
Restricted cash and cash equivalents	8,112,245	10,126,107	-	-	18,238,352	5,383,308
Restricted cash and cash equivalents with fiscal agent	9,360,880	377,194	-	650,481	10,388,555	149,126
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 107,960,528</u>	<u>\$ 111,979,607</u>	<u>\$ 7,573,175</u>	<u>\$ 21,471,172</u>	<u>\$ 248,984,482</u>	<u>\$ 34,526,617</u>

(continued)

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Enterprise				Total Enterprise	Internal Service
	Water	Sewer	Bus	Other Enterprise		
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 21,253,968	\$ 19,246,877	\$ (21,061,307)	\$ (2,275,315)	\$ 17,164,223	\$ (3,437,731)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	17,327,762	9,324,451	3,355,146	1,878,701	31,886,060	2,991,244
Taxes paid	(88,527)	(141,587)	-	(27,481)	(257,595)	-
Change in assets, liabilities, and deferred resources:						
(Increase) decrease in accounts receivable	(23,946)	4,684	(6,485)	(483,173)	(508,920)	(607,476)
(Increase) in utilities receivable	(924,229)	(1,143,802)	-	(151,090)	(2,219,121)	-
(Increase) decrease in due from governments	(449,402)	(1,583,224)	(5,378,473)	346,430	(7,064,669)	14,871
(Increase) decrease in prepaid expenses	536,421	36,178	14,436	(9,698)	577,337	(216,830)
(increase) in inventories	-	-	-	(31,455)	(31,455)	(9,675)
Increase (decrease) in accounts payable	2,441,008	491,990	(75,935)	(1,052,726)	1,804,337	611,123
Increase (decrease) in accrued salaries and benefits	(26,984)	(68,496)	1,773	3,083	(90,624)	(10,390)
Increase in compensated absences	-	-	-	-	-	366,090
Increase (decrease) in net OPEB liability and deferred resources	(155,633)	(438,296)	(24,404)	(80,889)	(699,222)	305,389
Increase in net pension liability and deferred resources	1,050,353	1,441,467	182,314	558,651	3,232,785	240,298
(Decrease) in claims liability	-	-	-	-	-	(801,955)
(Decrease) in pollution remediation liability	(140,639)	(122,121)	-	(118,268)	(381,028)	-
(Decrease) in due to other funds	-	-	-	(162,654)	(162,654)	-
Increase (decrease) in unearned revenue	54,568	(164,700)	5,329,348	374,081	5,593,297	38,988
Increase in refundable deposits	21,314	2,340	-	-	23,654	-
Total adjustments	19,622,066	7,638,884	3,397,720	1,043,512	31,702,182	2,921,677
Net cash provided (used) by operating activities	<u>\$ 40,876,034</u>	<u>\$ 26,885,761</u>	<u>\$ (17,663,587)</u>	<u>\$ (1,231,803)</u>	<u>\$ 48,866,405</u>	<u>\$ (516,054)</u>

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS**  
**JUNE 30, 2019**

	Private-Purpose Trust	Agency
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,873,307	\$ 1,221,924
Cash and cash equivalents held with fiscal agent	1,986,577	2,989,708
Interest receivable	23,151	-
Other assets	2,704	-
Total assets	3,885,739	\$ 4,211,632
<u>LIABILITIES</u>		
Due to special district bondholders	\$ -	\$ 3,820,372
Deposits held as agent for others	-	391,260
Other payables	95,600	-
Due to other agencies	1,192,004	-
Loans payable:		
Due within one year	1,900,000	-
Due in more than one year	20,575,350	-
Total liabilities	23,762,954	\$ 4,211,632
<u>NET POSITION</u>		
Unrestricted	\$ (19,877,215)	

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -**  
**PRIVATE PURPOSE TRUST FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

		<u>Private-Purpose Trust</u>
ADDITIONS:		
Redevelopment Agency Property Tax Trust Fund	\$	1,545,248
Interest and Investment Revenue:		
Use of money and property		<u>250,865</u>
Total additions		<u>1,796,113</u>
DEDUCTIONS:		
Distribution of property taxes to other taxing entities		758,078
Obligation retirements:		
Interest on note payable		390,388
City administrative expenses		<u>120,392</u>
Total deductions		<u>1,268,858</u>
Change in net position		527,255
Net position, July 1		<u>(20,404,470)</u>
Net position, June 30	\$	<u><u>(19,877,215)</u></u>

The notes to basic financial statements are an integral part of this statement.

**CITY OF MODESTO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

**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 (fire and police), highways and streets, drinking water, wastewater collection and treatment, storm drainage, public transit, recreation, 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 MPFA (Modesto Public Financing Authority) was established as a separate legal entity whose sole purpose is to provide financing for various City capital projects.
2. 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 twelve active Districts, which are combined for presentation in these financial statements. Individual component unit financial statements are prepared for each District.

The Redevelopment Successor Agency (Successor Agency) operates under the auspices of a legislatively formed Oversight Board comprised of representatives of the local agencies that serve the development project area. The Oversight Board, in its fiduciary capacity, has authority over the operations and the timely dissolution of the former Redevelopment Agency (RDA). It is tasked with fulfilling the obligations of the former RDA, and is also responsible for revenue collection, maintaining necessary loan reserves and disposing of excess property. This agency is reported as a private-purpose trust fund based on the generally accepted accounting standards requirement.

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 and operational responsibility. There is an operational responsibility for the City related to these component units and for the MPFA it provides services solely for the City. Component unit financial statements may be obtained from the City's Finance Department.

The joint ventures and jointly governed organizations 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 position and the statement of activities) report information on all of the non-fiduciary 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 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. 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. 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.

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. For grant revenues, the City considers this type of revenue to be available if collected within 180 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest, compensated absences, claims and judgement 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 Housing and Community Development Fund accounts for various grant funds received from Federal Community Development Block grants to be used for a variety of housing related programs primarily targeted at low-income housing. Additionally, this fund accounts for the City's revolving fund, which provides housing loans to low-income individuals and accounts for emergency shelter grant revenue received from the Housing and Urban Development Department.

The Transportation Special Tax Fund accounts for state-collected, locally-shared gas tax, 25 year, ½ cent sales tax Measure L, and SB-1 (Road Repair and Accountability Act of 2017) monies. This fund may be used for all road and traffic purposes including construction, purchase of rights-of-way, and maintenance.

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.

The Bus Fund accounts for operations, maintenance, and capital expenditures of the City's mass transportation service. This system operates pursuant to the terms of a Federal grant agreement. Buses are operated by a private contractor under the terms of a supervisory agreement with the City. A separate contract provides Dial-a-Ride service for the elderly and handicapped.

Additionally, the City reports the following fund types:

Internal service funds account for fleet management, central services, information and technology 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-purpose Trust Fund accounts as the fiduciary fund type used by the City to report trust arrangements under which principal and income benefit other governments. The fund reports the assets, liabilities, and net position of the Successor Agency.

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.

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 Sewer Fund also recognize as non-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 including the note disclosures. Actual results could differ from those estimates.

#### D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

##### 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 position 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 based on various levels identified further under Note II-A – Fair value measurements.

##### 2. Restricted Assets - Cash and Cash Equivalents

Refundable deposits which reside in the Trust Deposits of the General 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. Legal or contractual obligations associated with the nonmajor governmental funds have been reported as restricted assets due to the restrictions identified on the revenue sources generated from these funds. Refundable deposits in the Water and Sewer funds are also reported as restricted assets on the proprietary funds statement of net position. In addition, certain proceeds of Water certificates of participation and Sewer revenue bonds are considered restricted assets because their use is limited by applicable debt covenants. These proceeds are reported as part of “restricted assets – cash and cash equivalents” on the proprietary funds statement of net position. The Employee Benefits Management Fund

collects funds which are restricted for future payouts for leave balances due to employees who terminate or retire from the City as well as any severance payouts. These assets are restricted due to management's designation of assets for future payments for employee uses.

### 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 and prepaid items are offset by a nonspendable fund balance in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources to indicate that they are not in spendable form.

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 taxes are recognized in governmental funds 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 inflows of resources. 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, 2019 is \$33,008,943.

Utility service accounts receivable are \$15,275,856 net of an allowance for doubtful collections of \$462,472 and include unbilled receivables using actual amounts billed in July for June services for all City funds. City accounts receivable of \$4,706,788 are reported net of an allowance for doubtful collections of \$950,675, and are based on miscellaneous receivables from the City's invoice system as well as other receivables accrued at year-end.

### 4. Inventories and Prepaid Expenses/Expenditures

Inventories of material and supplies held by governmental and proprietary funds are stated at average cost. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/expenditures. The consumption method is used to record the prepaid expenses/expenditures.

### 5. Capital Assets

Capital assets, which include property, plant and equipment, intangible assets and infrastructure assets (e.g., streets, 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets received in a service concession agreement and all other types are recorded at acquisition value rather than fair value.

In the case of the initial capitalization of infrastructure assets reported by governmental activities, the City chose

to include them regardless of their acquisition date or amount. Historical values were estimated.

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. Interest incurred during the construction phase of capital assets of business-type activities and enterprise funds are included as part of the capitalized value of the assets constructed. The amount of interest capitalized is determined by offsetting interest expense incurred from the date of borrowing until completion of the project, against interest earned on invested proceeds of tax-exempted debt over the same period.

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, 5 to 15 years for intangible assets, 30 to 50 years for streets, 20 years for signalization, 30 years for water rights, 5 years for service animals, 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. Deferred Outflows and Inflows of Resources

The Governmental Accounting Standards Board (GASB) establishes criteria for recognizing deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. Refer to Note II for a detail listing of the deferred outflows and inflows of resources the City has recognized.

#### 7. 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 GASB 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 of June 30, 2019, the total estimated liability for all compensated absences, including vacation and sick leave, is \$10,319,630.

#### 8. Fund Balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the City's highest level of decision-making authority (City Council) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- *Assigned fund balance* – amounts that are constrained by the City's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, which includes City Council or by an official designated such as the City Manager for such purpose.

- *Unassigned fund balance* – the residual classification for the City’s General Fund that includes amounts not contained in other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned to those purposes.

The City establishes and modifies or rescinds fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget as a commitment of the fund, such as approved construction contracts. Assigned fund balance is established by the City through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, followed by the unrestricted committed, assigned, and unassigned resources as they are needed.

9. Fund Balance Policy

The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City needs to maintain unrestricted fund balance in its City funds sufficient to fund cash flows of the City and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

The purpose of the City’s fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

The City has adopted a policy to achieve and maintain a General Fund reserve at 8% of the fund’s total operating expenditures for fiscal year 2018-2019.

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 a reasonable period of time.

2. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Public Employees’ Retirement System (CalPERS) Safety (police and fire) and Miscellaneous (all other) Plans and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. GASB 68 requires that the reported results must pertain to the liability and asset information within certain defined timeframes. For this report, the following:

Valuation Date: June 30, 2017  
 Measurement Date: June 30, 2018  
 Measurement Period: July 1, 2017 to June 30, 2018

3. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the net position of the City’s plan (OPEB Plan) and additions to/deductions from the OPEB Plan’s net position have been determined on the same measurement

basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 75 requires that the reported results must pertain to liability information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date: January 1, 2019  
Measurement Date: June 30, 2018  
Measurement Period: July 1, 2017 to June 30, 2018

#### 4. Interfund Transactions

The City transfers resources among funds in the course of normal operations. Interfund services 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.

## F. NEW ACCOUNTING STANDARDS

During the fiscal year ended June 30, 2019, the City implemented the following GASB standards:

*GASB Statement No. 83 – Certain Asset Retirement Obligations. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.*

*GASB Statement No. 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.*

The City is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

*GASB Statement No. 84 – Fiduciary Activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.*

*GASB Statement No. 87 – Leases. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.*

*GASB Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.*

*GASB Statement No. 90 – Majority Equity Interests- an amendment of GASB Statements No. 14 and No 61. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.*

*GASB Statement No. 91 – Conduit Debt Obligations – The requirement of this statement are effective for reporting periods beginning after December 15, 2020.*

## 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 position as "cash and cash equivalents." Each fund is allocated interest on average monthly cash balances held by the funds throughout the year. Certain deposits held in trust are displayed on the governmental funds balance sheet and the proprietary funds statement of net position 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.

The City's cash and investments are reported as follows:

Primary Government:	
Cash and cash equivalents	\$ 286,203,895
Restricted cash and cash equivalents	75,397,606
Cash and cash equivalents held with fiscal agent	16,591,907
Sucessor Agency Private-Purpose Trust Fund	
Cash and cash equivalents	1,873,307
Cash and cash equivalents held with fiscal agent	1,986,577
Agency funds	
Cash and cash equivalents	1,221,924
Cash and cash equivalents held with fiscal agent	<u>2,989,708</u>
Total cash and investments	<u><u>\$ 386,264,924</u></u>

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:

Investment Type	Maximum Maturity	Maximum Specified % of Portfolio	Maximum % per Issuer	Minimum Quality Requirements
Local Agency Bonds	5 years	None	None	None
Treasury Obligations	5 years	None	None	None
State Obligations	5 years	None	None	A rating
CA Local Agency Obligations	5 years	None	None	A rating
Federal Agencies	5 years	None	None	None
Supranationals	5 years	30 %	5 %	AA
				Federal Reserve eligible
Banker's Acceptances	180 days	40 %	5 %	
Commercial Paper	270 days	25 %	5 %	A1/P1 rating
Negotiable Certificates of Deposit	5 years	30 %	5 %	A rating
				FDIC insured or collateralized
Certificates of Deposit	1 year	20 %	5 %	
Repurchase Agreements	90 days	None	5 %	None
		20 % of combined base value		
Reverse Repurchase Agreements	92 days		5 %	None
Medium Term Notes	5 years	30 %	5 %	A rating
Money Market Mutual Funds	N/A	20 %	10 %	Multiple
Mortgage and Asset-backed Securities	5 years	20 %	5 %	AA Rating
CAMP	N/A	None	None	N/A
LAIF	N/A	N/A	None	N/A

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The Pool's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. Security types prohibited include, but are not limited to: Investments in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages. At June 30, 2019, the fair value approximated the City's cost. At June 30, 2019, these investments range from a maximum maturity of 4 years to some maturity limits of 180 days or less. The City reports its investments in CAMP at the fair value amounts provided by CAMP.

#### 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.

#### Custodial Credit Risk – Deposits

The 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 deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The City does not, currently, have a Custodial Credit Risk – Deposits Policy. 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 110% 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 custody at the Bank of New York Trust Company N.A. under the name of the California Local Agency Collateral Pool as administered by the California Department of Business Oversight (Pool Administrator).

The City of Modesto has 6 deposit accounts at Bank of America that are monitored for deposit collateral purposes. As per the CA Government Code, the bank must provide collateral for the collected deposit balances at 110% coverage. The City is collateralized as part of the California Local Agency Collateral Pool Program. As of June 30, 2019, the City had collected deposit balances of \$22,740,975. On this amount, the FDIC insurance coverage was \$500,000 (\$250,000 for time and savings accounts and \$250,000 for their demand accounts). The remainder of their balances were collateralized as part of the California Local Agency Pool Program.

For further information, on June 30, 2019, the total collected deposit balances at Bank of America from California Local Agency Pool Program participants was \$1,960,199,936 of which \$76,254,211 was FDIC insured. The remaining uninsured balances, \$1,883,945,725 were collateralized by securities pledged by Bank of America that had a market value of \$2,684,793,717. This results in collateral margin coverage in excess of the 110% required by the California Government Code.

#### Custodial Credit Risk – Investments

The Custodial Credit Risk for Investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside 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.

The City's investments consist of pooled investments, dedicated investments, and other funds held by trustees. The dedicated investment funds represent restricted funds and relate to bond proceeds of the Water and Sewer Enterprise Funds, assessment districts (reported under Agency Funds) and the Successor Agency. The other funds held by trustees are made either in accordance with bond covenants and are pledged for payment of principal, interest, and specified capital improvements or in accordance with trust agreements. All investments held by a custodian are in the

City's name excluding the Successor Agency.

Interest Rate Risk

Interest Rate Risk is the risk that interest rates will rise and reduce the fair value of an investment. Long-term fixed-income securities have the greatest amount of interest rate risk, due to their duration, or sensitivity to interest rate changes, being greater.

As of June 30, 2019, the City owned six callable bonds. There were no Federal Agency callables in the portfolio. Information on those bonds has been provided as follows:

Corporate Notes			
Amount	Maturity Date	Call Date	Call Terms
\$1,087,000	9/30/2019	9/30/2019	Callable on and any time after 9/30/2019
\$1,339,000	3/3/2020	2/1/2020	Callable on and any time after 2/1/2020
\$1,188,000	2/1/2021	1/1/2021	Callable on and any time after 1/1/2021
\$5,455,000	4/15/2021	3/15/2021	Callable on and any time after 3/15/2021
\$2,308,000	3/1/2021	2/1/2021	Callable on and any time after 2/1/2021
\$2,454,000	5/15/2022	3/15/2022	Callable on and any time after 3/15/2022

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. The City may from time to time be invested in a security whose rating is downgraded subsequent to the date of purchase. In the event a rating drops below the minimum allowed rating category for that given investment type, the investment advisor shall notify the Finance Director and recommend a plan of action. The City will limit investments in any one non-government issuers, except investment pools to no more than 5% regardless of security type.

The following table summarizes the City's investments based on maturity dates of various investments:

Investment Type	Credit Rating		Remaining Time to Maturity				
	Standard & Poor's	Moody's Investors Service	Total	Less Than 1 Year	1-2 Years	2-3 Years	3-18 years
U.S. Treasury Bond/Notes	AA+	Aaa	\$ 85,261,397	\$ -	\$ 16,122,248	\$10,191,959	\$ 58,947,190
Federal Agencies:							
Collateralized Mortgage Obligation	AA+	Aaa	4,280,645	3,800	3,262,103	-	1,014,742
Bonds/Notes	AA+	Aaa	51,840,206	-	14,000,188	10,960,166	26,879,852
Corporate Notes	See Below	See Below	46,050,480	8,678,666	23,126,870	6,001,121	8,243,823
Certificate of Deposits	See Below	See Below	36,461,640	15,532,026	20,929,614	-	-
Asset-Backed Securities	See Below	See Below	9,773,126	-	-	-	9,773,126
CAMP Pool	AAAm	N/A	112,634,950	112,634,950	-	-	-
<b>Total</b>			<b>\$ 346,302,444</b>	<b>\$ 136,849,442</b>	<b>\$ 77,441,023</b>	<b>\$27,153,246</b>	<b>\$ 104,858,733</b>
Held By Fiscal Agent							
Money Market Funds	AAAm	Aaa-mf	\$ 5,291,130	\$ 5,291,130	\$ -	\$ -	\$ -
CAMP	AAAm	N/A	10,268,178	10,268,178	-	-	-
MID – Collateral Agreement	A+	Aa3	6,008,884	6,008,884	-	-	-
<b>Fiscal Agent Total</b>			<b>\$ 21,568,192</b>	<b>\$ 21,568,192</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
City of Modesto Banking Accts & Cash on Hand	A/A-1	A1/P1	19,161,809				
Timing Differences for Deposit & Electronic Vendor Payments			(767,521)				
<b>Total Cash and Investments</b>			<b>\$ 386,264,924</b>				

The following is a table indicating the credit ratings for the City's investment in Corporate Notes:

Amount	Standard & Poors	Moody's Investors Service
\$ 3,547,120	AA+	Aa1
3,596,740	AA-	Aa3
3,551,564	AA	A1
2,357,654	AA-	A3
5,454,816	A	A1
4,891,013	A+	A1
5,905,978	AA-	A1
2,707,968	A	A2
10,887,308	A-	A2
1,713,943	A	A3
1,436,376	BBB+	Baa1
<b>\$ 46,050,480</b>		

The following is a table indicating the credit ratings for the City's investment in Negotiable Certificate of Deposits:

Amount	Standard & Poors	Moody's Investors Service
\$ 12,079,667	A-1	P-1
3,452,360	A-1+	P-1
4,027,816	A+	Aa2
5,785,057	AA-	Aa2
4,139,209	AA-	Aa3
4,645,525	A	A1
2,332,006	A+	A1
<u>\$ 36,461,640</u>		

The following is a table indicating the credit ratings for the City's investment in Asset-Backed Securities:

Amount	Standard & Poors	Moody's Investors Service
\$ 2,519,786	AAA	Aaa
2,429,943	AAA	NR
<u>4,823,397</u>	NR	Aaa
<u>\$ 9,773,126</u>		

#### 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, 2019:

Issuer	Investment Type	Reported Amount	Percent of Portfolio
Fannie Mae (FNMA)	Federal agency securities	\$27,018,773	6.99%
Freddie Mac (FHLMC)	Federal agency securities	\$25,195,426	6.52%

#### Fair Value measurements

The Pool categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, of which levels 1 & 2 apply to the City as follows:

- Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement. Examples would be securities with prices derived from the major exchanges.
- Level 2: Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuations for which all significant assumptions are observable or can be corroborated by observable market data. Examples would be securities with prices derived from market corroborated sources such as indices and yield curves; and matrix pricing, such as for most debt securities.

Union Bank is the custodian of the City's investments. Union Bank utilizes pricing services that deliver current market values and security information which is input into their trust accounting systems. A security will be valued on the basis of valuations provided by a pricing service vendor if it has a substantial public market (i.e. is not thinly traded), and is freely tradable without restriction, has a valid CUSIP or SEDOL and resides on one of the depositories. Based on their direction, Union Bank will continue to obtain valuations for all other securities and assets, for which they do not receive a pricing feed and/or descriptive information from their pricing service vendors, from various sources independent of Union Bank. If no current market value price is available from their pricing service vendors and their

agents have provided Union Bank with pricing information, Union Bank will show the value of the asset at such value as Union Bank shall determine, such value to be for administrative purposes only and not be any indication of any market value.

The Pool has the following recurring fair value measurements as of June 30, 2019:

Investment Type	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<b>Investments by Fair Value Level</b>			
U.S Treasury Notes	\$ 85,261,397	\$ 85,261,397	\$ -
Corporate Notes	46,050,480	-	46,050,480
Certificate of Deposits	36,461,640	-	36,461,640
Collateralized Mortgage Obligation	4,280,645	-	4,280,645
Bonds/Notes	51,840,206	-	51,840,206
Asset-Backed Securities	9,773,126	-	9,773,126
Total Investments measured at fair value	233,667,494	\$ 85,261,397	\$ 148,406,097
Investments not subject to Fair Value hierarchy			
CAMP	112,634,950		
	<u>\$ 346,302,444</u>		
<b>Investments by Fair Value for Fiscal Agents</b>			
Money Market Funds	\$ 5,291,130	\$ -	\$ 5,291,130
Total Fiscal Agent investments measured at fair value	5,291,130	\$ -	\$ 5,291,130
Investments not subject to Fair Value hierarchy			
CAMP	10,268,178		
MID Collateral Agreement	6,008,884		
	<u>\$ 21,568,192</u>		

## B. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 28,486,969	\$ 4,828,580	\$ -	\$ 33,315,549
Construction in progress	74,701,516	38,424,347	(55,526,852)	57,599,011
Total capital assets, not being depreciated:	<u>103,188,485</u>	<u>43,252,927</u>	<u>(55,526,852)</u>	<u>90,914,560</u>
Capital assets being depreciated:				
Buildings	33,010,345	-	-	33,010,345
Improvements other than buildings	110,689,787	9,236,794	-	119,926,581
Furnishings & equipment	15,026,583	1,133,677	(1,789,298)	14,370,962
Buses and fareboxes	278,852	-	-	278,852
Service animals	37,199	8,725	-	45,924
Intangible assets	8,521,217	43,154	-	8,564,371
Equipment pool	42,976,582	1,229,273	(883,315)	43,322,540
Infrastructure				
Streets	509,914,450	29,178,728	-	539,093,178
Signals	22,388,079	9,780,491	-	32,168,570
Bridges	36,720,153	2,613,020	-	39,333,173
Pipeline	-	3,048,524	-	3,048,524
Total capital assets, being depreciated:	<u>779,563,247</u>	<u>56,272,386</u>	<u>(2,672,613)</u>	<u>833,163,020</u>
Less accumulated depreciation for:				
Buildings	(20,828,332)	(885,716)	-	(21,714,048)
Improvements	(59,331,713)	(4,551,537)	-	(63,883,250)
Furnishings & equipment	(11,969,323)	(669,900)	1,682,431	(10,956,792)
Buses and fareboxes	(253,749)	-	-	(253,749)
Service animals	(21,153)	(5,187)	-	(26,340)
Intangible assets	(5,356,802)	(410,031)	-	(5,766,833)
Equipment pool	(24,119,157)	(3,241,656)	863,392	(26,497,421)
Infrastructure				
Streets	(317,097,363)	(10,781,862)	-	(327,879,225)
Signals	(17,539,682)	(823,785)	-	(18,363,467)
Bridges	(8,220,013)	(786,663)	-	(9,006,676)
Pipelines	-	(40,647)	-	(40,647)
Total accumulated depreciation	<u>(464,737,287)</u>	<u>(22,196,984)</u>	<u>2,545,823</u>	<u>(484,388,448)</u>
Total capital assets being depreciated, net	<u>314,825,960</u>	<u>34,075,402</u>	<u>(126,790)</u>	<u>348,774,572</u>
Governmental activities capital assets, net	<u>\$ 418,014,445</u>	<u>\$ 77,328,329</u>	<u>\$ (55,653,642)</u>	<u>\$ 439,689,132</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 552,090
Community development	621,124
Highways and streets	12,887,793
Public works	135,841
Parks and recreation	623,273
Public safety	4,385,619
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>2,991,244</u>
Total depreciation expense – Governmental activities	<u>\$ 22,196,984</u>

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 34,453,868	\$ 57,894	\$ -	\$ 34,511,762
Construction in progress	270,446,471	46,018,567	(92,842,080)	223,622,958
Total capital assets, not being depreciated:	<u>304,900,339</u>	<u>46,076,461</u>	<u>(92,842,080)</u>	<u>258,134,720</u>
Capital assets being depreciated:				
Capitalized interest	19,496,181	-	-	19,496,181
Buildings	101,980,111	6,183	-	101,986,294
Improvements other than buildings	320,092,237	84,017,776	-	404,110,013
Furnishings and equipment	14,352,869	1,068,369	(89,594)	15,331,644
Intangible assets	403,384	-	-	403,384
Water rights	358,226,691	-	-	358,226,691
Buses and fareboxes	30,133,601	4,375,995	(563,956)	33,945,640
Pipelines	182,244,620	11,953,808	-	194,198,428
Total capital assets, being depreciated:	<u>1,026,929,694</u>	<u>101,422,131</u>	<u>(653,550)</u>	<u>1,127,698,275</u>
Less accumulated depreciation for:				
Capitalized interest	(12,222,356)	(895,862)	-	(13,118,218)
Buildings	(67,523,818)	(1,987,662)	-	(69,511,480)
Improvements other than buildings	(184,164,218)	(11,414,298)	-	(195,578,516)
Furnishings and equipment	(8,931,931)	(1,080,360)	22,462	(9,989,829)
Intangible assets	(367,145)	(11,488)	-	(378,633)
Water rights	(95,527,119)	(11,940,890)	-	(107,468,009)
Buses and fareboxes	(13,923,015)	(2,176,101)	563,955	(15,535,161)
Pipelines	(45,001,043)	(2,379,399)	-	(47,380,442)
Total accumulated depreciation	<u>(427,660,645)</u>	<u>(31,886,060)</u>	<u>586,417</u>	<u>(458,960,288)</u>
Total capital assets being depreciated, net	<u>599,269,049</u>	<u>69,536,071</u>	<u>(67,133)</u>	<u>668,737,987</u>
Business-type activities capital assets, net	<u>\$ 904,169,388</u>	<u>\$ 115,612,532</u>	<u>\$ (92,909,213)</u>	<u>\$ 926,872,707</u>

Business-type activities:

Water	\$17,327,762
Sewer	9,324,451
Bus	3,355,146
Parking	457,789
Storm drain	470,616
Compost	110,445
Airport	719,937
Golf	50,751
Community center	69,163
Total depreciation expense – Business-type activities	<u>\$31,886,060</u>

**C. LONG-TERM DEBT**

Loans Payable

Governmental Activities:

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, to pay costs incurred by the City for the Kiernan Business Park East Project; loan intended to be repaid when the financing mechanism is established. As of June 30, 2019, no payments have been made to the Stanislaus County Economic Development Bank. According to the agreement, the Project will be completed as of the date the City first issues building permits within the Kiernan Business Park East area. To date, no building permits have been issued. Kiernan Business Park East project revenues, mainly CFD special taxes, have been pledged as collateral.

\$500,000

Total Principal Balance – Governmental-Type Activities

\$500,000

Business-Type Activities:

Water Enterprise Fund:

Loan payable to State of California Department of Public Health, also known as ARRA Water Grant. This Agreement constitutes funding in the form of a loan with forgiveness of principal made by the State under the provisions of California Safe Drinking Water State Revolving Fund Law of 1997, and the American Recovery and Reinvestment Act of 2009 (ARRA) Public Law 11 1-5. The purpose of the funding is to assist in financing construction of a project, which will enable the City to meet safe drinking water standards or to address other health concerns, herein referred to as the "Project". The total amount for the project was \$1,136,656, of which 50% was to be repaid as a loan. This original loan amount of \$568,328 has a payment term of 20 years at 2.5017% interest rate. Water Enterprise fund revenues have been pledged as collateral.

The following are significant terms that pertain to the ARRA Water Grant. Acceleration Clause: In event of default, State may declare the Supplier's obligations immediately due and payable. Events of Default: default allows State to alter principal forgiveness, accelerate, terminate further disbursements, file lawsuit. Termination Events: Any funds already disbursed to Supplier under the terms of this Agreement shall be an obligation immediately due and payable to State.

\$400,615

Sewer Enterprise Fund:

Loan payable to California State Water Resources Control Board, State Revolving Fund. The Project, commonly known as Tertiary Treatment Phase 1B Project generally consists of constructing a 12.6 million gallon per day tertiary treatment plant. Completion of construction date was established as June 1, 2016, and project completion date was established as December 1, 2016. The City has agreed to repay all project funds at an interest rate of one and six-tenths percent (1.6%) per annum and an administrative service charge of one percent (1%) per annum. The total loan approved by the State Water Resources Control Board is \$121,829,278, plus \$5,328,665 in Accrued Construction Period Interest. The loan repayment term is 20 years (final payment due on December 1, 2035) and after an initial annual payment of \$7,891,411 in the fiscal year ending June 30, 2017, the annual debt service payment including principal, interest, and administrative service charge is \$8,245,564 beginning in the fiscal year ending June 30, 2018. Sewer Enterprise fund net revenues have been pledged as collateral.

The following are significant terms that pertain to the California State Water Resources Control Board, State Revolving Fund loan payable related to the Tertiary Treatment Phase 1B. Acceleration Clause: upon violation by the City of any material provision of the Project Finance Agreement, the State Water Board may terminate agreement by written notice during construction of the Project, or thereafter at any time prior to complete repayment by the City, upon which the City agrees, upon demand, to immediately repay to the State Water Board an amount equal to Installment Payments due under the Project Finance Agreement, including accrued interest, and all penalty assessments due. In the event of termination, interest shall accrue on all amounts due at the highest legal rate of interest from the date that notice of termination is mailed to the Recipient to the date of full repayment by the Recipient. Events of Default: upon violation by the City of any material provision, State Water Board may terminate agreement which triggers acceleration. Termination Events: upon termination of the agreement by the State Water Board, the City agrees to immediately repay to the State Water Board an amount equal to Installment Payments due under the Project Finance Agreement, including accrued interest, and all penalty assessments due. In the event of termination, interest shall accrue on all amounts due at the highest legal rate of interest from the date that notice of termination is mailed to the Recipient to the date of full repayment by the City.

112,142,733

Loan payable to California State Water Resources Control Board, State Revolving Fund. The Project, commonly known as North Valley Regional Recycled Water Program generally consists of constructing improvements to the City's existing pump station. The City will then distribute the recycled water to the Del Puerto Water District for agricultural use increasing recycled water supplies by 5.4 billion gallons per year within the first 5 years of operation and 9.9 billion gallons per year at build out. Completion of construction date was established as June 30, 2018. Project completion date was established as December 31, 2018. The City agrees to repay all project funds at an interest rate of one percent (1%) per annum and an administrative service charge of zero percent (0%) per annum. The total final loan amount was \$29,747,008, including \$68,857 of approved Construction Period Interest. The loan repayment term is 30 years (final payment due on June 30, 2048) and after an initial payment of \$1,104,284, in the fiscal year ending June 30, 2019, the annual principal and interest payment is \$1,152,162 beginning in the fiscal year ending June 30, 2020. Sewer Enterprise fund net revenues have been pledged as collateral.

The following are significant terms that pertain to the California State Water Resources Control Board, State Revolving Fund loan payable related to the North Valley Regional Recycled Water Program. Acceleration and Termination Events Clauses: the City immediately repays to the State Water Board an amount equal to Project Funds disbursed under the Installment Sale Agreement and Grant, accrued interest, penalty assessments, and Additional Payments. In the event of termination, interest shall accrue on all amounts due at the highest legal rate of interest from the date that notice of termination is mailed to the City to the date all monies due have been received by the State Water Board. Events of Default: default allows State Water Resources Control Board to terminate obligation, which results in acceleration.

28,927,714

Total Principal Balances – Business-Type Activities

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\$141,471,062

Annual debt service requirements to maturity for loans payable are as follows:

Year Ending June 30,	Governmental-Type Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2020	\$500,000	\$-	\$6,219,170	\$2,093,419
2021	-	-	6,367,040	1,998,847
2022	-	-	6,518,616	1,901,955
2023	-	-	6,673,994	1,802,683
2024	-	-	6,833,269	1,700,972
2025-2029	-	-	36,699,069	6,889,380
2030-2034	-	-	41,252,385	3,944,431
2035-2039	-	-	20,979,663	1,033,211
2040-2044	-	-	5,370,762	390,046
2045-2049	-	-	4,557,094	115,445
Total	\$500,000	\$-	\$141,471,062	\$21,870,389

Certificates of Participation:

Business-Type Activities:

Golf Enterprise Fund:

1993 Refunding Certificates of Participation issued to refund earlier certificates for the Creekside Golf Course capital project; issued with an aggregate principal of \$8,130,000, with final maturity in 2023. Annual principal payments are due November 1st and beginning in 2010 range from \$250,000 to \$480,000, ending in 2023. The certificates are repayable from any source of available funds of the City. However, the City has elected to repay the certificates with revenues of the Golf Enterprise Fund.

The following are significant Events of Default terms that pertain to the 1993 Refunding COPs. Trust Agreement: 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, upon written request of >25% of bondholders, initiate lawsuit; Lease Agreement: In an Event of Default under the Lease Agreement, the Authority at its option may terminate the Lease Agreement and re-release all or any portion of the Project, and the City agrees to pay to the Authority all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as provided in the Lease Agreement in the case of payment of Lease payments.

\$2,185,000

Water Enterprise Fund:

2008 Water Refunding Revenue Certificates of Participation issued to refund the 2006 issue, to provide funding for construction of new downstream water facilities and various water distribution system improvements in connection with Modesto Irrigation District's expansion of the regional water treatment plant; variable rate securities maturing October 1, 2036, with interest initially calculated weekly, fluctuating according to market conditions. The Certificates may be converted to a daily, term, flexible, or fixed rate.

While the 2008 COPs are in the Weekly Mode, they are subject to optional tender and mandatory tender for purchase. Funds for the payment of the purchase price of 2008 COPs that are tendered for purchase and that are not remarketed by the Remarketing Agent will be available (subject to certain conditions) under a Standby Certificate Purchase Agreement, dated May 1, 2008 (the "Liquidity Facility"). The Liquidity Facility does not support, secure or guaranty the payments of the principal or interest with respect to the 2008 COPs. Subject to the terms and conditions of the Liquidity Facility, the Liquidity Facility Provider is to provide funds for the payment of the purchase

price on each purchase of 2008 COPS up to \$47,625,000 in principal amount (the "Available Principal Commitment") and \$548,014 an amount equal to 35 days' interest on the Available Principal Commitment at an assumed rate of 12% and accrued interest on 2008 COPS subject to the Weekly Rate tendered or deemed tendered for purchase in the event that remarketing proceeds are not sufficient to pay the purchase price of such 2008 COPS.

The Liquidity Facility will not provide for the payment of principal and interest on any 2008 COPS other than with respect to the purchase price of the 2008 COPS tendered or deemed tendered and not remarketed. Barring an event of default, any such draws on the Letter of Credit will be repaid under the terms of the Reimbursement Agreement. Under the terms of the Reimbursement Agreement, the City will repay the amount drawn in ten equal semi-annual installments of principal, plus monthly interest at the Bank Rate, over a 5 year period. However, the entire balance of the amount drawn shall become due immediately if the 2008 COPS are cancelled or prepaid, are remarketed, or converted to bear interest at a rate other than a daily rate or weekly rate; an alternate credit facility is secured; or an event of default occurs. The Credit Facility and Reimbursement Agreement initially expired May 29, 2011, and were subsequently extended to July 14, 2017 at a commitment fee of 0.875%, then again to June 15, 2020 at a commitment fee of 0.7%.

The City entered into a 30-year interest rate swap agreement as discussed below. The combination of the variable rate 2008 COPS and the floating rate swap creates a synthetic fixed-rate debt for the City. The average synthetic fixed-rate was 3.08% for the fiscal year ending June 30, 2019.

The following are significant terms that pertain to the 2008 COPS. Acceleration Clauses: in the event of late payment, Authority shall accelerate bond payments; in the event of other default, Authority may choose to accelerate bond payments. Events of Default: in the event of nonpayment, insolvency, or loss of bond insurance, the obligation of the Letter of Credit provider shall terminate; in the event of nonpayment of Letter of Credit fees or downgrade of Bonds to below investment grade, the Letter of Credit provider may terminate the Letter of Credit. Termination Events: The termination of the Letter of Credit triggers mandatory tender; termination of swap triggers on-time termination payment.

	44,055,000
<hr/>	
Total Principal Balances – Business-Type Activities	46,240,000
Less:	
Unamortized Bond Discount – 2008 Water Refunding Certificates of Participation	(93,455)
<hr/>	
Total Business-Type Activities – Certificates of Participation	<u>\$46,146,545</u>

The City has pledged all Gross Revenues of the Water Utility System to repay the 2008 Certificates of Participation. The City has pledged future Golf Enterprise Fund revenues (net proceeds of the Certificates held in Escrow Fund and certain other moneys held under the Trust Agreement relating to the Golf Course Certificates) to pay the 1993 Certificates of Participation for the Golf Course Refinancing project. The Water and Golf Funds combined total principal and estimated total interest remaining to be paid on the certificates is \$52,115,559. The Water Fund's principal, interest and other debt service cost paid on certificates for the current year, along with payments for the ARRA loan payable and payments to Modesto Irrigation District under the Treatment and Delivery Agreement, totaled \$12,373,480, and net operating revenues of the Fund were \$36,624,379, which represented coverage of 296%. The Golf Fund's principal and interest paid on certificates totaled \$489,167, and net operating revenues of the Fund were \$805,895, which represented coverage of 165%.

Annual debt service requirements to maturity for Certificates of Participation for 2008 Water and 1993 Golf are as follows:

Year Ending June 30,	Business-Type Activities	
	Principal	Interest
2020	\$795,000	\$603,861
2021	805,000	577,692
2022	860,000	551,767
2023	910,000	524,289
2024	2,780,000	480,965
2025-2029	13,035,000	1,905,577
2030-2034	15,910,000	1,067,363
2035-2039	11,145,000	164,045
Total	<u>\$46,240,000</u>	<u>\$5,875,559</u>

Lease Revenue Bonds:

Governmental Activities:

Regularly scheduled payments of principal and interest are supported by an irrevocable, direct pay Letter of Credit (the "Credit Facility") issued by Bank of the West on June 13, 2019, which replaced a Letter of Credit previously issued by Bank of America, N.A. The Trustee can draw funds under the Credit Facility to pay the purchase price of tendered bonds that are not remarketed. Barring an event of default, any such draws on the Letter of Credit will be paid under the terms of the Reimbursement Agreement. Under the terms of the Reimbursement Agreement, the City will repay the amount drawn in equal quarterly installments of principal plus monthly interest, at the Bank Rate, over a 3 year amortization period. However, the entire balance of the amount drawn shall become due immediately if the tendered bonds are remarketed or defeased, or an alternate credit facility is secured, or an event of default occurs. The Credit Facility and Reimbursement Agreement are scheduled to expire June 13, 2023 and contain a commitment fee of 0.375%.

The following are significant terms that pertain to the 2008 Lease Revenue Bonds. Acceleration Clauses: in the event of late payment, Trustee may accelerate bond payments; in the event of an Event of Default occurring under the Lease Agreement, 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 Lease Agreement in order to remedy the default. Events of Default: in Event of Default, Letter of Credit provider may declare all unpaid amounts drawn under the Letter of Credit and the corresponding Bank Bonds, together with all interest accrued and unpaid thereon, and all other amounts payable to the Letter of Credit provider under the Reimbursement Agreement to be immediately due and payable, without presentment, demand, protest or nay notice of any kind. Termination Events: the termination of Letter of Credit triggers mandatory tender; termination of swap triggers on-time termination payment; in the event that the City files a bankruptcy petition or the City makes a general assignment for the benefit of creditors, all amounts drawn under the Letter of Credit and the corresponding Bank Bonds, together with all interest accrued thereon and all other amounts owed to the Bank under the Reimbursement Agreement shall be immediately due and payable, without notice to the City or the Authority and without presentment, demand, protest or further notice of any kind.

\$50,915,000

Annual debt service requirements to maturity for Lease Revenue Bonds are as follows:

Year Ending June 30,	Governmental-Type Activities	
	Principal	Interest
2020	\$2,000,000	\$595,483
2021	2,170,000	565,363
2022	2,390,000	537,132
2023	2,585,000	506,509
2024	2,785,000	474,778
2025-2029	17,245,000	1,779,952
2030-2034	21,740,000	589,479
Total	<u>\$50,915,000</u>	<u>\$5,048,696</u>

Revenue Bonds – Business-Type Activities:

Sewer Enterprise Fund:

Wastewater Revenue Refunding Bonds, Series 2018A; interest payable on November 1 and May 1; principal is payable in annual installments on each November 1, commencing November 1, 2025 and ending November 1, 2036, with interest rates from 4% to 5%. Payment of principal and interest on the Series 2018A Bond is secured by a pledge of Net Revenues of the Sewer Enterprise Fund. The Series 2018A Bond constitutes "Parity Debt" under the Indenture.

On April 19, 2018, the City issued the Series 2018A Bond as a Parity Debt to fully refund the 2006A Wastewater Revenue Bonds. The proceeds were used to refund the 2006A Wastewater Revenue Bonds and pay cost of issuance in connection with the financing. The Series 2006A has been fully redeemed, and the City will realize significant savings from the refunding of the 2006A bonds.

The following are significant terms that pertain to the Wastewater Revenue Refunding Bonds, Series 2018A. Acceleration Clause: in each and every such case during the continuance of an Event of Default (and subject to any rights granted to any insurer of the Bonds with respect to the enforcement of remedies upon an Event of Default pursuant to a Supplemental Indenture), the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds at the time Outstanding shall be entitled, upon notice in writing to the City, to declare the principal of all of the bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding. Events of Default: 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 written request of the Owners of not less than 25% in aggregate amount of Bond Obligation of the Bonds then Outstanding, initiate a lawsuit.

\$11,340,000

Wastewater Revenue Refunding Bond Series 2015 - Direct Placement; interest payable on November 1 and May 1, commencing May 1, 2016. Principal is payable in annual installments on each November 1, commencing November 1, 2016 and ending November 1, 2024. The Series 2015 Bond shall bear interest at a rate equal to 2.42% per annum; The Series 2015 Bond constitutes "Parity Debt" under the Indenture; Payment of principal and interest on the Series 2015 Bond is secured by a pledge of Net Revenues of the Sewer Enterprise Fund (i.e., 1) all fees and charges received by the City for the services of the Enterprise; 2) all other income and revenue howsoever

derived by the City from the ownership; 3) all sums deposited, or required under the Indenture to be deposited, in the Sewer Enterprise Fund; less the amount of Operating Expenses becoming payable during such period).

On October 30, 2015, the City issued the Series 2015 Bond, as a Parity Debt to fully refund the 2005A and partially refund the 2006A Wastewater Revenue Bonds. The proceeds were used to: 1) Refund the Wastewater Revenue Refunding Bonds, Series 2005A, which refinanced the acquisition and construction of improvements to the City's wastewater enterprise, 2) refund a portion of the Wastewater Revenue Bonds, Series 2006A, and 3) pay cost of issuance in connection with the financing. The Series 2005A Bonds have been fully redeemed and the 2023 and 2024 maturities of Series 2006A Bonds were redeemed. The City will realize significant savings from the refunding of the 2005A and 2006A Bonds.

The following are significant terms that pertain to the Wastewater Revenue Refunding Bond Series 2015 - Direct Placement. Acceleration Clauses: in each and every such case during the continuance of an Event of Default (and subject to any rights granted to any insurer of the Bonds with respect to the enforcement of remedies upon an Event of Default pursuant to a Supplemental Indenture), the Owners of not less than a majority in the aggregate amount of Bond Obligation of the Bonds at the time Outstanding shall be entitled, upon notice in writing to the City, to declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding. Events of Default: 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, upon written request of >25% of bondholders, initiate lawsuit.

	12,226,286
Total Principal Balances – Business-Type Activities	23,566,286
Add: Unamortized Bond Premium – 2018 Wastewater Bonds	1,956,612
	\$ 25,522,898

Annual debt service requirements to maturity for the Wastewater Revenue Refunding Bond Series 2015 - Direct Placement are as follows:

Year Ending June 30,	Business-Type Activities	
	Principal	Interest
2020	\$2,521,327	\$265,367
2021	2,577,644	203,671
2022	2,644,114	140,488
2023	2,708,639	75,719
2024	876,795	32,335
2025	897,767	10,862
Total	\$12,226,286	\$728,442

Annual debt service requirements to maturity for total Revenue Bonds are as follows:

Year Ending June 30,	Business-Type Activities	
	Principal	Interest
2020	\$2,521,327	\$820,767
2021	2,577,644	759,071
2022	2,644,114	695,888
2023	2,708,639	631,119
2024	876,795	587,735
2025-2029	3,962,767	2,490,737
2030-2034	4,790,000	1,435,750
2035-2039	3,485,000	249,225
Total	<u>\$23,566,286</u>	<u>\$7,670,292</u>

Notes Payable – Governmental Activities:

On March 26, 2015, the City received notice of a public offering to refinance the existing HUD Section 108 Loan note, with an outstanding balance of \$2,789,000. The City agreed to refinance the note, as it reduced the interest on the HUD Section 108 Loan, a net savings of approximately \$502,908. The public offering date was May 28, 2015. The terms of the new promissory note include semi-annual payments in August and February through the maturity date of August 1, 2024. The interest rates range from 0.28% through 2.85%. No new security provisions were required, as the Contract for Fixed Rate Note incorporates the previous additional security provisions. Housing revenues are pledged as collateral.

The following are significant terms that pertain to the HUD Section 108 Loan.

Acceleration Clause: upon a Default or declaration of Default, the Secretary may accelerate the Note with respect to amounts subject to Optional Redemption. Events of Default: the Secretary may withhold the guarantee of any or all obligations not yet guaranteed on behalf of the Borrower under outstanding commitments, and/or direct the Borrower's financial institution to: refuse to honor any instruments drawn upon, or withdrawals from, the Guaranteed Loan Funds Account or the Loan Repayment Account initiated by the Borrower, and/or refuse to release obligations and assignments by the Borrower from the Guaranteed Loan Funds Investment Account or the Loan Repayment Investment Account.

\$1,834,000

Total Notes Payable

\$1,834,000

Annual debt service requirements to maturity for this Notes Payable are as follows:

Year Ending June 30,	Governmental-Type Activities	
	Principal	Interest
2020	\$269,000	\$41,773
2021	283,000	36,442
2022	297,000	30,150
2023	312,000	22,838
2024	328,000	14,424
2025	345,000	4,916
Total	<u>\$1,834,000</u>	<u>\$150,543</u>

Reimbursement Agreement - Business-Type Activities:

Water Enterprise Fund:

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 2008 Water Revenue Certificates of Participation and the California Safe Drinking Water Act loan (as described previously). 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 City and MID have agreed upon an expansion of the initial Domestic Water Project facilities beyond the existing design capacity of 36 million gallons per day ("mgd") to a design capacity of 72 mgd. In June 2007, the MID issued \$93,190,000 Domestic Water Project revenue bonds pursuant to the terms of the existing treatment and delivery agreement. On August 14, 2013, Modesto Irrigation District Financing Authority refunded the 1998 D Bonds, with 2013 G Bonds. As of June 30, 2019, the total outstanding on the MID bonds is: \$21,575,000 for the 2013 G Bonds and \$93,190,000 for the 2007 F Bonds, for a total of \$114,765,000. For the 2013 G Bonds, the annual principal payments began on September 1, 2014 and mature on September 1, 2022, in amounts from \$3,970,000 to \$5,795,000, with interest rates from 2% to 5%. For the 2007 F Bonds, the annual principal payments begin on September 1, 2023 and mature on September 1, 2037 in amounts from \$4,275,000 to \$11,870,000, with variable interest rates fluctuating according to market conditions.

The following are significant terms that pertain to the 2007 F Bonds. Acceleration Clause: in the event of late payment, Authority shall accelerate bond payments; in the event of other default, Authority may choose to accelerate bond payments. In event of default, Trustee may, with consent of Bond Insurer, and shall, at the direction of Bond Insurer or the owners of >50% of the bonds (with consent of Bond Insurer) accelerate bond payments. Events of Default: in event of default, Trustee may, with consent of Bond Insurer, and shall, at the direction of Bond Insurer or the owners of >50% of the bonds (with consent of Bond Insurer) initiate lawsuit. Termination Events: the termination of swap triggers one-time termination payment.

The following are significant terms that pertain to the 2013 G Bonds. Acceleration and Events of Default Clauses: Trust Agreement - In the event of an Event of Default (as defined in the Trust Agreement or Installment Purchase Contract), and in each and every such case during the continuance of such event of default, the Trustee may, and

shall, at the direction of the Owners of not less than a majority in aggregate principal amount of the Series 2013G Water Bonds then Outstanding, by notice in writing to the Authority, declare the principal of all Series 2013G Water bonds then Outstanding and then interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become due and payable, anything contained in the Trust Agreement or in the Series 2013G Water Bonds to the contrary notwithstanding; Installment Purchase Contract - In the event that default is made in the due and punctual payment of any Domestic Water Installment Payment or any Domestic Water Contract or Domestic Water Bond when and as the same shall be due and payable, then and in each and every such case during the continuance of such Event of Default specified, the Authority shall and for any other Event of Default, the Authority MAY, by notice in writing to the District, declare the entire principal amount of the unpaid Domestic Water Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained in the Installment Purchase Contract notwithstanding. Termination Events: the termination of swap triggers one-time termination payment.

The City has entered into interest-rate swap agreements for the 2007F bonds to synthetically fix the rates that the City pays at 4.38% and 4.44%. Refer to the Interest Rate Swap agreement section below with more information about the debt schedule.

Annual debt service payments to maturity for the Reimbursement Agreement are as follows:

Year Ending June 30,	Business-Type Activities	
	Principal	Interest
2020	\$5,005,000	\$2,853,671
2021	5,260,000	2,591,848
2022	5,515,000	2,325,072
2023	5,795,000	2,042,322
2024	4,275,000	1,836,023
2025-2029	24,435,000	7,758,139
2030-2034	30,605,000	4,939,559
2035-2038	33,875,000	1,368,875
Total	<u>\$114,765,000</u>	<u>\$25,715,509</u>

Interest Rate Swap Agreements:

Objective of the swaps – The primary objective of the swaps is to mitigate the effect of fluctuations in variable interest rates by paying a fixed-rate and receiving a floating rate on the swap. Combining a pay-fixed receive-variable rate swap with variable debt results in what is termed “synthetic” fixed-rate debt. It is called synthetic because the economics are similar to fixed-rate debt, but another instrument is involved unlike regular fixed-rate debt. Each time the City created synthetic fixed-rate debt a comparison and determination was made that the fixed-rate on regular debt would have been higher than the synthetic fixed rate on the swap.

During fiscal year 2007, the City entered into an interest swap agreement in connection with the 2006 Water Revenue Certificates of Participation. This transaction was updated due to the refunding of the 2006 Certificates by the 2008 Water Refunding Revenue Certificates of Participation (COPs). The swap agreement allows the City to create a synthetic fixed-rate on the COPs, protecting it against increases in short-term interest rates.

During fiscal year 2008, the City entered into an interest swap agreement in connection with the 2008 Lease Revenue Bonds. The swap agreement allows the City to create a synthetic fixed rate on the Lease Revenue Bonds, protecting it against increases in short-term interest rates. The terms, fair value and credit risk of these swap agreements are disclosed below.

Additionally, in May 2007, the City approved the issuance of revenue bonds by the Modesto Irrigation District Financing Authority related to the financing of Phase 2 of the Domestic Water Treatment and Delivery System of the Modesto Irrigation District. The MID Water Refunding Bonds were issued with an interest swap feature with Bear Sterns, which

was subsequently acquired by JP Morgan. Under the agreement between MID and JP Morgan, the City must post collateral when our negative position exceeds the Pledgor's Threshold of \$20 million. This negative position represents the present value of declining interest rates to date from issuance of bonds. In June 2010, the City Council authorized the City to post collateral up to \$18 million, which would support a negative position of \$38 million. In July 2010, the City Council increased the City's authorization to post collateral from \$18 million to up to \$20 million. At the end of fiscal year 2019, the City had posted a cumulative total of \$6,008,884 million of collateral posting, which is reported in the Water Enterprise Fund cash with fiscal agent.

Terms – The terms, including the counterparty credit rating of the outstanding swaps, as of June 30, 2019 are shown in the table below. The swap agreements contain scheduled reductions to the outstanding notional amounts that are expected to follow scheduled principal reductions in the associated debt issues.

<u>Related Debt Issue</u>	<u>Current Notional Amount</u>	<u>Effective Date</u>	<u>Counterparty</u>	<u>Credit Rating (S&amp;P)</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Termination Date</u>
2008 Water Refunding Revenue COPs	\$44,055,000	5/30/2008	Bank of America	A+	3.47%	63.7% of USD-LIBOR, plus .154%	10/1/2036
2008 Lease Revenue Refunding and Capital Improvement	50,915,000	8/28/2008	Bank of America	A+	3.61%	63.7% of USD-LIBOR, plus .154%	9/1/2033
2007 MID Domestic Water Revenue Bonds Series 2007F	23,370,000	6/26/2007	JP Morgan Chase Bank	A+	4.38%	67% of 3 Month LIBOR + 0.58%	9/1/2027
2007 MID Domestic Water Revenue Bonds Series 2007F	69,820,000	6/26/2007	JP Morgan Chase Bank	A+	4.44%	67% of 3 Month LIBOR + 0.63%	9/1/2037

Based on the swap agreement the City owes interest calculated at a fixed rate to the counterparty (Bank of America and JP Morgan). In return, the counterparty owes the City interest based on the variable rate that approximates the rate required by the associated COPs and lease revenue bonds. Debt principal is not exchanged; it is only the basis on which the swap receipts and payments are calculated.

GASB Statement 53 (GASB 53) addresses the recognition measurement and disclosure of information regarding derivative instruments entered into by state and local governments. All derivatives are to be reported on the statement of net position at fair value and all hedges must be tested for effectiveness to qualify for hedge accounting. The tests are outlined in GASB 53. Depending on the test results, the changes in fair value are either reported on the statement of net position as a deferral or in the statement of activities as investment revenue or loss.

Fair value – Fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of each transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method, which calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

As of June 30, 2019, the fair value of the swaps was in favor of the counterparty as shown in the following table:

<u>Bond Issue</u>	<u>Fair Value</u>
2008 Water Refunding Rev. Certificates of Participation	(\$8,905,663)
2008 Lease Revenue Bonds	(\$8,428,317)
2007 MID Domestic Water Revenue Bonds	(\$24,996,264)

Credit risk - As of June 30, 2019, the City was not exposed to credit risk on the swaps because the swaps had negative fair value. However, if interest rates increase and the fair value becomes positive, the City would be exposed to credit risk. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

**Basis risk** - Basis risk is the risk that the interest rate paid by the City to the bondholders on the underlying variable rate bonds temporarily differs from the variable swap rates received from the counterparty. The swaps have basis risk since the City receives a percentage of the LIBOR Index to offset the actual variable bond rates the City pays on the underlying certificates of participation. The City is exposed to basis risk should the floating rate that it receives on the swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

A portion of this basis risk is tax risk. The City is exposed to tax risk when the relationship between the taxable LIBOR based swaps and tax-exempt variable rate bonds changes as a result of a reduction in federal and state income tax rates. Should the relationship between LIBOR and the underlying tax-exempt variable rate bonds converge the City is exposed to this basis risk.

**Termination risk** - The City may terminate the swap contracts if the other party fails to perform under the terms of the contracts. The City will be exposed to variable rates if the counterparty defaults or if the swap contract is terminated. A termination of the swap contract may also result in the City's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

**Swap payments and associated debt** - Using rates as of June 30, 2019, debt service requirements of the 2008 Water Refunding Revenue Certificates of Participation, the 2008 Lease Revenue Refunding Bonds, and the 2007 MID Domestic Water Revenue Bonds, including net swap payments and broker fees, are as shown in the following table assuming current interest rates remain the same for their term. The bond interest payments and net swap payments will vary as interest rates vary.

Year Ending	Variable-Rate Bonds		Net Swap Pymts, Letter of Credit, & Remarketing Fees	Total
	Principal	Interest		
June 30,				
2020	\$2,395,000	\$3,000,139	\$4,685,154	\$10,080,293
2021	2,565,000	2,958,903	4,630,600	10,154,503
2022	2,815,000	2,928,470	4,554,533	10,298,003
2023	3,035,000	2,892,745	4,477,120	10,404,865
2024	9,360,000	2,779,767	4,331,632	16,471,399
2025-2029	54,715,000	11,443,668	17,711,401	83,870,069
2030-2034	68,255,000	6,596,400	9,922,518	84,773,918
2035-2038	45,020,000	1,532,920	2,363,622	48,916,542
Total	\$188,160,000	\$34,133,012	\$52,676,580	\$274,969,592

**Changes in Long-Term Obligations**

Long-term obligations activity for the year ended June 30, 2019, was as follows:

<b>Governmental activities:</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Loans Payable	\$500,000	\$ -	\$ -	\$500,000	\$ -
Lease Revenue Bonds	52,775,000	-	1,860,000	50,915,000	2,000,000
Notes Payable	2,090,000	-	256,000	1,834,000	269,000
Obligations under Capital Leases	5,449,379	-	446,498	5,002,881	458,955
<b>Total governmental activities</b>	<b>\$60,814,379</b>	<b>\$-</b>	<b>\$2,562,498</b>	<b>\$58,251,881</b>	<b>\$2,727,955</b>

<b>Business-type activities:</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Loans Payable	\$147,366,700	\$144,227	\$6,039,865	\$141,471,062	\$6,219,170
Certificates of participation	47,015,000	-	775,000	46,240,000	795,000
Unamortized Discount	(98,951)	-	(5,496)	(93,455)	-
Obligations under Capital Leases	73,589	-	54,079	19,510	19,510
Reimbursement Agreement:					
MID Bonds	119,525,000	-	4,760,000	114,765,000	5,005,000
Unamortized Premium	2,853,632	-	570,726	2,282,906	-
Sewer Bonds	11,340,000	-	-	11,340,000	-
Unamortized Premium	2,065,313	-	108,701	1,956,612	-
Sewer Bonds – Direct Placement	14,685,381	-	2,459,095	12,226,286	2,521,327
Developer advances	1,052,226	-	101,085	951,141	92,294
<b>Total business-type activities</b>	<b>\$345,877,890</b>	<b>\$144,227</b>	<b>\$14,863,055</b>	<b>\$331,159,062</b>	<b>\$14,652,301</b>

Principal balances are reported on the government-wide and enterprise funds statements of net position, net of unamortized issuance discounts and premiums. Deferred losses on refundings are reported as deferred outflows of resources. Internal service funds predominantly serve the governmental funds. Accordingly, any long-term liabilities for the internal service funds are included as part of the above totals for governmental activities. At year-end, internal service funds obligations were zero under notes payable, and zero in capital leases.

#### D. CHANGES IN OTHER LONG-TERM LIABILITIES

Other long-term liability activity for the year ended June 30, 2019, was as follows:

<b>Governmental activities:</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Compensated Absences	\$7,266,441	\$8,027,136	\$7,563,437	\$7,730,140	\$1,042,624
Claims Liability	24,432,515	6,285,818	7,087,773	23,630,560	4,819,758
<b>Total governmental activities</b>	<b>\$31,698,956</b>	<b>\$14,312,954</b>	<b>\$14,651,210</b>	<b>\$31,360,700</b>	<b>\$5,862,382</b>
<b>Business-type activities:</b>					
Compensated Absences	\$2,687,099	\$3,504,196	\$3,601,805	\$2,589,490	\$2,589,490
<b>Total business-type activities:</b>	<b>\$2,687,099</b>	<b>\$3,504,196</b>	<b>\$3,601,805</b>	<b>\$2,589,490</b>	<b>\$2,589,490</b>

The compensated absences and claims liability balances relate to the internal service funds, and as such they are liquidated by the internal service funds. The predominant contributors for these internal service funds include the General Fund, Water Fund, and Sewer Fund.

## E. OBLIGATIONS UNDER CAPITAL LEASES

### Governmental Activities

As of June 30, 2019, the City has one governmental activities active capital lease agreement with Pierce Manufacturing Inc. for the purchase of five Velocity Pumpers and two Velocity Tillers valued at \$5,883,756, less accumulated depreciation of \$862,414.

The following is a schedule of the future minimum lease payments, as of June 30, 2019:

<u>Year Ending June 30,</u>	
2020	\$598,544
2021	598,544
2022	598,544
2023	598,544
2024	598,544
2025-2028	<u>2,749,846</u>
Total minimum lease payments	5,742,566
Less: amount representing interest	<u>(739,685)</u>
Present value of minimum lease payments	<u>\$5,002,881</u>

### Business-Type Activities

As of June 30, 2019, the City has one business-type activities active capital lease agreement with Envirogen Technologies for the purchase of the Grayson Nitrate Treatment System valued at \$150,538, less accumulated depreciation of \$40,088.

The following is a schedule of the future minimum lease payments, as of June 30, 2019:

<u>Year Ending June 30,</u>	
2020	<u>\$20,000</u>
Total minimum lease payments	20,000
Less: amount representing interest	<u>(490)</u>
Present value of minimum lease payments	<u>\$19,510</u>

## F. 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, 2019, the total outstanding balance due under the agreements is \$951,141. The total annual payments fluctuate depending on the ending date of each agreement. At June 30, 2019, the amount of \$92,294 due during fiscal year 2020 has been reported as "current portion-developer advances" on the Water Enterprise Fund statement of net position. The remaining \$858,847 of outstanding principal has been reported under noncurrent liabilities, as "developer advances."

## G. INTERFUND BALANCES

Interfund balances as of June 30, 2019 consist of the following:

Due to General Fund from:

Other governmental funds	\$2,944,365
Other enterprise funds	<u>286,612</u>
Total Due to General Fund	<u>3,230,977</u>
Total Due to/Due From:	<u>\$ 3,230,977</u>

Advances from General Fund to:

Other governmental funds	\$1,011,618
Other enterprise funds	<u>1,324,704</u>
Advances from General Fund	<u>2,336,322</u>

Advances from Water Fund to other enterprise funds 2,300,000

Advances from Sewer Fund to:

General Fund	1,842,973
Other governmental funds	539,891
Other enterprise funds	<u>820,800</u>

Advances from Sewer Fund 3,203,664

Total Advances from/Advances to \$7,839,986

All balances reported as "due to/due from" are short-term loans to cover temporary fund cash shortages as of June 30, 2019, and were repaid early in fiscal year 2020. 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.

## H. FUND BALANCE

Detailed classifications of the City's Fund Balances, as of June 30, 2019, are provided below:

	General Fund	Housing and Community Development	Transportation Special Tax	Other Governmental	Total Governmental Funds
<b>Nonspendable</b>					
Advances to other funds	\$ 2,336,322	\$ -	\$ -	\$ -	\$ 2,336,322
Prepaid Items	386,710	7,625	1,127	4,538	400,000
<b>Total Nonspendable Fund Balance</b>	<b>2,723,032</b>	<b>7,625</b>	<b>1,127</b>	<b>4,538</b>	<b>2,736,322</b>
<b>Restricted</b>					
Capital Facility Fees	-	-	-	26,314,560	26,314,560
Cash with Fiscal Agent	-	-	-	6,054,226	6,054,226
Community Facilities District	-	-	-	18,728,690	18,728,690
Grants and Donations	-	5,052,552	-	827,517	5,880,069
Notes Receivable	-	25,868,611	-	2,281,179	28,149,790
Deposits	2,209,485	-	-	-	2,209,485
Traffic Fines	-	-	-	4,082,685	4,082,685
<b>Total Restricted Fund Balance</b>	<b>2,209,485</b>	<b>30,921,163</b>	<b>-</b>	<b>58,288,857</b>	<b>91,419,505</b>
<b>Committed</b>					
General Fund Set-Aside	18,397,817	-	-	-	18,397,817
<b>Total Committed Fund Balance</b>	<b>18,397,817</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,397,817</b>
<b>Assigned</b>					
Encumbrances - Vendor Contracts	509,751	-	-	-	509,751
Downtown Improvement District	-	-	-	89,995	89,995
Successor Redevelopment Housing Agency	-	-	-	463,797	463,797
Transportation Tax Funding	-	-	17,498,751	-	17,498,751
Strategic Planning and Development	-	-	-	1,252,294	1,252,294
Debt Service	-	-	-	1,270	1,270
<b>Total Assigned Fund Balance</b>	<b>509,751</b>	<b>-</b>	<b>17,498,751</b>	<b>1,807,356</b>	<b>19,815,858</b>
Unassigned - General Fund	1,742,785	-	-	-	1,742,785
Unassigned - Special Revenue Funds	-	-	-	(1,283,047)	(1,283,047)
Unassigned - Capital Project Funds	-	-	-	(1,527,526)	(1,527,526)
<b>Total Unassigned Fund Balance</b>	<b>1,742,785</b>	<b>-</b>	<b>-</b>	<b>(2,810,573)</b>	<b>(1,067,788)</b>
<b>Total Fund Balance</b>	<b>\$ 25,582,870</b>	<b>\$ 30,928,788</b>	<b>\$ 17,499,878</b>	<b>\$ 57,290,178</b>	<b>\$ 131,301,714</b>

## I. DEFICIT FUND EQUITY

The Operating Grants fund has a fund balance deficit of \$481,882, which will be recovered through future grant revenues and local matches covered through the General Fund or other City funds.

The Special Fund for Capital Outlays fund has a fund balance deficit of \$31,366, which will be recovered through funding from the General Fund associated with the interfund loan payment schedule for the John Thurman scoreboard.

The Capital Grants fund has a fund balance deficit of \$1,496,160, which will be recovered through future grant revenues and local matches covered through the General Fund or other City funds.

The Compost Fund has a net position deficit of \$4,193,616, due to the pollution remediation liability reported for the Carpenter Landfill. The remediation funding has been incorporated into the utility fees related to garbage rates to cover the anticipated cost.

The Golf Enterprise Fund has a net position deficit of \$578,847, 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 has struggled due to competition and lagging revenues. Depreciation expense further contributes to the

deficit. The City is continuing to look at various options to resolve this funding deficit.

The Employee Benefits Management Internal Service Fund has a net position deficit of \$5,407,352. It exists partially because the total compensated absences and other post-employment benefit balance for the employees which reside in this fund 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. 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.

The Insurance Fund has a net position deficit of \$7,405,543, due mainly to the recognition of settlements that were reached both in the current and prior fiscal year which have been reported as liabilities of the Liability Insurance Fund. Both settlements involved matters that represented city-wide policies and practices and therefore are allocable to all of the funds that make annual contributions to the liability insurance program. The liability insurance program will recover the full amount of the settlement from charges to the funds that participate in the liability insurance program over a period of 5 years based on this methodology being factored into the Internal Service Fund allocation that is distributed to City departments.

**J. INTERFUND TRANSFERS**

The following is a schedule of interfund transfers.

Transfers (in) to:	Transfers from (out):									
	General Fund	Housing & Community Development	Transportation Special Tax	Other Governmental	Water	Sewer	Bus	Other Enterprise Funds	Internal Service	Total
General Fund	-	-	-	\$ 398,234	\$ 65,000	\$ 68,640	-	-	\$ 2,353,311	\$ 2,885,185
Housing & Community Dev	-	-	-	-	-	-	-	-	14,356	14,356
Transportation Special Tax	\$ 1,540,105	-	-	-	-	-	-	-	60,928	1,601,033
Other Governmental	5,434,082	\$ 988,338	\$ 9,971,408	196,531	-	-	\$200,316	\$ 18,340	187,049	16,996,064
Water	497	-	-	-	-	-	-	-	144,281	144,778
Sewer	-	-	-	2,509	-	-	-	13,211	164,917	180,637
Bus	28,261	-	327,182	-	-	-	-	-	25,721	381,164
Other Enterprise	1,512,128	-	-	-	700,000	-	-	-	78,685	2,290,813
Internal Service	208,178	-	19,182	133,515	25,859	111,307	7,558	111,788	1,881,744	2,499,131
<b>Grand Total</b>	<b>\$ 8,723,251</b>	<b>\$ 988,338</b>	<b>\$ 10,317,772</b>	<b>\$ 730,789</b>	<b>\$ 790,859</b>	<b>\$ 179,947</b>	<b>\$207,874</b>	<b>\$ 143,339</b>	<b>\$ 4,910,992</b>	<b>\$ 26,993,161</b>

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.

**K. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY**

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (Bill) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City that previously had reported a redevelopment agency blended component unit. The Bill provides that upon dissolution of a redevelopment agency, either the City or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 24, 2012, the City Council elected to become the Successor Agency for the former Redevelopment Agency (RDA) in accordance with the Bill as part of County Resolution number 12-7.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers

is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former RDA due to the City are valid enforceable obligations payable by the Successor Agency trust under the requirements of the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011), all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

After the date of dissolution, as allowed under Section 34176(a) of the Bill, the City elected to retain the housing assets and functions previously performed by the former RDA. The assets and activities for the Successor Agency Housing fund continue to be reported in the City's governmental fund financial statements. The remaining assets, liabilities, and activities of the dissolved RDA, are reported in the Successor Agency fiduciary fund (private-purpose trust fund) in the financial statements of the City.

State Senate Bill (SB) 107 was then passed in 2015. This bill included many significant changes to the operation of the Successor Agencies. Among these changes were the Annual Recognized Obligation Payment Schedule (ROPS), the Last and Final ROPS, a single Countywide Oversight Board, and the requirement for the County Auditor-Controller to review the obligation payments made by the Successor Agency. Some of these changes like the County Oversight Board and the requirement for the County Auditor-Controller to review the obligation payments made by the Successor Agency become effective July 1, 2018. The Modesto RDA Successor Agency has complied with all aspects of the changes that are specified in SB 107 and all ROPS starting with the ROPS submitted for the Fiscal Year 2019-20 period will now be submitted for approval by the Stanislaus Countywide Successor Agency Oversight Board.

As of June 30, 2019, one of the obligations under the Successor Agency trust is associated with the 10<sup>th</sup> Street Place Project:

Reimbursement agreement with the City totaling \$19,566,862. The original loan is from the City's 1998 Lease Revenue Bonds and the 2007 Lease Revenue Bonds that pertain to the Successor Agency. On August 28, 2008, the City refinanced the entire outstanding balance of the City's 1998 Lease Revenue Bonds and the 2007 Lease Revenue Bonds with variable rate 2008 Lease Revenue Bonds. The new balance has been provided as of June 30, 2019 that pertains to the Successor Agency. Additional information related to the 2008 Lease Revenue bonds is provided in Note II-C under the Lease Revenue Bonds – Governmental Activities section.

\$14,765,350

Annual debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2020	\$580,000	\$537,372	\$1,117,372
2021	629,300	513,731	1,143,031
2022	693,100	487,836	1,180,936
2023	749,650	460,053	1,209,703
2024	807,650	431,517	1,239,167
2025-2029	5,001,050	1,617,933	6,618,983
2030-2034	6,304,600	536,707	6,841,307
Total	<u>\$14,765,350</u>	<u>\$4,585,149</u>	<u>\$19,350,499</u>

The reserves for the Reimbursement Agreement are recorded in the Public Financing Authority debt service fund for the City.

No-interest loan payable to the Stanislaus County Economic Development Bank loan program, for the purpose of funding the Kansas Avenue Business Park Project's Master Plan costs. The Agency has no obligation to begin repayment until the Project is completed and revenues begin.

Future debt service requirements to maturity for loans payable, as of June 30, 2019, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 405,000	\$ -	\$ 405,000
Total	\$ 405,000	\$ -	\$ 405,000

As of June 30, 2019, the Successor Agency was obligated for the following long-term debt in conjunction with the Community Center Project:

1993 Refunding Certificates of Participation; serial certificates with annual payments on November 1 in amounts ranging from \$1,090,000 to \$1,610,000 beginning in 2011 with a final maturity in November 2023. \$7,305,000

Future debt service requirements to maturity for the Certificates of Participation, as of June 30, 2019, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	1,320,000	332,250	1,652,250
2021	1,385,000	264,625	1,649,625
2022	1,455,000	193,625	1,648,625
2023	1,535,000	118,875	1,653,875
2024	1,610,000	40,250	1,650,250
Total	\$7,305,000	\$949,625	\$8,254,625

The former RDA also has a few outstanding obligations related to reimbursements for parking expenses with Westland Development Company and payments to the Tenth Street Joint Power Agency for maintenance for common areas in the Tenth Street Place. These amounts are all reported in the Successor Agency in the Fiduciary financial statements under the Private-Purpose Trust Fund.

**L. NOTES AND LOANS RECEIVABLE**

The notes receivable in the Housing and Community Development and Other Governmental Funds of \$54,793,223 net of \$84,305 allowance for doubtful accounts, consist of loans made for low-income housing rehabilitation, first-time homebuyers, property improvement and small business origination. The loans are collateralized by deeds of trust on the improved properties or business assets, and are generally bearing annual interest at 3 or 5 percent. Some direct loans may be subject to forgiveness, some are interest free and require no repayment of principal until the loans reach maturity, and some are subject to residual receipt payment agreements. Loan terms range from 5 to 55 years.

**M. APPROVED LOANS PAYABLE**

The approved loans payable in the Housing and Community Development Special Revenue Fund of \$491,157 consist of amounts being held for housing projects using funds provided by federal grants. This liability is expected to be liquidated in less than a year.

**N. POLLUTION REMEDIATION LIABILITY**

The City reported a liability in the Water and Sewer Enterprise funds, which represents the recoveries the City has

collected less any remediation and 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 initiated litigation with the manufacturers. As of June 30, 2019, the City reported a pollution remediation liability from the Water and Sewer funds in the amount of \$8,179,540 and \$7,230,328, respectively.

In addition, in the Carpenter Road Landfill Fund, a liability was reported related to the Carpenter Road Landfill which is a 39-acre City owned landfill, located on both the east and west sides of Carpenter Road between Kenneth and Robertson Roads and the Tuolumne River, which was in operation from 1956 to 1968. This landfill precedes Subtitle-D and had no liner or leachate collection or removal system. In 1993, six methane gas monitoring wells were installed. In December 2005, there was a spike in the methane gas level at the landfill's Northern boundary. The State required the City to determine the cause and develop a mitigation and monitoring plan to ensure the landfill remained in compliance with the state statutes. In November of 2010, a Corrective Action Plan was proposed for the landfill involving a hydrogen releasing compound injection. In October 2014, a revised Corrective Action Plan and post closure maintenance plan was submitted to the Central Valley Regional Water Quality Control Board (CVRWQCB). In March 2015, a Cleanup and Abatement Order was issued to the City of Modesto for the Carpenter Road Landfill by the California Regional Water Quality Control Board to complete the clean closure correction action plan by January 15, 2017. Construction was to begin in Spring of 2017, however, due to flooding during the Winter of 2016, the groundwater level increased to a level too high to begin construction. The City submitted a request to the CVRWQCB to delay the project until Spring of 2018. The waters did recede and the project went out to bid and was awarded in August 2018. However due to an unanticipated permit delay that created changes to the original bid document the project has been placed on hold, and will need to be rebid in the Fall of 2019 for completion in the Spring and Summer of 2020. As of June 30, 2019, the City reported a pollution remediation liability from Carpenter Road Landfill Fund in the amount of \$4,923,741.

## **O. DEFERRED INFLOWS/OUTFLOWS OF RESOURCES**

Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", the City recognized deferred outflows and inflows of resources in the entity-wide and governmental fund statements. These items are an acquisition of net position by the City that is applicable to a future reporting period. The General Fund, Housing and Community Development, Transportation Special Tax and other governmental funds reported deferred inflows of resources in the amount of \$274,022, \$26,559,128, \$84,448 and \$9,478,580 for unavailable resources related to note and grant receivables not meeting the period of availability. Previous financial reporting standards do not include guidance for reporting these in the financial statements, which are distinct from assets and liabilities. The items relate to outflows and inflows for net pension liability (Note III-G), OPEB liability (Note III-F), swap hedging (Note II-C) and loss on refunding.

## **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/occurrence as follows: workers' compensation \$750,000; liability \$1,000,000. The City purchases commercial insurance for property loss, airport liability, miscellaneous coverage, and for claims in excess of the preceding self-insured limits.

For liability claims, the City is one of thirteen members of the Authority for California Cities Excess Liability (ACCEL) risk pool. This pool covers City claims between \$1,000,000 and \$5,000,000. The purpose of the pool is to spread the adverse effect of losses among the member agencies and leverages buying power in the commercial insurance market for excess coverage. 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 subject to the board approval and current conditions. Commercial insurance covers claims over \$5,000,000 in four excess layers, of \$10,000,000 each and one additional layer of \$5,000,000 above \$45,000,000; for additional total

coverage of \$50,000,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past five fiscal years. General liability claims are currently self-administered by risk management and litigated claims are defended by the City Attorney.

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, 2019 is \$23,630,560 consisting of \$19,327,311 workers' compensation, \$4,035,487 general liability, \$226,427 dental, and \$41,335 vision. Workers' compensation and general liability claims liabilities are estimated on an actuarial basis, and are reported at their net present value using an expected future investment yield assumption of 3% (general liability) and 3% (workers' compensation). The undiscounted workers' compensation and liability claims totaled \$22,742,530 and \$4,292,936, respectively. The actuarial liability for workers' compensation and general liability were based on 2019 actuarial reports.

The current portion of the total claims liability is estimated to be \$4,819,758 and the balance of \$18,810,802 is reported as a long-term liability on the statement of net position. Changes in the Insurance Fund claims liability during the fiscal years ended June 30, 2018 through June 30, 2019 were:

	<u>Claims Liability July 1</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Current-Year Claim Payments</u>	<u>Claims Liability June 30</u>
2017-18	\$27,884,781	\$3,964,199	\$(7,416,465)	\$24,432,515
2018-19	24,432,515	6,288,417	(7,090,372)	23,630,560

**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, 2019, the balance of these districts' outstanding debt was as follows:

<u>Issue</u>	<u>Outstanding Amount</u>
Village One #2 Community Facilities District	\$26,450,000
Fairview Village Community Facilities District	3,940,000

**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, 2019, there were two series of conduit revenue bonds outstanding. The aggregate principal amount payable for these multiple-family housing bond issues, issued between 1994 and 2002, was \$6,275,000.

#### 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, as disclosed in Note III-A. The City is a defendant in various matters of litigation.

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 both operating and capital commitments of \$12,224,179 for the City's governmental funds as of June 30, 2019 for contracts awarded but not completed and other outstanding purchase requisitions and orders. This amount consists of \$509,751 in the General Fund, \$773,317 in the Housing and Community Development, and \$10,941,111 in other governmental funds. Commitments of the governmental funds are recorded in one of the classifications of fund balance based on the various funding restrictions on the balance sheet. As of June 30, 2019, there are major contracts for water (Diede Construction - \$14.1 million and Mountain Cascade \$8.6 million)- , sewer system improvements (C OVERAA and Company \$15.4 million and Rolfe Construction \$4.0 million), street improvement projects (California Pavement Maintenance - \$2.1 million), and State Route 132 Project (Dokken Engineering \$7.5 million).

#### 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 \$165,947 for the fiscal year ended June 30, 2019. As of June 30, 2019 the City's investment in this joint venture was \$619,305, and is included in governmental activities on the statement of net position. 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 (prior to July 1, 2018), Oakdale, Ceres, Patterson, Turlock, Riverbank, Hughson, Waterford 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. As of July 1, 2018, the City of Modesto withdrew from SDEA and no longer participates as a partner in this Authority. The City has no equity interest. Financial statements may be obtained by writing to the County of Stanislaus, Auditor Controller, 1010 Tenth Street Place Suite 5100, Modesto, CA 95354.

##### 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 final at the end of June 2003. Starting in July 1, 2010 the County Auditor Controller became the fiscal administrator. For the fiscal year ended June 30, 2019, the City's payments to the Agency were \$848,228 for operations and capital reserve. The City's equity interest in the Agency is \$7,390,800, equal to its capital asset contributions to date net of depreciation, and is reported in governmental activities as investments in joint ventures in the statement of net position. Financial statements of the Agency are prepared by the Stanislaus County Auditor Controller office.

#### 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, 2019, the City has no equity interest. Stanislaus County Treasurer's office prepares the Agency's financial statements.

#### Consolidated Emergency Dispatch Agency

The Modesto/Stanislaus Consolidated Emergency Dispatch Agency (the MSCEDA) was created on September 1, 1999, pursuant to a joint exercise of powers agreement between the City of Modesto and the County of Stanislaus. The MSCEDA is administered by a seven-member commission consisting of one member of the City Council, one member of the County Board of Supervisors, the County Chief Executive Officer, the City Manager, two members from the Dispatch Advisory Board, and one member from the City of Ceres' City Council or one member selected by the City Council of another participating City. The purpose of the MSCEDA is to consolidate the public safety communications system. The responsibilities of the agency include approval of annual budget, claims, liabilities, and the use of MSCEDA property as collateral. Each participant will contribute sufficient funds to pay for all costs and expenses associated with providing Emergency Dispatch Services. Upon termination of the agreement, assets will be distributed equally to the City and County, unless otherwise approved. The financial statements may be obtained by writing to the Modesto/Stanislaus Consolidated Emergency Dispatch, Office Manager, 3705 Oakdale Road, Modesto, California 95357.

#### North County Corridor Transportation Expressway Authority

On April 1, 2008, the City Council approved the establishment of a Joint Powers Authority between the County and the cities of Modesto, Oakdale and Riverbank to create the North County Corridor Transportation Expressway Authority (NCCTEA). The purpose of the Authority is to prepare, identify, and adopt a precise alignment, and prepare and certify environmental documents for a route to improve east/west traffic circulation in the County.

The intent of the NCCTEA is to provide a high capacity high speed east-west roadway to accommodate anticipated traffic growth, alleviate traffic on parallel roads, and to accommodate multi-modal travel. Under the terms of the agreement, the County will incur 40% of the costs of the project while each of the participating cities will be contributing 20%. The preliminary project development costs will be funded by State Transportation Program and Public Facility Fees. The NCCTEA Board of Directors will be comprised of two directors appointed by the County, and one director from each participating city. The board acts autonomously from the respective member agencies. The County of Stanislaus Public Works Director is designated as the NCCTEA's manager. Upon completion of the agreement, all assets will be distributed to the respective parties of the agreement as determined by the Board of Directors of the Authority. Financial statements may be obtained by writing to the County of Stanislaus, Public Works Department, 1716 Morgan Road, Modesto, CA 95358.

#### Stanislaus Animal Services Agency

The Stanislaus Animal Services Agency (SASA) was created October 27, 2009, pursuant to a joint powers agreement among the cities of Ceres, Hughson, Modesto, Patterson, Waterford, and the County of Stanislaus. SASA is administered by a six-member board comprised of the City Manager of each partner agency, and the Chief Executive Officer of the County. The purpose of SASA is to operate a regional agency providing animal services to their respective communities. The SASA Executive Director is responsible for the annual budget which must be approved by the SASA Board of Directors. Each partner agency will contribute sufficient funds to pay for all costs approved in the budget to provide animal services. Upon termination of the agreement, assets will be distributed in accordance with the joint powers agreement. The financial statements may be obtained by writing to the Stanislaus Animal Services Agency, Executive Director, 3647 Cornucopia Way, Modesto, CA 95358.

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.

North Valley Regional Recycled Water Program (NVRWP)

The City participates in the NVRWP, which was established by the City of Modesto and Del Puerto Water District in November 2014. The purpose of this agreement is to develop, construct, operate and maintain water supply facilities and service. Through this agreement all partner agencies will cooperate and collaborate to use their best efforts regarding the submission of grants, loans and other funding resources to cover future cost related to the design and construction on future projects. At the end of the fiscal year June 30, 2019, the City has no equity interest.

F. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

I. Plan Description

In addition to the pension benefits described below in Note III-G, the City participates in an agent multiple-employer plan which provides health care benefits to employees who retire from the City based on certain criteria related to their hired and retirement date, under contractual agreements with all employee groups. All full-time employees hired before January 1, 2011, except firefighters who receive a cash payout, are eligible to set aside a percentage of accumulated sick leaves upon retirement to be used for payment of future health care premiums to a choice of insurance plans (sick leave conversion). The City has no obligation to pay the health insurance allowance for retirees with no accumulated sick leave. All employees hired on or after January 1, 2011 will not be eligible to participate in the sick leave conversion. If an employee elects to receive a buy-out contribution, they will be removed from the City's medical plan and will no longer be allowed to return to the City's medical plan. The plan has no assets accumulated in a qualified OPEB trust that meets the criteria as per GASB Statement No. 75.

II. Employees Covered

As of January 1, 2019, actuarial valuation, the following current and former City employees were covered by the OPEB plan membership:

Inactive employees	372
Active employees	<u>544</u>
Total	916

III. Contributions

The OPEB plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by the agreements between the City and the bargaining units. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2019, the City's cash contributions were \$3,012,214 in payments made by the employer and no estimated subsidy was determined.

IV. Total OPEB Liability

The City's total OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated January 1, 2019 that rolled forward to determine the June 30, 2019 total OPEB liability, based on the following actuarial methods and assumptions:

<b>Actuarial Assumptions:</b>	
Discount Rate	3.87% at June 30, 2018. 3.58% at June 30, 2017 (Bond Buyer 20-Bond Index).
General Inflation	2.75% annually
Salary increases	Aggregate - 3% annually. Merit - CalPERS 1997-2015 Experience Study
Medical Trend	Medicare - 6.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076 Non-Medicare - 7.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076
Mortality, Retirement, Disability, Termination	CalPERS 1997-2015 Experience Study
Mortality Improvement	Post-retirement mortality projected fully generational with Scale MP-2018

V. Discount Rate

The discount rate used to measure the total OPEB liability was 3.87 percent. The projection of the cash flows used to determine the discount rate assumed that the City contributions will be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the OPEB City's net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries based on the 'pay as you go' annual contributions.

VI. Changes in the OPEB Liability

The change in the OPEB Liability is as follows:

	<b>Total OPEB Liability</b>
Balance at June 30, 2018 (Valuation Date June 30, 2017)	\$ 29,398,521
Changes recognized for the measurement period:	
Service cost	\$ 963,490
Interest	1,038,035
Differences between actual and expected experience	(468,009)
Changes of Assumptions	(1,306,633)
Benefit Payments	(2,733,246)
<b>Net Changes</b>	<b>\$ (2,506,363)</b>
Balance at June 30, 2019 (Valuation Date June 30, 2018)	\$ 26,892,158

VII. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the OPEB liability of the Plan as of the measurement date, calculated using the discount rate of 3.87 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1

percentage-point lower (2.87 percent) or 1 percentage-point higher (4.87 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
<b>Total OPEB Liability</b>	<b>2.87%</b>	<b>3.87%</b>	<b>4.87%</b>
Plan's Net Pension Liability/ (Asset)	\$ 29,060,499	\$ 26,892,158	\$ 25,038,165

VIII. Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the OPEB liability of the Plan if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

	1% Decrease	Current Trend	1% Increase
<b>Total OPEB Liability</b>	<b>\$ 25,667,082</b>	<b>\$ 26,892,158</b>	<b>\$ 28,461,214</b>

IV. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

As of the start of the measurement period (July 1, 2017), the OPEB liability was \$ 29,398,521

For the measurement period ended June 30, 2018 (the measurement date), the City incurred an OPEB expense of \$1,452,463.

Components of OPEB Expense	
Service cost	\$ 963,490
Interest	1,038,035
Expensed portion of current-period changes of assumptions or other inputs	(549,062)
<b>OPEB Expense</b>	<b>\$ 1,452,463</b>

As of June 30, 2019, the City has deferred outflows and deferred inflows of resources related to the OPEB liability as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement period	\$ 3,012,214	\$ -
Changes in proportion and differences between employer's contributions and proportionate share of contributions	-	-
Changes of assumptions or other inputs	-	2,170,861
Difference between actual and expected experience in the Total OPEB Liability	-	392,524
<b>Total</b>	<b>\$ 3,012,214</b>	<b>\$ 2,563,385</b>

The amounts above are net of outflows and inflows recognized in the 2017-2018 measurement period expense. The amounts above reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Fiscal Year Ended June 30,	Deferred outflows/inflows of resources related to OPEB expense
2020	\$ (549,062)
2021	(549,062)
2022	(549,062)
2023	(549,062)
2024	(309,887)
2025	(57,250)
Thereafter	\$ -

G. PENSION PLANS

I. General Information about the Pension Plans

**Plan Descriptions**

All City of Modesto qualified employees are eligible to participate in the City of Modesto separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multi-employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by the State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. This report is available online at [www.calpers.ca.gov](http://www.calpers.ca.gov).

The California Legislature passed and the Governor signed the “Public Employees’ Pension Reform Act of 2013” (PEPRA) on September 12, 2012. PEPRA contained a number of provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 2012. Benefit provisions and other requirements are established by State statute.

**Benefits Provided**

The benefits for the Plans are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

The Plans’ provisions and benefits in effect at June 30, 2019 are summarized as follows:

Miscellaneous Plan:

Hire date	Prior to January 17, 2012	January 17, 2012 to December 31, 2012	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 67	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	1.426 to 2.418%	1.092 to 2.418%	1.0 to 2.5%

Safety Plan:

	Prior to September 11, 2012	September 11, 2012 through December 31, 2012	On or after January 1, 2013
Hire date			
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 55	50 to 55	50 to 57
Monthly benefits, as a % of eligible compensation	3.0%	2.4 to 3.0%	2.0 to 2.7%

**Contributions**

Section 20814(c) of the California Public Employees Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the measurement period ended June 30, 2018 (the measurement date) for the Plans, the average active employee contribution rate was 6.755% of annual pay for Miscellaneous and 9.591% for Safety and the employer's contribution rate is 7.922% of annual payroll for Miscellaneous and 20.066% for Safety. The employee and employer contributions made for fiscal year June 30, 2019 was \$13.578 million for the Miscellaneous plan and \$20.137 million for the Safety plan. Employer contribution rates may change if plan contracts are amended.

II. Net Pension Liability

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures.

A summary of principal assumptions and methods used to determine the net pension liability is shown below:

	Miscellaneous Plan	Safety Plan
Actuarial Cost Method	Entry-Age Normal	Entry-Age Normal
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.75%	2.75%
Salary Increases	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return	7.5% <sup>(1)</sup>	7.5% <sup>(1)</sup>
Mortality Rate Table <sup>(2)</sup>	CalPERS Membership Data	CalPERS Membership Data
Post Retirement Benefit Increase	Up to 2.75%	Up to 2.75%

<sup>(1)</sup> Net of Pension Plan Investment and Administrative Expenses; includes inflation

<sup>(2)</sup> The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one-quarter of one percent.

The table below reflects long-term expected real rate of return by asset class as of the target allocation for the June 30, 2018 measurement date. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<b>Asset Class</b>	<b>New Strategic Allocation</b>	<b>Real Return Years 1 – 10<sup>(1)</sup></b>	<b>Real Return Years 11+<sup>(2)</sup></b>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.5	5.13
Infrastructure and Forestland	2.0	4.5	5.09
Liquidity	1.0	(0.55)	(1.05)

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

### III. Changes in the Net Pension Liability

The changes in the Net Pension Liability for each Plan follows:

Miscellaneous Plan	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2017 <sup>(1)</sup>	\$ 447,706,079	\$ 327,575,983	\$ 120,130,096
Changes Recognized for the Measurement Period:			
Service Cost	7,365,767	-	7,365,767
Interest on the Total Pension Liability	31,433,420	-	31,433,420
Changes of Assumptions	(2,477,241)	-	(2,477,241)
Differences between Expected and Actual Experience	2,514,973	-	2,514,973
Plan to Plan Resource Movement	-	(181)	181
Contributions - Employer	-	8,553,955	(8,553,955)
Contributions - Employees	-	3,393,722	(3,393,722)
Net Investment Income	-	27,586,156	(27,586,156)
Benefit Payments, including Refunds of Employee	(23,596,900)	(23,596,900)	-
Administrative Expense	-	(510,454)	510,454
Other Misc Income/(Expense)	-	(969,360)	969,360
Net Change during 2017-18	15,240,019	14,456,938	783,081
Balance at June 30, 2018 <sup>(1)</sup>	\$ 462,946,098	\$ 342,032,921	\$ 120,913,177

<sup>(1)</sup> The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.

Safety Plan	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2017 <sup>(1)</sup>	\$ 575,754,935	\$ 383,468,690	\$ 192,286,245
Changes Recognized for the Measurement Period:			
Service Cost	9,648,518	-	9,648,518
Interest on the Total Pension Liability	40,490,329	-	40,490,329
Changes of Assumptions	(2,434,317)	-	(2,434,317)
Differences between Expected and Actual Experience	2,992,729	-	2,992,729
Plan to Plan Resource Movement	-	(1,551)	1,551
Contributions - Employer	-	14,809,730	(14,809,730)
Contributions - Employees	-	3,400,369	(3,400,369)
Net Investment Income	-	32,428,941	(32,428,941)
Benefit Payments, including Refunds of Employee	(29,678,588)	(29,678,588)	-
Administrative Expense	-	(597,550)	597,550
Other Misc Income/(Expense)	-	(1,134,757)	1,134,757
Net Change during 2017-18	21,018,671	19,226,594	1,792,077
Balance at June 30, 2018 <sup>(1)</sup>	\$ 596,773,606	\$ 402,695,284	\$ 194,078,322

<sup>(1)</sup> The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

Miscellaneous Plan	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan's Net Pension Liability/ (Asset)	\$ 179,498,760	\$ 120,913,177	\$ 72,185,454

Safety Plan	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan's Net Pension Liability/ (Asset)	\$ 276,170,937	\$ 194,078,322	\$ 126,903,709

IV. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of the start of the measurement period (July 1, 2017), the net pension liability was \$120,130,096 for the Miscellaneous Plan and \$192,286,245 for the Safety Plan.

For the measurement period ended June 30, 2017 (the measurement date), the City incurred a pension expense of \$16,708,270 for the Miscellaneous Plan and \$24,781,994 for the Safety Plan.

As of June 30, 2019, the City has deferred outflows and deferred inflows of resources related to pensions as follows:

Miscellaneous Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of Assumptions	\$ 10,722,191	\$ (1,807,716)
Differences between Expected and Actual Experiences	1,835,251	(1,248,962)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	917,354	-
Contributions subsequent to the measurement date	10,138,028	-
<b>Total</b>	<b>\$ 23,612,824</b>	<b>\$ (3,056,678)</b>

Safety Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of Assumptions	\$ 17,013,727	\$ (2,495,768)
Differences between Expected and Actual Experiences	2,280,174	(2,152,700)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	1,095,325	-
Contributions subsequent to the measurement date	16,002,665	-
<b>Total</b>	<b>\$ 36,391,891</b>	<b>\$ (4,648,468)</b>

The amounts above are net of outflows and inflows recognized in the 2017-2018 measurement period expense. The amounts above reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020.

Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in future pension expense (not including contributions subsequent to the measurement date) as follows:

Fiscal Year Ended June 30	Miscellaneous Plan	Safety Plan
2020	10,121,135	11,345,620
2021	4,659,344	8,610,421
2022	(3,427,090)	(3,133,057)
2023	(935,271)	(1,082,226)
Total	\$ 10,418,118	\$ 15,740,758

#### H. DEFICIENCY OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2019, expenditures exceeded appropriations as follows:

##### General Fund

<u>Expenditures</u>	<u>Amount</u>
Parks and recreation – Operations services and maintenance	\$44,420

##### Housing and Community Development

<u>Expenditures</u>	<u>Amount</u>
Interest Expenditures	\$86

#### I. PRIOR YEAR ADJUSTMENTS

A prior period adjustment was made to the Local Transportation Fund in the amount of \$219,198 to restate unearned income from the prior year for Street and Roads Local Transportation funds not yet expended as of fiscal year 2018-2019.

A prior period adjustment was made to the Community Facility Districts Fund to account for a correction to property assessments accounted for in the incorrect fund in the prior fiscal year in the amount of \$159,448.

A prior year adjustment was also made in the Compost Fund to account for a correction to prior year revenue overstated in the amount of \$91,075.

#### J. SUBSEQUENT EVENTS

In September 2019, the Council approved the plans and specifications for State Route 132 West Freeway/Expressway – Phase I project to Bay Cities Paving and Grading Inc. in the amount of \$92 million. The purpose of this phase is to improve regional and interregional circulation, relieve traffic congestion along existing State Route 132, and to enhance safety and operations for the existing and proposed transportation network. The overall project cost for Phase I is estimated at \$117 million. This project is being funded through several federal, state and local grants funds.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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**City of Modesto**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**For the Year Ended June 30<sup>th</sup>**  
**Last Ten Fiscal Years \***

Miscellaneous Plan

Measurement Period	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014
<b>TOTAL PENSION LIABILITY</b>					
Service Cost	\$ 7,365,767	\$ 6,992,542	\$ 6,092,179	\$ 5,768,082	\$ 6,400,912
Interest on Total Pension Liability	31,433,420	30,399,913	29,752,178	28,873,755	28,037,915
Changes of Benefit Terms	-	-	-	-	-
Changes of Assumptions	(2,477,241)	24,124,929	-	(6,709,358)	-
Difference Between Expected and Actual Experience	2,514,973	(1,956,450)	(2,005,545)	(3,177,191)	-
Benefit Payments, Including Refunds of Employee Contributions	(23,596,900)	(22,727,426)	(21,686,131)	(20,945,229)	(20,334,821)
Net Change in Total Pension Liability	15,240,019	36,833,508	12,152,681	3,810,059	14,104,006
Total Pension Liability – Beginning	447,706,079	410,872,571	398,719,890	394,909,831	380,805,825
Total Pension Liability – Ending (a)	\$ 462,946,098	\$ 447,706,079	\$ 410,872,571	\$ 398,719,890	\$ 394,909,831
<b>PLAN FIDUCIARY NET POSITION</b>					
Contributions – Employer	\$ 8,553,955	\$ 8,382,192	\$ 6,920,358	\$ 5,632,179	\$ 4,654,055
Contributions – Employee	3,393,722	3,396,338	3,349,400	3,061,157	2,853,492
Net Investment Income	27,586,156	33,859,910	1,667,540	7,093,159	48,702,803
Benefit Payments, Including Refunds of Employee Contributions	(23,596,900)	(22,727,426)	(21,686,131)	(20,945,229)	(20,334,821)
Plan to Plan Resource Movement	(181)	505	(1,118)	(188)	-
Administrative Expense	(510,454)	(450,482)	(192,011)	(355,544)	-
Other Miscellaneous Income/(Expense) <sup>(1)</sup>	(969,360)	-	-	-	-
Net Change in Fiduciary Net Position	14,456,938	22,461,037	(9,941,962)	(5,514,466)	35,875,529
Plan Fiduciary Net Position – Beginning <sup>(2)</sup>	327,575,983	305,114,946	315,056,908	320,571,374	284,695,845
Plan Fiduciary Net Position – Ending (b)	342,032,921	327,575,983	305,114,946	315,056,908	320,571,374
Plan Net Pension Liability – Ending (a) - (b)	\$ 120,913,177	\$ 120,130,096	\$ 105,757,625	\$ 83,662,982	\$ 74,338,457
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.88%	73.17%	74.26%	79.02%	81.18%
Covered-Employee Payroll	\$ 49,812,447	\$ 46,735,345	\$ 45,207,621	\$ 41,562,776	\$ 44,125,963
Plan Net Pension Liability as a Percentage of Covered-Employee Payroll	242.74%	257.04%	233.94%	201.29%	168.47%

(1) During Fiscal Year 2017-18, as a result of Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions (GASB 75), CalPERS reported its proportionate share of activity related to postemployment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75.

Additionally, CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

(2) Includes any beginning of year adjustment.

\* The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

**City of Modesto**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**For the Year Ended June 30<sup>th</sup>**  
**Last Ten Fiscal Years \***

Safety Plan

Measurement Period	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014
<b>TOTAL PENSION LIABILITY</b>					
Service Cost	\$ 9,648,518	\$ 9,298,519	\$ 8,193,455	\$ 8,633,865	\$ 8,970,868
Interest on Total Pension Liability	40,490,329	39,048,366	38,004,835	36,721,112	35,310,732
Changes of Benefit Terms	-	-	-	-	-
Changes of Assumptions	(2,434,317)	33,217,275	-	(9,188,394)	-
Difference Between Expected and Actual Experience	2,992,729	(3,102,753)	(2,136,836)	(849,707)	-
Benefit Payments, Including Refunds of Employee Contributions	(29,678,588)	(28,147,381)	(26,911,771)	(25,426,619)	(24,313,823)
Net Change in Total Pension Liability	21,018,671	50,314,026	17,101,648	9,890,257	19,967,777
Total Pension Liability – Beginning	575,754,935	525,440,909	508,339,261	498,449,004	478,481,227
Total Pension Liability – Ending (a)	<u>\$ 596,773,606</u>	<u>\$ 575,754,935</u>	<u>\$ 525,440,909</u>	<u>\$ 508,339,261</u>	<u>\$ 498,449,004</u>
<b>PLAN FIDUCIARY NET POSITION</b>					
Contributions – Employer	\$ 14,809,730	\$ 12,812,060	\$ 11,137,899	\$ 10,210,101	\$ 8,963,542
Contributions – Employee	3,400,369	3,165,011	2,962,566	2,800,626	2,939,117
Net Investment Income	32,428,941	39,443,735	1,898,536	8,215,387	56,385,743
Benefit Payments, Including Refunds of Employee Contributions	(29,678,588)	(28,147,381)	(2,136,836)	(25,426,619)	(24,313,823)
Plan to Plan Resource Movement	(1,551)	(505)	1,118	211	-
Administrative Expense	(597,550)	(526,677)	(224,190)	(414,089)	-
Other Miscellaneous Income/(Expense) <sup>(1)</sup>	(1,134,757)	-	-	-	-
Net Change in Fiduciary Net Position	19,226,594	26,746,243	13,639,093	(4,614,383)	43,974,579
Plan Fiduciary Net Position – Beginning <sup>(2)</sup>	383,468,690	356,722,447	367,858,289	372,472,672	328,498,093
Plan Fiduciary Net Position – Ending (b)	402,695,284	383,468,690	356,722,447	367,858,289	372,472,672
Plan Net Pension Liability – Ending (a) - (b)	<u>\$ 194,078,322</u>	<u>\$ 192,286,245</u>	<u>\$ 168,718,462</u>	<u>\$ 140,480,972</u>	<u>\$ 125,976,332</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.48%	66.60%	67.89%	72.36%	74.73%
Covered-Employee Payroll	\$ 32,259,582	\$ 30,608,378	\$ 30,022,552	\$ 31,202,983	\$ 31,090,551
Plan Net Pension Liability as a Percentage of Covered-Employee Payroll	601.61%	628.21%	561.97%	450.22%	405.19%

(1) During Fiscal Year 2017-18, as a result of Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions (GASB 75), CalPERS reported its proportionate share of activity related to postemployment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75.

Additionally, CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

(2) Includes any beginning of year adjustment.

\* The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

**City of Modesto  
Schedule of Plan Contributions <sup>(1)</sup>  
Last Ten Fiscal Years\***

Miscellaneous Plan

Fiscal Year	2018-2019	2017-2018 <sup>(4)</sup>	2016-2017	2015-2016	2014-2015	2013-2014
Actuarially Determined Contribution <sup>(2)</sup>	\$ 10,138,028	\$ 8,553,955	\$ 8,382,192	\$ 6,920,358	\$ 5,632,179	\$ 4,654,055
Contributions in Relation to the Actuarially Determined Contribution <sup>(2)</sup>	(10,138,028)	(8,553,955)	(8,382,192)	(6,920,358)	(5,632,179)	(4,654,055)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll <sup>(3)(4)</sup>	\$ 51,944,130	\$ 49,812,447	\$ 46,735,345	\$ 45,207,621	\$ 41,562,776	\$ 44,125,963
Contributions as a Percentage of Covered-Employee Payroll <sup>(3)</sup>	19.52%	17.17%	17.94%	15.31%	13.55%	10.55%

Safety Plan

Fiscal Year	2018-2019	2017-2018 <sup>(4)</sup>	2016-2017	2015-2016	2014-2015	2013-2014
Actuarially Determined Contribution <sup>(2)</sup>	\$ 16,002,665	\$ 14,809,730	\$ 12,812,060	\$ 11,137,899	\$ 10,210,101	\$ 8,963,542
Contributions in Relation to the Actuarially Determined Contribution <sup>(2)</sup>	(16,002,665)	(14,809,730)	(12,812,060)	(11,137,899)	(10,210,101)	(8,963,542)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll <sup>(3)</sup>	\$ 34,265,626	\$ 32,259,582	\$ 30,608,378	\$ 30,022,552	\$ 31,202,983	\$ 31,090,551
Contributions as a Percentage of Covered-Employee Payroll <sup>(3)</sup>	46.70%	45.91%	41.86%	37.10%	32.72%	28.83%

- (1) Historical information is required only for fiscal year for which GASB 68 is applicable. As prescribed in GASB 68, paragraph 46, the information presented in the Schedule of Plan Contributions should also be determined as of the employer's most recent fiscal year-end. The employer is responsible for determining this information as prescribed by the standard as this data is not available to CalPERS.
- (2) Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.
- (3) Includes one year's payroll growth using 2.75 percent payroll assumption for fiscal year ended June 30, 2018; 3.00 percent payroll assumption for fiscal years ended June 30, 2014-17.
- (4) When reviewing the Covered Employee Payroll for 2018 it was realized that the amount shown in the 2018 report had excluded 2 months' of earnings. The number presented above corrects for the prior omission.

\* The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

**City of Modesto**  
**Schedule of Changes in the OPEB Liability and Related Ratios**  
**Last Ten Fiscal Years \***

<b>Measurement Period</b>	<b>FY 2018-2019</b>	<b>FY 2017-2018</b>
	June 30, 2018	June 30, 2017
<b>Total OPEB liability</b>		
Service cost	\$ 963,490	\$ 935,427
Interest	1,038,035	892,669
Differences between expected and actual experience	(468,009)	-
Changes of assumptions	(1,306,633)	(1,600,635)
Benefit payments	(2,733,246)	(2,430,468)
Net change in total OPEB liability	(2,506,363)	(2,203,007)
Total OPEB liability - beginning	29,398,521	31,601,528
Total OPEB liability - ending (a)	<u>\$ 26,892,158</u>	<u>\$ 29,398,521</u>
Covered-employee payroll	\$ 49,647,245	\$ 55,637,076
Total OPEB liability as a Percentage of Covered-Employee Payroll	54.17%	52.84%

Notes to Schedule

\*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

\*Amounts presented above were determined as of June 30th. Additional years will be presented as they become available.

**City of Modesto  
Schedule of Contributions  
Last Ten Fiscal Years \***

Fiscal Year	2019-2020	2018-2019	2017-2018	2016-2017
Actuarially Determined Contribution (ADC)	\$ 2,377,048	\$ 2,733,246	\$ 2,430,468	\$ 2,527,076
Contributions in Relation to the ADC	(2,377,048)	(2,733,246)	(2,430,468)	(2,527,076)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered-Employee Payroll	\$ 49,647,245	\$ 57,903,435	\$ 55,637,076	\$ 49,552,706
Contributions as a Percentage of Covered-Employee Payroll	4.79%	4.72%	4.37%	5.10%

Notes to schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018-2019 were as follows for June 30, 2018 measurement date actuarial valuations.

Actuarial Cost Method	Entry Age Normal – Couldn't find this in the 2019 report
Discount Rate	3.87% at June 30, 2018. 3.58% at June 30, 2017 (Bond Buyer 20-Bond Index).
Asset Valuation Method	N/A – Couldn't find this in the 2019 report
General Inflation	2.75% annually
Salary Increases	Aggregate - 3% annually Merit - CalPERS 1997-2015 Experience Study
Trend	Medicare - 6.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076 Non-Medicare - 7.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076
Retirement Age	CalPERS 1997-2015 Experience Study
Mortality	CalPERS 1997-2015 Experience Study Post-retirement mortality projected fully generational with Scale MP-2018

\*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES - BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>TAXES</b>				
Utility users tax	\$ 21,118,548	\$ 21,118,548	\$ 19,803,859	\$ (1,314,689)
Property tax	16,846,597	16,846,597	17,316,735	470,138
Transient occupancy tax	2,700,100	2,700,100	2,961,406	261,306
Franchise tax	4,822,834	4,822,834	5,000,174	177,340
Business license tax	12,000,000	12,000,000	14,068,205	2,068,205
<b>Total taxes</b>	<b>57,488,079</b>	<b>57,488,079</b>	<b>59,150,379</b>	<b>1,662,300</b>
<b>LICENSES AND PERMITS</b>	<b>85,257</b>	<b>135,257</b>	<b>295,007</b>	<b>159,750</b>
<b>INTERGOVERNMENTAL</b>				
Sales tax	31,238,582	31,238,582	31,665,700	427,118
Motor vehicle license fees	16,977,272	16,977,272	17,057,003	79,731
State	800,000	800,000	981,472	181,472
County	101,742	101,742	-	(101,742)
Federal	-	-	14,249	14,249
Other intergovernmental	2,308,800	2,308,800	2,778,156	469,356
<b>Total intergovernmental</b>	<b>51,426,396</b>	<b>51,426,396</b>	<b>52,496,580</b>	<b>1,070,184</b>
<b>CHARGES FOR SERVICES</b>				
General government	2,140,155	2,192,946	2,327,208	134,262
Community development	3,000,765	3,000,765	2,600,812	(399,953)
Public works	577,451	548,491	548,018	(473)
Parks and recreation	1,995,933	2,015,535	1,754,191	(261,344)
Public safety	3,195,474	3,250,381	2,912,466	(337,915)
Indirect cost recovery	3,909,072	3,909,072	3,909,072	-
<b>Total charges for services</b>	<b>14,818,850</b>	<b>14,917,190</b>	<b>14,051,767</b>	<b>(865,423)</b>
<b>INTEREST AND RENT</b>	<b>623,610</b>	<b>623,610</b>	<b>1,160,531</b>	<b>536,921</b>
<b>NET INCREASE IN FAIR VALUE OF INVESTMENTS</b>	<b>161,600</b>	<b>161,600</b>	<b>482,347</b>	<b>320,747</b>
<b>FINES AND FORFEITS</b>	<b>670,793</b>	<b>935,793</b>	<b>852,872</b>	<b>(82,921)</b>
<b>MISCELLANEOUS</b>				
Mandated cost recovery	82,750	82,750	176,498	93,748
Other	493,742	493,742	320,578	(173,164)
<b>Total miscellaneous</b>	<b>576,492</b>	<b>576,492</b>	<b>497,076</b>	<b>(79,416)</b>
<b>Total revenues</b>	<b>\$ 125,851,077</b>	<b>\$ 126,264,417</b>	<b>\$ 128,986,559</b>	<b>\$ 2,722,142</b>

The notes to required supplementary information are an integral part of this schedule.

**CITY OF MODESTO**  
**SCHEDULE OF EXPENDITURES BY FUNCTION - BUDGET**  
**(GAAP BASIS) AND ACTUAL - GENERAL FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance with Final Budget
	Original	Final		
General government:				
City council	\$ 435,407	\$ 434,849	\$ 418,352	\$ 16,497
Human resources	1,624,557	1,637,581	1,473,748	163,833
City manager	2,402,327	2,479,117	2,232,205	246,912
City attorney	2,201,845	2,220,938	1,836,320	384,618
City clerk/auditor	1,215,828	1,341,588	879,436	462,152
Finance	4,841,644	4,974,314	4,622,463	351,851
Other	385,000	385,000	361,987	23,013
Total general government	<u>13,106,608</u>	<u>13,473,387</u>	<u>11,824,511</u>	<u>1,648,876</u>
Community development:	<u>6,301,689</u>	<u>6,709,085</u>	<u>5,982,893</u>	<u>726,192</u>
Public works:				
Administration	477,083	476,978	456,686	20,292
Total public works	<u>477,083</u>	<u>476,978</u>	<u>456,686</u>	<u>20,292</u>
Parks and recreation:				
Administration	690,394	1,359,526	1,271,977	87,549
Planning and development	473,723	551,912	511,383	40,529
Convention visitors bureau	338,277	399,923	397,380	2,543
Operations service and maintenance	5,592,263	5,369,366	5,413,786	(44,420)
Facilities	2,152,164	1,590,786	1,463,726	127,060
Recreation division	2,464,149	2,578,853	2,329,257	249,596
Total parks and recreation	<u>11,710,970</u>	<u>11,850,366</u>	<u>11,387,509</u>	<u>462,857</u>
Public safety:				
Fire protection	31,568,559	32,183,820	31,920,274	263,546
Police protection	65,755,659	64,829,265	62,228,396	2,600,869
Total public safety	<u>97,324,218</u>	<u>97,013,085</u>	<u>94,148,670</u>	<u>2,864,415</u>
Debt service:				
Principal retirement	446,498	446,498	446,498	-
Interest expenditures	152,047	152,047	152,046	1
Total debt service	<u>598,545</u>	<u>598,545</u>	<u>598,544</u>	<u>1</u>
Total expenditures	<u>\$ 129,519,113</u>	<u>\$ 130,121,446</u>	<u>\$ 124,398,813</u>	<u>\$ 5,722,633</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

The notes to required supplementary information are an integral part of this schedule.

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - HOUSING**  
**AND COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental - federal grants	\$ 3,127,448	\$ 3,000,266	\$ 6,225,719	\$ 3,225,453
Charges for services	175,401	945,647	569,872	(375,775)
Interest and rent	15,000	15,000	-	(15,000)
Miscellaneous	19,718	-	-	-
Total revenues	<u>3,337,567</u>	<u>3,960,913</u>	<u>6,795,591</u>	<u>2,834,678</u>
<b>EXPENDITURES:</b>				
Community development	2,829,155	2,929,453	2,312,366	617,087
Debt service:				
Principal retirement	256,000	256,000	256,000	-
Interest	46,003	46,003	46,089	(86)
Total expenditures	<u>3,131,158</u>	<u>3,231,456</u>	<u>2,614,455</u>	<u>617,001</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>206,409</u>	<u>729,457</u>	<u>4,181,136</u>	<u>3,451,679</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	94,356	14,356	(80,000)
Transfers out	(250,000)	(1,401,990)	(988,338)	413,652
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(250,000)</u>	<u>(1,307,634)</u>	<u>(973,982)</u>	<u>333,652</u>
<b>CHANGES IN FUND BALANCE</b>	(43,591)	(578,177)	3,207,154	3,785,331
<b>FUND BALANCE, JULY 1</b>	<u>27,721,634</u>	<u>27,721,634</u>	<u>27,721,634</u>	<u>-</u>
<b>FUND BALANCE, JUNE 30</b>	<u>\$ 27,678,043</u>	<u>\$ 27,143,457</u>	<u>\$ 30,928,788</u>	<u>\$ 3,785,331</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

The notes to required supplementary information are an integral part of this schedule.

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**  
**TRANSPORTATION SPECIALTAX REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental:				
State	\$ 18,165,497	\$ 18,165,497	\$ 19,002,236	\$ 836,739
Taxes	1,000,000	1,000,000	1,392,951	392,951
Licenses and permits	-	-	7,566	7,566
Charges for services	388,547	388,547	740,753	352,206
Interest and rent	-	-	203,798	203,798
Net increase in fair value of investments	-	-	212,955	212,955
Miscellaneous	-	-	77,831	77,831
Total revenues	<u>19,554,044</u>	<u>19,554,044</u>	<u>21,638,090</u>	<u>2,084,046</u>
<b>EXPENDITURES:</b>				
Highway and streets	<u>10,418,615</u>	<u>10,761,234</u>	<u>9,866,446</u>	<u>894,788</u>
<b>EXCESS OF REVENUES (UNDER)</b>				
<b>EXPENDITURES</b>	<u>9,135,429</u>	<u>8,792,810</u>	<u>11,771,644</u>	<u>2,978,834</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	10,278,542	13,463,306	1,601,033	(11,862,273)
Transfers out	<u>(10,277,042)</u>	<u>(30,689,078)</u>	<u>(10,317,772)</u>	<u>20,371,306</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,500</u>	<u>(17,225,772)</u>	<u>(8,716,739)</u>	<u>8,509,033</u>
<b>CHANGES IN FUND BALANCE</b>				
CHANGES IN FUND BALANCE	9,136,929	(8,432,962)	3,054,905	11,487,867
FUND BALANCE, JULY 1	<u>14,444,973</u>	<u>14,444,973</u>	<u>14,444,973</u>	<u>-</u>
<b>FUND BALANCE (DEFICIT), JUNE 30</b>	<u>\$ 23,581,902</u>	<u>\$ 6,012,011</u>	<u>\$ 17,499,878</u>	<u>\$ 11,487,867</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

The notes to required supplementary information are an integral part of this schedule.

**CITY OF MODESTO**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FISCAL YEAR ENDED JUNE 30, 2019**

BUDGETARY INFORMATION - The City follows these procedures annually in establishing the budgetary data reflected in the budgetary comparison schedules for operating, non-capital multi-year, and capital budgets:

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 for operating, non-capital multi-year and capital projects.
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 all proposed budgets to obtain comments from interested persons.
3. Prior to July 1, the budget is legally adopted through adoption of a resolution. 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. Authority to approve any adjustment in the amount of \$25,000 or less is delegated to the Director of Finance.
  - b. Authority to approve any adjustment in an amount between \$25,000 and \$50,000 is delegated to the City Manager.
  - c. Authority for any budget adjustment more than \$50,000 is delegated to the parties described below:
    - a. Items requiring City Council Action – appropriation of undesignated reserves; appropriation of new revenues; transfers of appropriations between funds (inter-fund transfers); creation of inter-fund loans; creation of, or increase in, any multi-year appropriation.
    - b. Items delegated to the City Manager – transfer appropriations between departments within a fund; changing any capital equipment appropriation; appropriation of reserves for litigation on a case-by-case basis; appropriation of developer payments not previously budgeted.
    - c. Items delegated to the Director of Finance – appropriation of grant interest; revise the allocation of Internal Service Fund charges between departments provided that the total allocated amount does not increase; changing any capital improvement budget line item appropriation; make technical budget corrections to implement the intent of Council approved actions and resolutions.
    - d. Items delegated to Department Directors – transfer appropriations within a department, within a single fund.
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.

**CITY OF MODESTO**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONT)**  
**FISCAL YEAR ENDED JUNE 30, 2019**

7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the appropriation unit 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 complete the year within their legally authorized expenditures except the Local Transportation Fund due to a budget error. 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.

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**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

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## **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.

**DOWNTOWN IMPROVEMENT DISTRICT FUND** – To account for the fiscal activities of Business Improvement Area A and Downtown Modesto Community Benefit District of the City of Modesto.

**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.

**SECURITIES FOR FUTURE IMPROVEMENTS FUND** – To account for the collection of impact fees for approved development projects to construct facilities needed for future development.

**CAPITAL GRANTS** – To account for receipts and disbursements of a variety of Governmental Fund capital grants.

**COMMUNITY FACILITIES DISTRICTS FUND** – To account for the construction of public improvements deemed to benefit properties against which special taxes are levied.

**SUCCESSOR REDEVELOPMENT HOUSING AGENCY FUND** – To account for the housing redevelopment capital projects financed by the Successor Redevelopment Housing Agency of the City of Modesto.

## **Nonmajor Capital Projects Funds (cont'd)**

**CAPITAL FACILITY FEES FUND** – To account for special fees collected on new building permits to be used for construction of certain growth related projects. The fees and related capital projects include police department expansion, fire department expansion, expressway loop, street lights, street improvements, parks, new traffic signals, City downtown, wastewater treatment, public transportation, and air quality improvements.

**TRANSPORTATION SPECIAL TAX CAPITAL FUND** – To account for receipts and disbursements of Governmental Fund capital projects funded through locally-shared gas tax, 25 year, ½ cent sales tax Measure L, and SB-1 (Road Repair and Accountability Act of 2017) monies.

## **Nonmajor Debt Service Fund**

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 Fund includes:

**PUBLIC FINANCING AUTHORITY FUND** – To account for payment of debt issued to finance projects authorized by the Modesto Public Financing Authority.

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**CITY OF MODESTO**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2019**

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 1,651,818	\$ -	\$ 89,757	\$ 1,247,039
Receivables:					
Accounts, net	82,722	-	-	-	2,371
Interest	5,308	4,820	-	418	3,857
Taxes	91,816	-	-	14,644	-
Due from governments	3,789,461	-	3,102	-	-
Prepaid expenditures	3,660	-	-	-	-
Restricted assets:					
Cash and cash equivalents	-	1,775	4,043,684	-	-
Cash and cash equivalents with fiscal agent	727,326	-	-	-	-
Interest receivable	-	-	-	-	-
Due from governments	-	-	39,001	-	-
Notes receivable, net	70,179	-	-	-	-
<b>Total assets</b>	<b>\$ 4,770,472</b>	<b>\$ 1,658,413</b>	<b>\$ 4,085,787</b>	<b>\$ 104,819</b>	<b>\$ 1,253,267</b>
<b>LIABILITIES AND AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 159,936	\$ -	\$ -	\$ 14,824	\$ 973
Accrued salaries and benefits	83,276	-	3,102	-	-
Interest payable	-	-	-	-	-
Due to other funds	855,698	-	-	-	-
Unearned revenue	-	1,656,638	-	-	-
Refundable deposits	112,805	-	-	-	-
Advances from other funds	-	-	-	-	-
<b>Total liabilities</b>	<b>1,211,715</b>	<b>1,656,638</b>	<b>3,102</b>	<b>14,824</b>	<b>973</b>
Deferred inflows of resources:					
Unavailable revenue	4,040,639	-	-	-	-
Fund balances:					
Nonspendable	3,660	-	-	-	-
Restricted	797,505	1,775	4,082,685	-	-
Assigned	-	-	-	89,995	1,252,294
Unassigned	(1,283,047)	-	-	-	-
<b>Total fund balances</b>	<b>(481,882)</b>	<b>1,775</b>	<b>4,082,685</b>	<b>89,995</b>	<b>1,252,294</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,770,472</b>	<b>\$ 1,658,413</b>	<b>\$ 4,085,787</b>	<b>\$ 104,819</b>	<b>\$ 1,253,267</b>

Capital Projects							
Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Capital Grants	Community Facilities Districts	Successor Redevelopment Housing Agency	Capital Facility Fees	Transportation Special Tax Capital
\$ 632,291	\$ -	\$ -	\$ 5,546	\$ 116,431	\$ -	\$ -	\$ 1,286,780
-	-	-	-	-	-	600	-
-	897	-	-	78,611	-	84,239	-
-	-	-	-	36,160	-	-	-
-	-	-	1,631,779	3,432	1,192,004	8,842,105	-
-	-	-	-	524	-	-	-
-	771,354	66,397	-	18,728,690	-	25,954,561	-
-	-	-	-	-	-	13,696	-
-	1,687	-	-	-	-	-	-
-	-	-	-	-	-	346,303	-
-	-	-	-	-	2,211,000	-	-
<u>\$ 632,291</u>	<u>\$ 773,938</u>	<u>\$ 66,397</u>	<u>\$ 1,637,325</u>	<u>\$ 18,963,848</u>	<u>\$ 3,403,004</u>	<u>\$ 35,241,504</u>	<u>\$ 1,286,780</u>
\$ 122,060	\$ 897	\$ -	\$ 938,329	\$ 144,844	\$ -	\$ 3,314,806	\$ 1,286,780
-	-	-	-	10,066	-	-	-
-	-	-	-	16,319	2,413	-	-
-	-	-	1,508,600	-	580,067	-	-
-	-	-	-	-	-	-	-
-	-	-	-	59,973	-	-	-
539,891	-	-	-	-	145,727	865,891	-
661,951	897	-	2,446,929	231,202	728,207	4,180,697	1,286,780
1,706	-	-	686,556	3,432	-	4,746,247	-
-	-	-	-	524	-	-	-
-	773,041	66,397	-	18,728,690	2,211,000	26,314,560	-
-	-	-	-	-	463,797	-	-
(31,366)	-	-	(1,496,160)	-	-	-	-
(31,366)	773,041	66,397	(1,496,160)	18,729,214	2,674,797	26,314,560	-
<u>\$ 632,291</u>	<u>\$ 773,938</u>	<u>\$ 66,397</u>	<u>\$ 1,637,325</u>	<u>\$ 18,963,848</u>	<u>\$ 3,403,004</u>	<u>\$ 35,241,504</u>	<u>\$ 1,286,780</u>

**CITY OF MODESTO**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (continued)**  
**JUNE 30, 2019**

	Debt Service Public Financing Authority	Total
<u>ASSETS</u>		
Cash and cash equivalents	\$ 150,371	\$ 5,180,033
Receivables:		
Accounts, net	-	85,693
Interest	-	178,150
Taxes	-	142,620
Due from governments	-	15,461,883
Prepaid expenditures	354	4,538
Restricted assets:		
Cash and cash equivalents	-	49,566,461
Cash and cash equivalents with fiscal agent	5,313,204	6,054,226
Interest receivable	-	1,687
Due from governments	-	385,304
Notes receivable, net	-	2,281,179
	\$ 5,463,929	\$ 79,341,774
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable	\$ 149,101	\$ 6,132,550
Accrued salaries and benefits	-	96,444
Interest payable	-	18,732
Due to other funds	-	2,944,365
Unearned revenue	-	1,656,638
Refundable deposits	-	172,778
Advances from other funds	-	1,551,509
	149,101	12,573,016
Total liabilities		
Deferred inflows of resources:		
Unavailable revenue	-	9,478,580
	-	9,478,580
Fund balances:		
Nonspendable	354	4,538
Restricted	5,313,204	58,288,857
Assigned	1,270	1,807,356
Unassigned	-	(2,810,573)
	5,314,828	57,290,178
Total fund balances		
	5,314,828	57,290,178
Total liabilities and fund balances	\$ 5,463,929	\$ 79,341,774

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**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Special Revenue				
	Operating Grants	Local Transportation	Traffic Safety	Downtown Improvement District	Strategic Planning and Development
<b>REVENUES:</b>					
Taxes	\$ 368,976	\$ -	\$ -	\$ 202,014	\$ -
Licenses and permits	42,282	-	-	-	-
Intergovernmental	4,461,768	271,669	-	-	-
Charges for services	3,767,943	-	300,651	-	220,201
Special assessments levied	66,719	-	-	712,277	-
Interest and rent	25,147	18,753	-	1,650	16,671
Net increase (decrease) in fair value of investments	21,147	8,659	-	1,459	15,711
Fines and forfeits	-	-	290,634	-	-
Miscellaneous	123,495	-	-	-	-
<b>Total revenues</b>	<b>8,877,477</b>	<b>299,081</b>	<b>591,285</b>	<b>917,400</b>	<b>252,583</b>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
General government	498,345	-	-	-	-
Community development	1,622,726	-	-	911,634	293,272
Highways and streets	-	934	-	-	-
Public works	2,560,561	-	-	-	-
Parks and recreation	1,782,441	303,802	-	-	-
Public safety	3,104,067	-	210,074	-	-
<b>Capital outlay:</b>					
Community development	-	-	-	-	-
Highways and streets	-	-	-	-	-
Public works	38,778	-	-	-	-
Parks and recreation	-	-	-	-	-
Public safety	337,106	-	41,420	-	-
<b>Debt service:</b>					
Principal retirement	-	-	-	-	-
Interest	-	-	-	-	-
Other	-	-	-	-	-
<b>Total expenditures</b>	<b>9,944,024</b>	<b>304,736</b>	<b>251,494</b>	<b>911,634</b>	<b>293,272</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,066,547)</b>	<b>(5,655)</b>	<b>339,791</b>	<b>5,766</b>	<b>(40,689)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	1,116,676	9,077	2,025	-	-
Transfers out	(433,326)	(4,507)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>683,350</b>	<b>4,570</b>	<b>2,025</b>	<b>-</b>	<b>-</b>
<b>CHANGES IN FUND BALANCES</b>	<b>(383,197)</b>	<b>(1,085)</b>	<b>341,816</b>	<b>5,766</b>	<b>(40,689)</b>
FUND BALANCES, JULY 1	(98,685)	222,058	3,740,869	84,229	1,292,983
PRIOR PERIOD ADJUSTMENTS	-	(219,198)	-	-	-
<b>FUND BALANCES, JUNE 30</b>	<b>\$ (481,882)</b>	<b>\$ 1,775</b>	<b>\$ 4,082,685</b>	<b>\$ 89,995</b>	<b>\$ 1,252,294</b>

Capital Projects

Special Fund for Capital Outlays	Parks	Securities for Future Improvements	Capital Grants	Community Facilities Districts	Successor Redevelopment Housing Agency	Capital Facility Fees	Transportation Special Tax Capital
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	3,713,137	8,432	-	8,697,820	-
-	3,890	-	-	822,392	-	2,749,245	-
-	-	-	-	3,481,285	-	-	-
(2,905)	9,690	-	(1,301)	271,995	24,002	375,264	-
(683)	10,544	-	-	224,450	(10,196)	328,150	-
-	-	-	-	-	-	-	-
-	19,854	-	-	4,406	-	-	-
<u>(3,588)</u>	<u>43,978</u>	<u>-</u>	<u>3,711,836</u>	<u>4,812,960</u>	<u>13,806</u>	<u>12,150,479</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	-	-	2,686,436	-	-	-
-	-	-	149,037	-	-	100,911	-
-	-	-	-	-	-	-	-
239,832	-	-	-	-	-	136,757	-
19,985	-	-	-	-	-	-	-
-	-	-	970,016	52,476	-	-	-
-	-	-	4,802,678	-	-	19,909,336	9,581,731
-	-	-	-	-	-	-	-
567,981	52,805	-	76,399	-	-	291,289	44,860
1,589,927	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>2,417,725</u>	<u>52,805</u>	<u>-</u>	<u>5,998,130</u>	<u>2,738,912</u>	<u>-</u>	<u>20,438,293</u>	<u>9,626,591</u>
<u>(2,421,313)</u>	<u>(8,827)</u>	<u>-</u>	<u>(2,286,294)</u>	<u>2,074,048</u>	<u>13,806</u>	<u>(8,287,814)</u>	<u>(9,626,591)</u>
1,626,611	-	-	1,516,956	12,561	-	77,221	9,579,792
(45,802)	28,826	-	-	(1,438)	-	(274,542)	-
<u>1,580,809</u>	<u>28,826</u>	<u>-</u>	<u>1,516,956</u>	<u>11,123</u>	<u>-</u>	<u>(197,321)</u>	<u>9,579,792</u>
(840,504)	19,999	-	(769,338)	2,085,171	13,806	(8,485,135)	(46,799)
809,138	753,042	66,397	(726,822)	16,484,595	2,660,991	34,799,695	46,799
-	-	-	-	159,448	-	-	-
<u>\$ (31,366)</u>	<u>\$ 773,041</u>	<u>\$ 66,397</u>	<u>\$ (1,496,160)</u>	<u>\$ 18,729,214</u>	<u>\$ 2,674,797</u>	<u>\$ 26,314,560</u>	<u>\$ -</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (continued)**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	<u>Debt Service</u>	
	Public	
	Financing	
	Authority	Total
REVENUES:		
Taxes	\$ -	\$ 570,990
Licenses and permits	-	42,282
Intergovernmental	1,297,478	18,450,304
Charges for services	-	7,864,322
Special assessments levied	-	4,260,281
Interest and rent	115,987	854,953
Net increase (decrease) in fair value of investments	-	599,241
Fines and forfeits	-	290,634
Miscellaneous	-	147,755
Total revenues	<u>1,413,465</u>	<u>33,080,762</u>
EXPENDITURES:		
Current:		
General government	-	498,345
Community development	-	5,514,068
Highways and streets	-	250,882
Public works	-	2,560,561
Parks and recreation	-	2,462,832
Public safety	-	3,334,126
Capital outlay:		
Community development	-	1,022,492
Highways and streets	-	34,293,745
Public works	-	38,778
Parks and recreation	-	1,033,334
Public safety	-	1,968,453
Debt service:		
Principal retirement	1,860,000	1,860,000
Interest	1,699,249	1,699,249
Other	506,333	506,333
Total expenditures	<u>4,065,582</u>	<u>57,043,198</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,652,117)</u>	<u>(23,962,436)</u>
OTHER FINANCING SOURCES (USES):		
Transfers in	3,055,145	16,996,064
Transfers out	<u>-</u>	<u>(730,789)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,055,145</u>	<u>16,265,275</u>
CHANGES IN FUND BALANCES	403,028	(7,697,161)
FUND BALANCES, JULY 1	4,911,800	65,047,089
PRIOR PERIOD ADJUSTMENTS	-	(59,750)
FUND BALANCES, JUNE 30	<u>\$ 5,314,828</u>	<u>\$ 57,290,178</u>

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (GAAP BASIS) AND ACTUAL - OPERATING GRANTS SPECIAL REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 400,000	\$ 400,000	\$ 368,976	\$ (31,024)
Licenses and permits	50,000	50,000	42,282	(7,718)
Intergovernmental	9,402,688	10,833,244	4,461,768	(6,371,476)
Charges for services	3,294,668	3,294,668	3,767,943	473,275
Special assessments	69,500	69,500	66,719	(2,781)
Interest and rent	7,718	16,998	25,147	8,149
Net increase in fair value of investments	-	-	21,147	21,147
Miscellaneous	26,083	26,083	123,495	97,412
<b>Total revenues</b>	<u>13,250,657</u>	<u>14,690,493</u>	<u>8,877,477</u>	<u>(5,813,016)</u>
<b>EXPENDITURES:</b>				
General government	536,311	536,536	498,345	38,191
Community development	2,078,555	2,036,807	1,622,726	414,081
Public works	6,217,433	6,514,079	2,599,339	3,914,740
Parks and recreation	2,351,711	2,351,711	1,782,441	569,270
Public safety	5,131,939	6,323,563	3,441,173	2,882,390
<b>Total expenditures</b>	<u>16,315,949</u>	<u>17,762,696</u>	<u>9,944,024</u>	<u>7,818,672</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(3,065,292)</u>	<u>(3,072,203)</u>	<u>(1,066,547)</u>	<u>2,005,656</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,554,138	1,683,543	1,116,676	(566,867)
Transfers out	-	(138,681)	(433,326)	(294,645)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>1,554,138</u>	<u>1,544,862</u>	<u>683,350</u>	<u>(861,512)</u>
<b>CHANGES IN FUND BALANCE</b>	(1,511,154)	(1,527,341)	(383,197)	1,144,144
<b>FUND BALANCE, JULY 1</b>	(98,685)	(98,685)	(98,685)	-
<b>FUND BALANCE (DEFICIT), JUNE 30</b>	<u>\$ (1,609,839)</u>	<u>\$ (1,626,026)</u>	<u>\$ (481,882)</u>	<u>\$ 1,144,144</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (GAAP BASIS) AND ACTUAL - LOCAL TRANSPORTATION SPECIAL REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Original	Final	Actual	Variance with Final Budget
<b>REVENUES:</b>				
Intergovernmental	\$ -	\$ -	\$ 271,669	\$ 271,669
Interest and rent	-	-	18,753	18,753
Net increase in fair value of investments	-	-	8,659	8,659
Total revenues	<u>-</u>	<u>-</u>	<u>299,081</u>	<u>299,081</u>
<b>EXPENDITURES:</b>				
Highways and streets	-	1,000	934	66
Parks and recreation	-	327,095	303,802	23,293
Total expenditures	<u>-</u>	<u>328,095</u>	<u>304,736</u>	<u>23,359</u>
EXCESS (DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	<u>-</u>	<u>(328,095)</u>	<u>(5,655)</u>	<u>322,440</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	9,077	9,077
Transfers out	(167,572)	(590,074)	(4,507)	585,567
TOTAL OTHER FINANCING SOURCES (USES)	<u>(167,572)</u>	<u>(590,074)</u>	<u>4,570</u>	<u>594,644</u>
CHANGES IN FUND BALANCE	<u>(167,572)</u>	<u>(918,169)</u>	<u>(1,085)</u>	<u>917,084</u>
FUND BALANCE, JULY 1	222,058	222,058	222,058	-
PRIOR PERIOD ADJUSTMENT	(219,198)	(219,198)	(219,198)	-
FUND BALANCE, JUNE 30	<u>\$ (164,712)</u>	<u>\$ (915,309)</u>	<u>\$ 1,775</u>	<u>\$ 917,084</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (GAAP BASIS) AND ACTUAL - TRAFFIC SAFETY SPECIAL REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Charges for services	\$ 171,347	\$ 171,347	\$ 300,651	\$ 129,304
Fines and forfeits	408,760	408,760	290,634	(118,126)
Total revenues	<u>580,107</u>	<u>580,107</u>	<u>591,285</u>	<u>11,178</u>
EXPENDITURES:				
Public safety	426,572	453,097	251,494	201,603
EXCESS OF REVENUES OVER EXPENDITURES	<u>153,535</u>	<u>127,010</u>	<u>339,791</u>	<u>212,781</u>
OTHER FINANCING SOURCES:				
Transfers in	-	2,025	2,025	-
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>2,025</u>	<u>2,025</u>	<u>-</u>
CHANGES IN FUND BALANCE	153,535	129,035	341,816	212,781
FUND BALANCE, JULY 1	<u>3,740,869</u>	<u>3,740,869</u>	<u>3,740,869</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 3,894,404</u>	<u>\$ 3,869,904</u>	<u>\$ 4,082,685</u>	<u>\$ 212,781</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

**CITY OF MODESTO**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCE - BUDGET (GAAP BASIS) AND ACTUAL - DOWNTOWN**  
**IMPROVEMENT DISTRICT SPECIAL REVENUE FUND**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 185,000	\$ 185,000	\$ 202,014	\$ 17,014
Special assessments levied	-	743,000	712,277	(30,723)
Interest and rent	-	-	1,650	1,650
Net increase in fair value of investments	-	-	1,459	1,459
Total revenues	<u>185,000</u>	<u>928,000</u>	<u>917,400</u>	<u>(10,600)</u>
<b>EXPENDITURES:</b>				
Current:				
Community development	<u>203,258</u>	<u>946,258</u>	<u>911,634</u>	<u>34,624</u>
Total expenditures	<u>203,258</u>	<u>946,258</u>	<u>911,634</u>	<u>34,624</u>
CHANGES IN FUND BALANCE	(18,258)	(18,258)	5,766	24,024
FUND BALANCE, JULY 1	<u>84,229</u>	<u>84,229</u>	<u>84,229</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 65,971</u>	<u>\$ 65,971</u>	<u>\$ 89,995</u>	<u>\$ 24,024</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**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 169,391	\$ 664,391	\$ 220,201	\$ (444,190)
Interest and rent	100	100	16,671	16,571
Net increase in fair value of investments	(65)	(65)	15,711	15,776
Total revenues	<u>169,426</u>	<u>664,426</u>	<u>252,583</u>	<u>(411,843)</u>
<b>EXPENDITURES:</b>				
Community development	<u>1,468,547</u>	<u>1,963,547</u>	<u>293,272</u>	<u>1,670,275</u>
Total expenditures	<u>1,468,547</u>	<u>1,963,547</u>	<u>293,272</u>	<u>1,670,275</u>
 (DEFICIENCY) OF REVENUES (UNDER)	 (1,299,121)	 (1,299,121)	 (40,689)	 1,258,432
CHANGES IN FUND BALANCE	(1,299,121)	(1,299,121)	(40,689)	1,258,432
FUND BALANCE, JULY 1	<u>1,292,983</u>	<u>1,292,983</u>	<u>1,292,983</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ (6,138)</u>	<u>\$ (6,138)</u>	<u>\$ 1,252,294</u>	<u>\$ 1,258,432</u>

NOTE: The expenditures by function amounts listed above include the capital outlay expenditures within each department.

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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.

**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.

**ABATEMENT AND PUBLIC NUISANCE FUND** – To account the activity for expenses and recovery for the cost for both dangerous and unsafe building and property abatements.

**CITY OF MODESTO**  
**COMBINING STATEMENT OF NET POSITION - NONMAJOR ENTERPRISE FUNDS**  
**JUNE 30, 2019**

	Parking	Storm Drain	Compost
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 744,673	\$ 10,938,580	\$ 7,219,658
Receivables:			
Accounts	2,923	860	1,043,495
Interest	2,321	36,305	29,943
Utilities, net	-	524,665	412,428
Prepaid expenses	83	27,316	1,935
Due from governments	-	4,538	74,215
Inventories	-	-	-
	750,000	11,532,264	8,781,674
Total current assets			
Noncurrent assets:			
Restricted cash and cash equivalents with fiscal agent	-	-	-
Land and construction in progress	3,131,804	2,212,585	1,140,000
Other capital assets, net of accumulated depreciation	4,227,000	13,078,974	1,156,372
Total noncurrent assets	7,358,804	15,291,559	2,296,372
Total assets	8,108,804	26,823,823	11,078,046
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred OPEB	18,915	11,680	114,564
Deferred pensions	157,638	239,972	1,401,211
Total deferred outflows of resources	176,553	251,652	1,515,775
Total assets and deferred outflows of resources	\$ 8,285,357	\$ 27,075,475	\$ 12,593,821
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 29,837	\$ 120,331	\$ 82,585
Accrued salaries and benefits	10,614	12,061	75,637
Interest payable	-	-	3,789
Due to other funds	-	-	-
Unearned revenue	683	250	23,023
Current portion - long-term debt	-	-	-
Total current liabilities	41,134	132,642	185,034
Noncurrent liabilities:			
Pollution remediation liability	-	-	4,923,741
Certificates of participation	-	-	-
Advances from other funds	-	1,324,704	3,120,800
Net OPEB liability	179,539	166,688	1,103,523
Net pension liability	758,786	1,234,646	7,207,837
Total noncurrent liabilities	938,325	2,726,038	16,355,901
Total liabilities	979,459	2,858,680	16,540,935
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred OPEB	16,833	13,266	102,781
Deferred pensions	9,247	16,633	143,721
Total deferred inflows of resources	26,080	29,899	246,502
<u>NET POSITION</u>			
Net investment in capital assets	7,358,804	15,291,559	2,296,372
Unrestricted	(78,986)	8,895,337	(6,489,988)
Total net position	7,279,818	24,186,896	(4,193,616)
Total liabilities, deferred inflows of resources, and net position	\$ 8,285,357	\$ 27,075,475	\$ 12,593,821

Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$ 1,290,083	\$ 1	\$ 65,055	\$ 562,641	\$ 20,820,691
35,273	403,068	89,772	490,404	2,065,795
3,846	32,740	-	1,807	106,962
-	-	-	-	937,093
3,354	23,000	229	-	55,917
2,890	-	-	-	81,643
-	46,987	-	-	46,987
<u>1,335,446</u>	<u>505,796</u>	<u>155,056</u>	<u>1,054,852</u>	<u>24,115,088</u>
-	650,481	-	-	650,481
4,537,375	275,741	3,667,020	-	14,964,525
7,529,473	1,062,230	2,749,477	-	29,803,526
<u>12,066,848</u>	<u>1,988,452</u>	<u>6,416,497</u>	<u>-</u>	<u>45,418,532</u>
<u>13,402,294</u>	<u>2,494,248</u>	<u>6,571,553</u>	<u>1,054,852</u>	<u>69,533,620</u>
-	-	13,188	-	158,347
144,165	-	122,760	-	2,065,746
144,165	-	135,948	-	2,224,093
<u>\$ 13,546,459</u>	<u>\$ 2,494,248</u>	<u>\$ 6,707,501</u>	<u>\$ 1,054,852</u>	<u>\$ 71,757,713</u>
\$ 26,427	\$ 63,430	\$ 37,909	\$ 18,947	\$ 379,466
7,343	10,745	10,854	-	127,254
-	39,291	-	-	43,080
-	286,612	-	-	286,612
10,770	488,017	20,131	486,527	1,029,401
-	400,000	-	-	400,000
<u>44,540</u>	<u>1,288,095</u>	<u>68,894</u>	<u>505,474</u>	<u>2,265,813</u>
-	-	-	-	4,923,741
-	1,785,000	-	-	1,785,000
-	-	-	-	4,445,504
-	-	145,404	-	1,595,154
721,921	-	676,275	-	10,599,465
<u>721,921</u>	<u>1,785,000</u>	<u>821,679</u>	<u>-</u>	<u>23,348,864</u>
<u>766,461</u>	<u>3,073,095</u>	<u>890,573</u>	<u>505,474</u>	<u>25,614,677</u>
-	-	12,776	-	145,656
(7,648)	-	23,863	-	185,816
<u>(7,648)</u>	<u>-</u>	<u>36,639</u>	<u>-</u>	<u>331,472</u>
12,066,848	(196,548)	6,416,497	-	43,233,532
720,798	(382,299)	(636,208)	549,378	2,578,032
<u>12,787,646</u>	<u>(578,847)</u>	<u>5,780,289</u>	<u>549,378</u>	<u>45,811,564</u>
<u>\$ 13,546,459</u>	<u>\$ 2,494,248</u>	<u>\$ 6,707,501</u>	<u>\$ 1,054,852</u>	<u>\$ 71,757,713</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET POSITION - NONMAJOR ENTERPRISE FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	<u>Parking</u>	<u>Storm Drain</u>	<u>Compost</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 1,519,954	\$ 6,133,801	\$ 10,080,306
Miscellaneous	-	-	10,356
Total operating revenues	<u>1,519,954</u>	<u>6,133,801</u>	<u>10,090,662</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	480,435	493,968	3,430,494
Contractual services	344,773	1,116,359	462,957
Utilities	142,975	27,861	26,387
Maintenance and supplies	72,540	2,326,645	1,407,499
Insurance	73,473	8,830	178,229
Employee benefits	211,487	244,819	2,109,507
Administration services	47,702	2,305,902	440,118
Allocated indirect administrative costs	39,906	151,343	324,809
Depreciation	457,789	470,616	110,445
Total operating expenses	<u>1,871,080</u>	<u>7,146,343</u>	<u>8,490,445</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(351,126)</u>	<u>(1,012,542)</u>	<u>1,600,217</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Gain on disposition of capital assets	-	11,020	1,658
Operating grants	-	-	329,114
Tax revenue	-	-	-
Tax expense	(24,600)	-	-
Interest income	9,612	138,679	104,355
Net increase in fair value of investments	8,362	143,940	89,102
Rental income	-	-	12,666
Interest expense	-	-	-
Trustee fees	-	-	-
Total nonoperating revenues (expenses)	<u>(6,626)</u>	<u>293,639</u>	<u>536,895</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>(357,752)</u>	<u>(718,903)</u>	<u>2,137,112</u>
Capital contributions	-	-	-
Transfers in	6,950	706,765	45,812
Transfers out	-	(2,226)	(140,374)
<b>CHANGES IN NET POSITION</b>	<u>(350,802)</u>	<u>(14,364)</u>	<u>2,042,550</u>
<b>NET POSITION (DEFICIT), JULY 1</b>	7,630,620	24,201,260	(6,145,091)
<b>PRIOR PERIOD ADJUSTMENTS</b>	<u>-</u>	<u>-</u>	<u>(91,075)</u>
<b>NET POSITION (DEFICIT), JUNE 30</b>	<u>\$ 7,279,818</u>	<u>\$ 24,186,896</u>	<u>\$ (4,193,616)</u>

	Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$	736,726	\$ 2,366,403	\$ 280,188	\$ 231,167	\$ 21,348,545
	<u>346</u>	<u>53,535</u>	<u>5,497</u>	<u>-</u>	<u>69,734</u>
	<u>737,072</u>	<u>2,419,938</u>	<u>285,685</u>	<u>231,167</u>	<u>21,418,279</u>
	269,430	-	590,158	-	5,264,485
	205,980	2,382,335	245,867	47,546	4,805,817
	103,102	53,580	240,176	-	594,081
	69,699	275,699	132,029	-	4,284,111
	25,858	23,363	28,854	-	338,607
	185,074	-	186,766	-	2,937,653
	36,679	92,656	48,789	18,711	2,990,557
	33,383	50,141	-	-	599,582
	<u>719,937</u>	<u>50,751</u>	<u>69,163</u>	<u>-</u>	<u>1,878,701</u>
	<u>1,649,142</u>	<u>2,928,525</u>	<u>1,541,802</u>	<u>66,257</u>	<u>23,693,594</u>
	<u>(912,070)</u>	<u>(508,587)</u>	<u>(1,256,117)</u>	<u>164,910</u>	<u>(2,275,315)</u>
	3,373	-	(2,113)	-	13,938
	297,280	-	-	-	626,394
	201,931	-	-	-	201,931
	(2,881)	-	-	-	(27,481)
	9,718	40,975	-	6,799	310,138
	10,686	60,160	-	5,732	317,982
	135,765	101,989	584,011	-	834,431
	-	(115,583)	-	-	(115,583)
	<u>-</u>	<u>(3,245)</u>	<u>-</u>	<u>-</u>	<u>(3,245)</u>
	<u>655,872</u>	<u>84,296</u>	<u>581,898</u>	<u>12,531</u>	<u>2,158,505</u>
	(256,198)	(424,291)	(674,219)	177,441	(116,810)
	174,113	-	-	-	174,113
	15,399	981,616	534,271	-	2,290,813
	<u>(384)</u>	<u>-</u>	<u>(355)</u>	<u>-</u>	<u>(143,339)</u>
	(67,070)	557,325	(140,303)	177,441	2,204,777
	12,854,716	(1,136,172)	5,920,592	371,937	43,697,862
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(91,075)</u>
\$	<u><u>12,787,646</u></u>	<u><u>(578,847)</u></u>	<u><u>5,780,289</u></u>	<u><u>549,378</u></u>	<u><u>45,811,564</u></u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Parking	Storm Drain	Compost
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 1,517,031	\$ 6,080,243	\$ 10,034,908
Payments to suppliers	(429,726)	(2,012,257)	(1,082,679)
Payments to employees	(658,776)	(694,580)	(5,208,052)
Payments for interfund services used	(313,014)	(3,938,629)	(2,919,348)
Net cash provided (used) by operating activities	115,515	(565,223)	824,829
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating grants received	-	-	329,114
Taxes received	-	-	-
Transfers in	6,950	706,765	45,812
Transfers out	-	(2,226)	(140,374)
Payments on advances from other funds	-	-	2,265,800
Net cash provided (used) by noncapital financing activities	6,950	704,539	2,500,352
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	-	(899,294)	(11,510)
Proceeds from sale of capital assets	-	11,020	1,658
Principal repayments	-	-	-
Interest paid	-	-	-
Trustee fees	-	-	-
Capital contributions	-	-	-
Net cash provided (used) by capital and related financing activities	-	(888,274)	(9,852)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received (paid)	9,325	140,581	91,244
Net increase in the fair value of investments	8,362	143,940	89,102
Rental income received	-	-	12,666
Net cash provided (used) by investing activities	17,687	284,521	193,012
Net increase (decrease) in cash and cash equivalents	140,152	(464,437)	3,508,341
CASH AND CASH EQUIVALENTS, JULY 1	604,521	11,403,017	3,711,317
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 744,673	\$ 10,938,580	\$ 7,219,658
<b>RECONCILIATION TO STATEMENT OF NET POSITION:</b>			
Cash and cash equivalents	\$ 744,673	\$ 10,938,580	\$ 7,219,658
Restricted cash and cash equivalents with fiscal agent	-	-	-
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 744,673</b>	<b>\$ 10,938,580</b>	<b>\$ 7,219,658</b>

	Airport	Golf	Community Center	Abatement and Public Nuisance Fund	Total
\$	945,332	\$ 2,237,621	\$ 281,871	\$ 244,866	\$ 21,341,872
	(280,987)	(2,666,340)	(514,667)	(28,599)	(7,015,255)
	(416,177)	-	(746,330)	-	(7,723,915)
	(247,637)	(229,265)	(167,901)	(18,711)	(7,834,505)
	<u>531</u>	<u>(657,984)</u>	<u>(1,147,027)</u>	<u>197,556</u>	<u>(1,231,803)</u>
	297,280	-	-	-	626,394
	201,931	-	-	-	201,931
	15,399	981,616	534,271	-	2,290,813
	(384)	-	(355)	-	(143,339)
	-	-	-	-	2,265,800
	<u>514,226</u>	<u>981,616</u>	<u>533,916</u>	<u>-</u>	<u>5,241,599</u>
	(229,207)	-	-	-	(1,140,011)
	-	-	77	-	12,755
	-	(380,000)	-	-	(380,000)
	-	(76,292)	-	-	(76,292)
	-	(3,245)	-	-	(3,245)
	<u>174,113</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>174,113</u>
	<u>(55,094)</u>	<u>(459,537)</u>	<u>77</u>	<u>-</u>	<u>(1,412,680)</u>
	9,505	(2,525)	-	5,940	254,070
	10,686	60,160	-	5,732	317,982
	135,765	101,989	584,011	-	834,431
	<u>155,956</u>	<u>159,624</u>	<u>584,011</u>	<u>11,672</u>	<u>1,406,483</u>
	615,619	23,719	(29,023)	209,228	4,003,599
	<u>674,464</u>	<u>626,763</u>	<u>94,078</u>	<u>353,413</u>	<u>17,467,573</u>
\$	<u><u>1,290,083</u></u>	<u><u>650,482</u></u>	<u><u>65,055</u></u>	<u><u>562,641</u></u>	<u><u>21,471,172</u></u>
\$	1,290,083	\$ 1	\$ 65,055	\$ 562,641	\$ 20,820,691
	-	650,481	-	-	650,481
\$	<u><u>1,290,083</u></u>	<u><u>650,482</u></u>	<u><u>65,055</u></u>	<u><u>562,641</u></u>	<u><u>21,471,172</u></u>

(continued)

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS (Continued)**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Parking	Storm Drain	Compost
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (351,126)	\$ (1,012,542)	\$ 1,600,217
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	457,789	470,616	110,445
Taxes paid	(24,600)	-	-
Change in assets, liabilities, and deferred resources:			
Decrease in accounts receivable	(2,923)	(860)	(101,687)
(Increase) in utilities receivable	-	(52,948)	(98,142)
Decrease in due from other governments	-	-	131,622
Increase (decrease) in accounts payable	2,840	(2,924)	(1,044,242)
(Increase) in inventories	-	-	-
(Increase) decrease in prepaid expenses	389	(11,022)	482
Increase (decrease) in accrued salaries and benefits	244	(1,063)	407
Decrease in net pension liability and deferred resources	42,660	50,810	390,504
(Increase) in net OPEB liability and deferred resources	(9,758)	(5,540)	(58,962)
(Decrease) pollution remediation	-	-	(118,268)
(Decrease) in due to other funds	-	-	-
Increase in unearned revenue	-	250	12,453
Total adjustments	466,641	447,319	(775,388)
Net cash provided (used) by operating activities	\$ 115,515	\$ (565,223)	\$ 824,829

<u>Airport</u>	<u>Golf</u>	<u>Community Center</u>	<u>Abatement and Public Nuisance Fund</u>	<u>Total</u>
\$ <u>(912,070)</u>	\$ <u>(508,587)</u>	\$ <u>(1,256,117)</u>	\$ <u>164,910</u>	\$ <u>(2,275,315)</u>
719,937	50,751	69,163	-	1,878,701
(2,881)	-	-	-	(27,481)
(11,608)	(76,828)	(20,049)	(269,218)	(483,173)
-	-	-	-	(151,090)
214,808	-	-	-	346,430
(50,200)	9,706	13,147	18,947	(1,052,726)
-	(31,455)	-	-	(31,455)
(842)	1,295	-	-	(9,698)
1,037	2,622	(164)	-	3,083
37,290	-	37,387	-	558,651
-	-	(6,629)	-	(80,889)
-	-	-	-	(118,268)
-	(162,654)	-	-	(162,654)
5,060	57,166	16,235	282,917	374,081
<u>912,601</u>	<u>(149,397)</u>	<u>109,090</u>	<u>32,646</u>	<u>1,043,512</u>
\$ <u><u>531</u></u>	\$ <u><u>(657,984)</u></u>	\$ <u><u>(1,147,027)</u></u>	\$ <u><u>197,556</u></u>	\$ <u><u>(1,231,803)</u></u>

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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.

**CITY OF MODESTO**  
**COMBINING STATEMENT OF NET POSITION - INTERNAL SERVICE FUNDS**  
**JUNE 30, 2019**

	Fleet Management	Central Services	Information & Technology Services
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 7,586,828	\$ 24,851	\$ 5,173,870
Receivables:			
Accounts	58,126	-	-
Interest	24,960	128	17,176
Prepaid expenses	15,873	1,092	336,492
Due from governments	-	-	-
Inventories	-	19,022	-
Total current assets	7,685,787	45,093	5,527,538
Noncurrent assets:			
Advances to other funds	-	-	-
Restricted assets - cash and cash equivalents	-	-	-
Restricted assets - cash from fiscal agent	-	-	-
Land and construction in progress	1,247,620	-	1,938,019
Other capital assets, net of accumulated depreciation	10,584,534	-	3,378,923
Total noncurrent assets	11,832,154	-	5,316,942
Total assets	19,517,941	45,093	10,844,480
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred OPEB	68,595	-	112,825
Deferred pensions	699,246	-	1,105,615
Total deferred outflows of resources	767,841	-	1,218,440
Total assets and deferred outflows of resources	\$ 20,285,782	\$ 45,093	\$ 12,062,920
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 511,021	\$ 40	\$ 92,337
Accrued salaries and benefits	35,458	1,732	62,210
Unearned revenue	57,498	-	-
Current portion - compensated absences	-	-	-
Current portion - claims liability	-	-	-
Total current liabilities	603,977	1,772	154,547
Noncurrent liabilities:			
Compensated absences	-	-	-
Claims liability	-	-	-
Net OPEB liability	645,343	-	957,725
Net pension liability	3,592,043	-	5,879,713
Total liabilities	4,841,363	1,772	6,991,985
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred OPEB	60,749	-	94,582
Deferred pensions	96,935	-	227,806
Total deferred inflows of resources	157,684	-	322,388
<u>NET POSITION</u>			
Net investment in capital assets	11,832,154	-	5,316,942
Restricted	-	-	-
Unrestricted	3,454,581	43,321	(568,395)
Total net position	15,286,735	43,321	4,748,547
Total liabilities, deferred inflows of resources, and net position	\$ 20,285,782	\$ 45,093	\$ 12,062,920

<u>Insurance</u>	<u>Employee Benefits Management</u>	<u>Building Services</u>	<u>Total</u>
\$ 15,356,750	\$ -	\$ 851,884	\$ 28,994,183
1,795,635	33,750	9,064	1,896,575
202,218	86,725	3,315	334,522
11,430	570	1,206	366,663
-	-	10,364	10,364
-	-	-	19,022
<u>17,366,033</u>	<u>121,045</u>	<u>875,833</u>	<u>31,621,329</u>
-	-	-	-
-	5,383,308	-	5,383,308
149,126	-	-	149,126
-	-	-	3,185,639
-	-	76,019	14,039,476
<u>149,126</u>	<u>5,383,308</u>	<u>76,019</u>	<u>22,757,549</u>
<u>17,515,159</u>	<u>5,504,353</u>	<u>951,852</u>	<u>54,378,878</u>
-	-	7,557	188,977
142,256	55,091	179,298	2,181,506
<u>142,256</u>	<u>55,091</u>	<u>186,855</u>	<u>2,370,483</u>
\$ <u>17,657,415</u>	\$ <u>5,559,444</u>	\$ <u>1,138,707</u>	\$ <u>56,749,361</u>
\$ 599,169	\$ 254,918	\$ 29,483	\$ 1,486,968
4,572	2,798	12,312	119,082
109,010	-	1,483	167,991
-	3,632,114	-	3,632,114
<u>4,819,758</u>	<u>-</u>	<u>-</u>	<u>4,819,758</u>
<u>5,532,509</u>	<u>3,889,830</u>	<u>43,278</u>	<u>10,225,913</u>
-	6,687,516	-	6,687,516
18,810,802	-	-	18,810,802
-	-	63,568	1,666,636
<u>697,118</u>	<u>369,480</u>	<u>823,912</u>	<u>11,362,266</u>
<u>25,040,429</u>	<u>10,946,826</u>	<u>930,758</u>	<u>48,753,133</u>
-	-	6,305	161,636
22,529	19,970	(9,100)	358,140
<u>22,529</u>	<u>19,970</u>	<u>(2,795)</u>	<u>519,776</u>
-	-	76,019	17,225,115
-	5,383,308	-	5,383,308
<u>(7,405,543)</u>	<u>(10,790,660)</u>	<u>134,725</u>	<u>(15,131,971)</u>
<u>(7,405,543)</u>	<u>(5,407,352)</u>	<u>210,744</u>	<u>7,476,452</u>
\$ <u>17,657,415</u>	\$ <u>5,559,444</u>	\$ <u>1,138,707</u>	\$ <u>56,749,361</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION - INTERNAL SERVICE FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	<u>Fleet Management</u>	<u>Central Services</u>
<b>OPERATING REVENUES:</b>		
Charges for services	\$ 7,111,911	\$ 204,772
Miscellaneous	-	-
Total operating revenues	<u>7,111,911</u>	<u>204,772</u>
<b>OPERATING EXPENSES:</b>		
Salaries and wages	1,342,185	74,955
Cost of sales	-	-
Contractual services	264,847	43,368
Utilities	3,966	-
Maintenance and supplies	3,211,675	93,962
Insurance	86,229	1,006
Claims	-	-
Employee benefits	867,320	47,872
Administration services	1,030,027	-
Allocated indirect administrative costs	271,618	-
Depreciation	2,321,293	97
Total operating expenses	<u>9,399,160</u>	<u>261,260</u>
OPERATING INCOME (LOSS)	<u>(2,287,249)</u>	<u>(56,488)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Gain (loss) on disposition of capital assets	(13,724)	-
Interest income	111,700	335
Net increase in fair value of investments	105,480	1,500
Total nonoperating revenues (expenses)	<u>203,456</u>	<u>1,835</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(2,083,793)	(54,653)
Capital contributions	11,533	-
Transfers in	209,441	2,521
Transfers out	<u>(1,852,952)</u>	<u>(37,154)</u>
CHANGES IN NET POSITION	(3,715,771)	(89,286)
NET POSITION (DEFICIT), JULY 1	<u>19,002,506</u>	<u>132,607</u>
NET POSITION (DEFICIT), JUNE 30	<u>\$ 15,286,735</u>	<u>\$ 43,321</u>

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ 7,091,074	\$ 27,944,404	\$ 18,752,597	\$ 2,511,704	\$ 63,616,462
-	-	135,000	100	135,100
<u>7,091,074</u>	<u>27,944,404</u>	<u>18,887,597</u>	<u>2,511,804</u>	<u>63,751,562</u>
2,675,196	308,294	121,186	486,933	5,008,749
-	-	-	-	-
299,439	2,137,340	504,729	1,675,094	4,924,817
111,022	236	440	159,049	274,713
1,181,516	5,554	17,650	57,848	4,568,205
40,249	17,168,458	1,484	7,564	17,304,990
-	7,087,773	2,599	-	7,090,372
1,502,346	268,000	20,363,514	241,231	23,290,283
1,071	158,092	242,672	32,440	1,464,302
-	-	-	-	271,618
666,941	-	-	2,913	2,991,244
<u>6,477,780</u>	<u>27,133,747</u>	<u>21,254,274</u>	<u>2,663,072</u>	<u>67,189,293</u>
<u>613,294</u>	<u>810,657</u>	<u>(2,366,677)</u>	<u>(151,268)</u>	<u>(3,437,731)</u>
-	-	-	-	(13,724)
71,189	947,210	490,554	14,230	1,635,218
<u>66,209</u>	<u>902,105</u>	<u>450,595</u>	<u>12,514</u>	<u>1,538,403</u>
<u>137,398</u>	<u>1,849,315</u>	<u>941,149</u>	<u>26,744</u>	<u>3,159,897</u>
750,692	2,659,972	(1,425,528)	(124,524)	(277,834)
-	-	-	-	11,533
172,696	2,011,387	102,956	130	2,499,131
<u>(142,360)</u>	<u>-</u>	<u>(2,878,156)</u>	<u>(370)</u>	<u>(4,910,992)</u>
781,028	4,671,359	(4,200,728)	(124,764)	(2,678,162)
<u>3,967,519</u>	<u>(12,076,902)</u>	<u>(1,206,624)</u>	<u>335,508</u>	<u>10,154,614</u>
<u>\$ 4,748,547</u>	<u>\$ (7,405,543)</u>	<u>\$ (5,407,352)</u>	<u>\$ 210,744</u>	<u>\$ 7,476,452</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	Fleet Management	Central Services	Information & Technology Services
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 8,671	\$ -	\$ -
Receipts from interfund services provided	7,111,911	204,772	7,091,074
Payments to suppliers	(2,585,546)	(127,253)	(1,800,077)
Payment of insurance claims	-	-	-
Payments to employees	(2,059,877)	(122,867)	(3,891,575)
Payments for interfund services used	(1,968,803)	(20,693)	(100,090)
Net cash provided (used) by operating activities	506,356	(66,041)	1,299,332
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	209,441	2,521	172,696
Transfers out	(1,852,952)	(37,154)	(142,360)
Advances to other funds	-	-	-
Net cash provided (used) by noncapital financing activities	(1,643,511)	(34,633)	30,336
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(1,335,529)	-	(1,531,674)
Proceeds from sale of capital assets	104,252	52,842	-
Net cash provided (used) by capital and related financing activities	(1,231,277)	52,842	(1,531,674)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	112,404	3,683	67,885
Net increase in the fair value of investments	105,480	1,500	66,209
Net cash provided by investing activities	217,884	5,183	134,094
Net increase (decrease) in cash and cash equivalents	(2,150,548)	(42,649)	(67,912)
CASH AND CASH EQUIVALENTS, JULY 1	9,737,376	67,500	5,241,782
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 7,586,828	\$ 24,851	\$ 5,173,870
<b>RECONCILIATION TO STATEMENT OF NET POSITION:</b>			
Cash and cash equivalents	\$ 7,586,828	\$ 24,851	\$ 5,173,870
Restricted cash and cash equivalents	-	-	-
Restricted cash and cash equivalents with fiscal agent	-	-	-
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 7,586,828</b>	<b>\$ 24,851</b>	<b>\$ 5,173,870</b>

	Insurance	Employee Benefits Management	Building Services	Total
\$	-	\$ -	\$ 7,390	\$ 16,061
	27,944,404	18,887,597	2,511,704	63,751,462
	(19,721,163)	(246,086)	(1,701,793)	(26,181,918)
	(7,889,728)	-	-	(7,889,728)
	(541,327)	(20,105,571)	(676,428)	(27,397,645)
	(195,471)	(271,968)	(257,261)	(2,814,286)
	<u>(403,285)</u>	<u>(1,736,028)</u>	<u>(116,388)</u>	<u>(516,054)</u>
	2,011,387	102,956	130	2,499,131
	-	(2,878,156)	(370)	(4,910,992)
	-	88,647	-	88,647
	<u>2,011,387</u>	<u>(2,686,553)</u>	<u>(240)</u>	<u>(2,323,214)</u>
	-	-	-	(2,867,203)
	-	-	-	157,094
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,710,109)</u>
	910,563	460,140	13,342	1,568,017
	902,105	450,595	12,514	1,538,403
	<u>1,812,668</u>	<u>910,735</u>	<u>25,856</u>	<u>3,106,420</u>
	3,420,770	(3,511,846)	(90,772)	(2,442,957)
	<u>12,085,106</u>	<u>8,895,154</u>	<u>942,656</u>	<u>36,969,574</u>
\$	<u>15,505,876</u>	<u>5,383,308</u>	<u>851,884</u>	<u>34,526,617</u>
\$	15,356,750	\$ -	\$ 851,884	\$ 28,994,183
	-	5,383,308	-	5,383,308
	149,126	-	-	149,126
\$	<u>15,505,876</u>	<u>5,383,308</u>	<u>851,884</u>	<u>34,526,617</u>

**CITY OF MODESTO**  
**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS (Continued)**  
**FISCAL YEAR ENDED JUNE 30, 2019**

	<u>Fleet Management</u>	<u>Central Services</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (2,287,249)	\$ (56,488)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	2,321,293	97
Change in assets, liabilities, and deferred resources:		
(Increase) in accounts receivable	(10,620)	-
Increase in due from governments	-	-
(Increase) decrease in prepaid expenses	(2,700)	67
(Increase) in inventories	-	(9,675)
Increase (decrease) in accounts payable	316,713	(2)
Increase (decrease) in accrued salaries and benefits	(8,417)	(40)
Increase in compensated absences	-	-
(Increase) decrease in net OPEB liability and deferred resources	(35,437)	-
(Increase) decrease in net pension liability and deferred resources	193,482	-
Increase in unearned revenue	19,291	-
(Decrease) in claims liability	-	-
Total adjustments	<u>2,793,605</u>	<u>(9,553)</u>
Net cash provided (used) by operating activities	<u>\$ 506,356</u>	<u>\$ (66,041)</u>

Information & Technology Services	Insurance	Employee Benefits Management	Building Services	Total
\$ 613,294	\$ 810,657	\$ (2,366,677)	\$ (151,268)	\$ (3,437,731)
666,941	-	-	2,913	2,991,244
-	(587,792)	-	(9,064)	(607,476)
-	-	-	14,871	14,871
(205,586)	(10,385)	2,098	(324)	(216,830)
-	-	-	-	(9,675)
(61,284)	133,009	249,422	(26,735)	611,123
360	(3,561)	(319)	1,587	(10,390)
-	-	366,090	-	366,090
344,796	-	-	(3,970)	305,389
(59,189)	38,528	13,358	54,119	240,298
-	18,214	-	1,483	38,988
-	(801,955)	-	-	(801,955)
686,038	(1,213,942)	630,649	34,880	2,921,677
\$ 1,299,332	\$ (403,285)	\$ (1,736,028)	\$ (116,388)	\$ (516,054)

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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.

**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, Riverbank, 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. As of July 1, 2018, the City of Modesto withdrew from SDEA and no longer participates as a partner in this Authority

**MODESTO-CERES FIRE PROTECTION AGENCY** - To record and distribute the special assessments for fire protection that were established under the Industrial Fire District. This is a joint powers agency between the Modesto Regional Fire Authority, the City of Ceres, and the Industrial Fire District. Cash and investments of the Agency are invested in the City's investment pool.

**CITY/COUNTY JOINT POWERS FINANCING AUTHORITY** - 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 builds 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.

**CITY OF MODESTO**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2019**

Special Districts	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,733,274	\$ 14,512,824	15,415,434	\$ 830,664
Cash and cash equivalents with fiscal agent	2,981,237	5,289,365	5,280,894	2,989,708
	<u>\$ 4,714,511</u>	<u>\$ 19,802,189</u>	<u>\$ 20,696,328</u>	<u>\$ 3,820,372</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 4,714,511	\$ 19,802,189	\$ 20,696,328	\$ 3,820,372
<u>Tuolumne River Regional Park</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 82,951	\$ 2,600,769	\$ 2,555,779	\$ 127,941
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 82,951	\$ 2,600,769	\$ 2,555,779	\$ 127,941
<u>Stanislaus Drug Enforcement Agency</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,937,655	\$ 210,615	\$ 2,148,270	\$ -
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 1,937,655	\$ 210,615	\$ 2,148,270	\$ -
<u>Modesto-Ceres Fire Protection Agency</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 230,673	\$ 617,598	\$ 605,927	\$ 242,344
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 230,673	\$ 617,598	\$ 605,927	\$ 242,344
<u>City/County Joint Powers Financing Authority</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 20,423	\$ 552	\$ -	\$ 20,975
<u>LIABILITIES</u>				
Deposits held as agent for others	\$ 20,423	\$ 552	\$ -	\$ 20,975
<u>Totals - All Agency Funds</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 4,004,976	\$ 17,942,358	\$ 20,725,410	\$ 1,221,924
Cash and cash equivalents with fiscal agent	2,981,237	5,289,365	5,280,894	2,989,708
	<u>\$ 6,986,213</u>	<u>\$ 23,231,723</u>	<u>\$ 26,006,304</u>	<u>\$ 4,211,632</u>
<u>LIABILITIES</u>				
Due to special district bondholders	\$ 4,714,511	\$ 19,802,189	\$ 20,696,328	\$ 3,820,372
Deposits held as agent for others	2,271,702	3,429,534	5,309,976	391,260
	<u>\$ 6,986,213</u>	<u>\$ 23,231,723</u>	<u>\$ 26,006,304</u>	<u>\$ 4,211,632</u>

## **STATISTICAL SECTION**

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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 Position by Component
2. Changes in Net Position
3. Fund Balances of Governmental Funds
4. Changes in Fund Balances of Governmental Funds

### Revenue Capacity

This schedule gives information on the City's most significant local revenue source, the water usage 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 Debt Margin
4. Revenue Bond Coverage, Wastewater 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
3. Principal Property Taxpayers

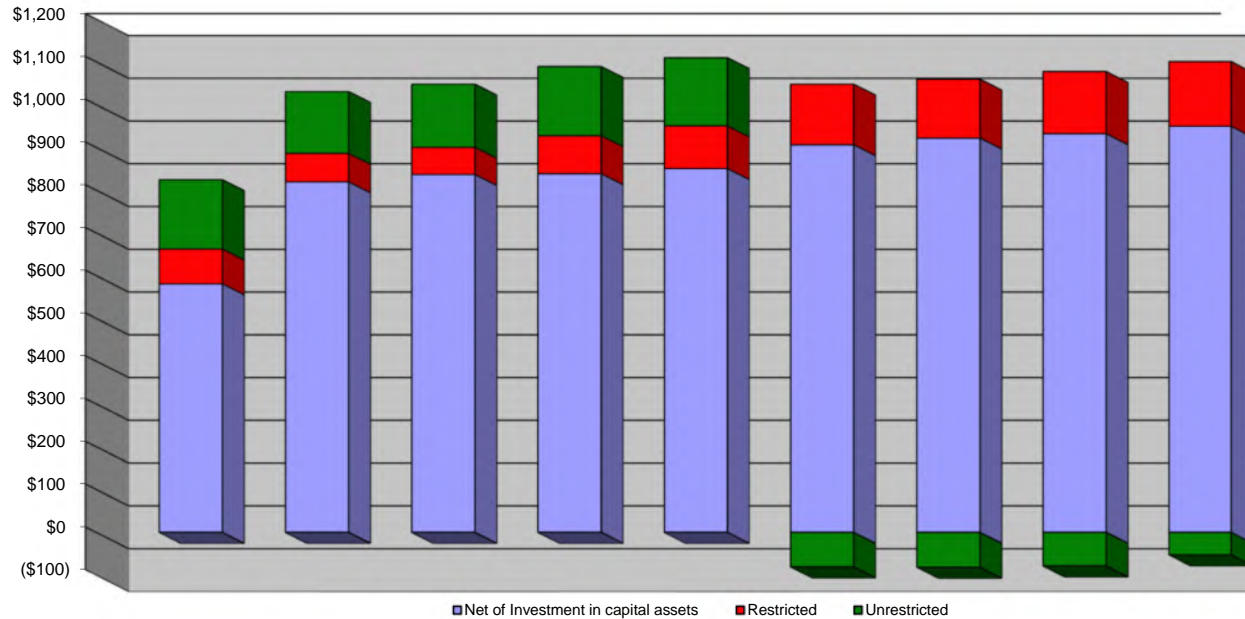
### Operating Information

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 City Government Employees by Function
2. Operating Indicators by Function
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.

**CITY OF MODESTO**  
**NET POSITION BY COMPONENT <sup>(1)</sup>**  
**LAST TEN FISCAL YEARS**  
**(ACCRUAL BASIS OF ACCOUNTING)**



	2010	2011	2012	2013	2014	2015 <sup>(2)</sup>	2016	2017	2018	2019
<b>Governmental activities</b>										
Net investment in capital assets	\$329,592,169	\$338,010,133	\$362,755,958	\$361,582,237	\$347,647,419	\$378,145,625	\$381,887,289	\$376,743,556	\$377,529,238	\$401,515,805
Restricted	81,528,516	66,570,581	63,498,187	63,381,356	77,564,677	121,105,182	115,619,807	123,851,082	130,192,278	127,885,787
Unrestricted	14,399,778	6,540,870	(4,326,456)	(1,102,658)	9,167,253	(179,570,210)	(173,275,294)	(191,483,628)	(182,197,396)	(191,345,565)
Total governmental activities net position	<u>\$425,520,463</u>	<u>\$411,121,584</u>	<u>\$421,927,689</u>	<u>\$423,860,935</u>	<u>\$434,379,349</u>	<u>\$319,680,597</u>	<u>\$324,231,802</u>	<u>\$309,111,010</u>	<u>\$325,524,120</u>	<u>\$338,056,027</u>
<b>Business-type activities</b>										
Net investment in capital assets	\$251,025,494	\$481,186,894	\$473,757,198	\$476,681,835	\$502,684,950	\$527,784,338	\$539,821,175	\$555,163,217	\$571,811,118	\$607,813,261
Restricted	-	-	-	25,571,860	22,398,957	20,622,619	22,052,595	21,525,961	21,071,542	15,569,107
Unrestricted	147,661,517	138,033,147	152,003,655	162,882,299	150,187,831	99,450,370	92,324,550	113,595,981	130,146,975	148,005,231
Total business-type activities net position	<u>\$398,687,011</u>	<u>\$619,220,041</u>	<u>\$625,760,853</u>	<u>\$665,135,994</u>	<u>\$675,271,738</u>	<u>\$647,857,327</u>	<u>\$654,198,320</u>	<u>\$690,285,159</u>	<u>\$723,029,635</u>	<u>\$771,387,599</u>
<b>Primary government</b>										
Net investment in capital assets	\$580,617,663	\$819,197,027	\$836,513,156	\$838,264,072	\$850,332,369	\$905,929,963	\$921,708,464	\$931,906,773	\$949,340,356	\$1,009,329,066
Restricted	81,528,516	66,570,581	63,498,187	88,953,216	99,963,634	141,727,801	137,672,402	145,377,043	151,263,820	143,454,894
Unrestricted	162,061,295	144,574,017	147,677,199	161,779,641	159,355,084	(80,119,840)	(80,950,744)	(77,887,647)	(52,050,421)	(43,340,334)
Total primary government net position	<u>\$824,207,474</u>	<u>\$1,030,341,625</u>	<u>\$1,047,688,542</u>	<u>\$1,088,996,929</u>	<u>\$1,109,651,087</u>	<u>\$967,537,924</u>	<u>\$978,430,122</u>	<u>\$999,396,169</u>	<u>\$1,048,553,755</u>	<u>\$1,109,443,626</u>

1) Accounting standards require that net position be reported in three components in the financial statements: net investment in capital assets; restricted; and unrestricted. Net position is considered restricted when a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

2) The significant decrease in net position was due to the implementation of GASB 68 related to the City's net pension liability.

**CITY OF MODESTO**  
**CHANGES IN NET POSITION**  
**LAST TEN FISCAL YEARS**  
**(ACCRUAL BASIS OF ACCOUNTING)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Expenses</b>										
<b>Governmental activities:</b>										
General government	\$12,093,091	\$12,473,794	\$14,236,573	\$12,041,953	\$11,221,704	\$12,085,051	\$12,838,583	\$13,945,824	\$15,432,617	\$13,973,768
Community development	18,912,766	28,301,160	14,206,876	25,162,533	13,002,466	11,888,475	12,552,115	15,419,529	17,268,926	15,720,280
Highways and streets	23,668,779	24,114,799	21,009,521	20,525,496	21,316,315	21,269,704	20,149,011	22,481,002	22,997,140	23,937,423
Public works	6,759,562	7,393,809	6,780,882	4,064,497	3,241,135	9,810,989	10,749,465	13,169,149	8,674,538	3,472,405
Parks and recreation	13,268,871	10,310,549	11,741,352	13,036,579	11,659,816	4,641,611	3,493,743	3,947,898	4,456,508	15,680,980
Public safety	80,254,834	83,381,310	83,568,633	83,857,207	72,301,682	86,782,741	86,907,876	104,348,464	120,629,673	111,059,794
Interest on long-term debt	5,766,421	3,609,345	3,066,897	3,193,997	2,958,471	3,204,203	2,691,894	2,500,849	2,510,224	2,402,299
<b>Total governmental activities expenses</b>	<b>160,724,324</b>	<b>169,584,766</b>	<b>154,610,734</b>	<b>161,882,262</b>	<b>135,701,589</b>	<b>149,682,774</b>	<b>149,382,687</b>	<b>175,812,715</b>	<b>191,969,626</b>	<b>186,246,949</b>
<b>Business-type activities:</b>										
Water	1,826,401	1,518,955	1,482,640	1,252,660	1,605,829	54,718,239	59,127,625	63,008,231	56,526,729	62,745,688
Sewer	43,619,704	36,305,860	53,730,665	48,656,862	63,498,896	30,281,361	33,093,921	36,248,877	41,444,220	41,216,914
Bus	28,055,056	28,497,430	29,366,025	24,155,935	31,895,568	18,614,175	19,709,745	21,979,360	20,538,934	24,276,760
Parking	5,201,741	7,619,939	6,674,100	4,239,567	6,372,418	1,513,185	1,625,943	1,628,226	1,553,258	1,899,479
Storm drain	1,480,068	4,112,837	4,426,031	4,350,079	4,951,441	3,913,204	5,312,896	6,119,472	5,202,444	7,157,290
Compost	1,918,113	2,157,180	1,640,733	1,534,242	2,291,222	7,841,048	11,998,345	9,648,481	9,652,175	8,477,947
Airport	15,671,731	16,064,104	16,944,803	18,025,010	19,618,547	2,025,146	1,787,081	1,744,557	1,578,654	1,646,800
Golf	2,473,968	2,366,052	2,279,650	2,197,368	2,845,109	2,998,505	3,130,536	2,871,167	2,616,077	3,052,785
Community center	2,346,175	2,284,082	2,352,173	1,864,996	2,031,928	1,852,585	1,981,307	1,934,179	1,780,010	1,541,592
Abatement and public nuisance	-	-	34,609	42,879	31,877	93,067	84,152	51,624	351,557	63,312
<b>Total business-type activities expenses</b>	<b>102,592,957</b>	<b>100,926,439</b>	<b>118,931,429</b>	<b>106,319,598</b>	<b>135,142,835</b>	<b>123,850,515</b>	<b>137,851,551</b>	<b>145,234,174</b>	<b>141,244,058</b>	<b>152,078,567</b>
<b>Total primary government expenses</b>	<b>\$263,317,281</b>	<b>\$270,511,205</b>	<b>\$273,542,163</b>	<b>\$268,201,860</b>	<b>\$270,844,424</b>	<b>\$273,533,289</b>	<b>\$287,234,238</b>	<b>\$321,046,889</b>	<b>\$333,213,684</b>	<b>\$338,325,516</b>
<b>Program revenues</b>										
<b>Governmental activities:</b>										
<b>Charges for services:</b>										
General government	\$6,323,865	\$6,804,398	\$6,799,202	\$6,262,963	\$5,825,407	\$5,912,157	\$6,539,908	\$5,082,405	\$6,544,581	\$6,387,743
Community development	2,941,932	4,730,263	4,430,690	4,123,811	4,537,984	3,385,050	6,885,850	10,378,999	16,049,727	12,106,237
Highway and streets	2,801,213	3,179,788	4,178,567	761,394	873,566	1,744,505	1,154,290	1,101,813	758,952	748,319
Public works	3,344,967	2,909,677	2,936,299	3,565,048	4,146,641	6,621,704	5,469,419	5,908,332	1,637,024	2,779,546
Parks and recreation	6,038,468	3,105,490	3,221,072	3,623,647	3,004,001	1,344,923	771,733	1,614,443	2,346,211	2,450,965
Public safety	4,325,231	4,977,440	3,338,783	3,668,302	3,123,758	4,218,000	3,868,346	4,847,914	5,127,433	4,502,546
Operating grants and contributions	14,559,357	19,861,492	10,270,642	16,477,474	5,868,684	5,862,566	3,630,185	5,050,771	5,802,634	6,591,435
Capital grants and contributions	10,876,018	7,334,967	9,509,584	9,046,762	8,206,154	5,878,550	1,708,602	2,117,867	3,062,292	8,831,664
<b>Total governmental activities program revenues</b>	<b>\$51,211,051</b>	<b>\$52,903,515</b>	<b>\$44,684,839</b>	<b>\$47,529,401</b>	<b>\$35,586,195</b>	<b>\$34,967,455</b>	<b>\$30,028,333</b>	<b>\$36,102,544</b>	<b>\$41,328,854</b>	<b>\$44,398,455</b>
<b>Business-type activities:</b>										
<b>Charges for services:</b>										
Water	\$1,239,995	\$1,274,482	\$1,291,401	\$1,169,293	\$1,092,347	\$59,800,535	\$55,992,533	\$69,075,873	\$74,842,451	\$76,806,740
Sewer	54,670,041	55,345,414	57,534,190	61,474,235	60,254,110	46,193,997	47,859,680	49,905,078	52,799,102	57,562,619
Bus	37,310,731	39,142,045	41,825,928	43,414,773	46,046,304	3,424,662	3,352,615	3,253,046	3,305,910	3,176,134
Parking	5,428,291	6,152,211	5,783,694	5,780,644	5,831,133	1,239,439	1,289,211	1,284,269	1,434,311	1,519,954
Storm drain	1,706,189	4,490,110	4,672,517	8,012,611	4,853,133	5,874,349	5,588,169	5,910,988	6,004,682	6,133,801
Compost	675,565	1,019,177	619,689	619,904	634,530	7,191,145	7,352,767	8,903,917	8,934,075	10,090,662
Airport	2,769,814	2,877,492	2,892,539	2,946,937	2,989,504	551,373	622,383	596,152	651,693	737,072
Golf	1,924,015	1,647,400	1,759,818	1,568,532	2,196,280	2,574,496	2,431,904	2,236,100	2,485,688	2,419,938
Community center	489,562	433,460	420,059	263,581	230,801	257,991	326,839	305,436	294,524	285,685
Abatement and public nuisance	-	-	71,567	302,563	201,825	128,636	166,641	117,677	112,199	231,167
Operating grants and contributions	13,706,512	12,629,219	12,694,058	13,766,061	13,721,179	14,223,954	14,153,568	15,975,703	17,858,762	25,668,280
Capital grants and contributions	2,898,489	4,856,649	12,021,793	4,282,549	4,971,940	13,820,127	4,753,223	19,617,513	7,196,698	5,198,721
<b>Total business-type activities program revenue</b>	<b>122,819,204</b>	<b>129,867,659</b>	<b>141,587,253</b>	<b>143,601,683</b>	<b>143,023,086</b>	<b>155,280,704</b>	<b>143,889,533</b>	<b>177,181,752</b>	<b>175,920,095</b>	<b>189,830,773</b>
<b>Total primary government program revenues</b>	<b>\$174,030,255</b>	<b>\$182,771,174</b>	<b>\$186,272,092</b>	<b>\$191,131,084</b>	<b>\$178,609,281</b>	<b>\$190,248,159</b>	<b>\$173,917,866</b>	<b>\$213,284,296</b>	<b>\$217,248,949</b>	<b>\$234,229,228</b>
<b>Net (Expense)/Revenue</b>										
Governmental activities	(\$109,513,273)	(\$116,681,251)	(\$109,925,895)	(\$114,352,861)	(\$100,115,394)	(\$114,715,319)	(\$119,354,354)	(\$139,710,171)	(\$150,640,772)	(\$141,848,494)
Business-type activities	20,226,247	28,941,220	22,655,824	37,282,085	7,880,251	31,430,189	6,037,982	31,947,578	34,676,037	37,752,206
<b>Total primary government net expense</b>	<b>(\$89,287,026)</b>	<b>(\$87,740,031)</b>	<b>(\$87,270,071)</b>	<b>(\$77,070,776)</b>	<b>(\$92,235,143)</b>	<b>(\$83,285,130)</b>	<b>(\$113,316,372)</b>	<b>(\$107,762,593)</b>	<b>(\$115,964,735)</b>	<b>(\$104,096,288)</b>

**City of Modesto**  
**CHANGES IN NET POSITION**  
**LAST TEN FISCAL YEARS**  
**(ACCRUAL BASIS OF ACCOUNTING)**

	2010	2011 <sup>(1)</sup>	2012	2013	2014	2015 <sup>(5)</sup>	2016	2017	2018	2019
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Utility users tax	\$ 19,117,518	\$ 19,119,037	\$ 19,230,879	\$ 20,399,116	\$ 20,153,653	\$ 19,591,170	\$ 19,564,921	\$ 20,113,023	\$ 20,609,874	\$ 19,803,859
Property taxes, levied for general purposes <sup>(2)</sup>	12,306,702	12,107,226	11,863,902	11,618,481	12,304,010	13,551,827	14,552,304	15,384,518	16,356,095	17,316,735
Property taxes, generated by and allocated to the airport	6,521,515	5,750,235	2,884,357	-	-	-	-	-	-	-
Transient occupancy tax	1,460,613	1,639,761	1,769,106	1,884,188	1,879,825	2,097,952	2,523,087	2,669,484	2,826,160	2,961,406
Franchise tax	3,962,159	3,940,364	4,236,705	5,785,355	5,003,130	5,768,146	6,194,733	6,431,223	6,433,869	6,762,101
Business license tax, levied for general purposes	9,068,219	9,339,077	9,694,722	10,176,791	10,573,820	11,421,759	11,944,291	12,255,062	13,053,199	14,068,205
Business license tax, levied for downtown improvement district	169,471	172,520	177,026	170,222	181,689	188,247	186,123	192,540	189,070	202,014
Grants and contributions not restricted to specific programs:										
Sales tax (state appropriation)	22,301,060	24,110,596	25,958,263	27,110,911	27,651,939	28,437,594	29,878,815	30,204,125	31,302,950	31,665,700
Motor vehicle license fee	13,945,172	13,419,232	13,072,804	12,038,983	12,494,642	13,871,248	14,548,427	15,385,069	16,206,760	17,057,003
Gas tax funding	-	-	-	-	-	5,924,101	4,533,572	3,968,029	5,672,563	19,002,236
Community facilities district fees	-	-	-	-	-	4,570,403	3,829	1,830	274,494	8,432
Special assessments, levied	-	-	-	-	-	1,924,623	3,168,260	3,014,768	5,715,030	4,260,281
Proceeds from Modesto Regional Fire Authority dissolution	-	-	-	-	-	2,500,721	-	-	-	-
Other	1,286,466	9,718,308	11,794,261	12,844,926	15,269,250	25,866,105	13,101,149	15,842,047	17,469,209	13,832,686
Unrestricted investment earnings	1,211,702	696,848	(411,571)	52,893	441,383	564,314	582,565	362,856	726,199	5,753,083
Miscellaneous	2,502,397	1,630,466	1,821,336	1,861,660	5,402,480	2,281,008	2,440,696	515,206	818,542	3,421,783
Transfers	402,303	1,503,170	2,838,873	1,055,670	(41,312)	(775,377)	(567,177)	(1,750,401)	(354,287)	(1,675,373)
Total government activities	<u>94,255,297</u>	<u>103,146,840</u>	<u>104,930,663</u>	<u>104,999,196</u>	<u>111,314,509</u>	<u>137,783,841</u>	<u>122,655,595</u>	<u>124,589,379</u>	<u>137,299,727</u>	<u>154,440,151</u>
Business-type activities:										
Taxes:										
Property taxes, generated by and allocated to the airport	265,587	309,699	253,974	257,687	254,200	237,546	206,854	199,124	207,849	201,931
Business license tax, generated by and allocated to the airport	-	-	-	-	-	-	-	-	-	-
Unrestricted investment earnings	3,155,954	1,947,417	2,095,947	1,184,422	2,726,148	554,180	2,247,061	872,935	1,047,604	7,290,802
Connection fees <sup>(3)</sup>	-	-	-	1,200,800	524,914	-	-	-	-	-
Miscellaneous	-	-	-	-	-	1,214,729	1,368,761	1,316,801	1,472,809	1,528,727
Settlements	(402,303)	(1,503,170)	(2,838,873)	(1,055,670)	41,317	13,851	-	-	-	-
Transfers, net	447,102	187,096	222,379	116,711	110,376	775,377	567,177	1,750,401	354,287	1,675,373
Special item <sup>(4)</sup>	(1,326,309)	(727,310)	(826,133)	(1,143,257)	(1,356,418)	-	-	-	-	-
Total business-type activities	<u>2,140,031</u>	<u>213,732</u>	<u>(1,092,706)</u>	<u>560,693</u>	<u>2,300,537</u>	<u>2,795,683</u>	<u>4,389,853</u>	<u>4,139,261</u>	<u>3,082,549</u>	<u>10,696,833</u>
Total primary government	<u>\$ 96,395,328</u>	<u>\$ 103,360,572</u>	<u>\$ 103,837,957</u>	<u>\$ 105,559,889</u>	<u>\$ 113,615,046</u>	<u>\$ 140,579,524</u>	<u>\$ 127,045,448</u>	<u>\$ 128,728,640</u>	<u>\$ 140,382,276</u>	<u>\$ 165,136,984</u>
Change in Net Position										
Governmental activities	\$ (15,257,976)	\$ (13,534,411)	\$ (4,995,232)	\$ (9,353,665)	\$ 11,199,115	\$ 23,068,522	\$ 3,301,241	\$ (15,120,792)	\$ (13,341,045)	\$ 12,591,657
Business-type activities	22,366,278	29,154,952	21,563,118	37,842,778	10,180,788	34,225,872	10,427,835	36,086,839	37,758,586	48,449,039
Total primary government	<u>\$ 7,108,302</u>	<u>\$ 15,620,541</u>	<u>\$ 16,567,886</u>	<u>\$ 28,489,113</u>	<u>\$ 21,379,903</u>	<u>\$ 57,294,394</u>	<u>\$ 13,729,076</u>	<u>\$ 20,966,047</u>	<u>\$ 24,417,541</u>	<u>\$ 61,040,696</u>

(1) The amount reported under utility users taxes and property taxes were keyed backwards in 2011. The amounts have been fixed to reflect the correct numbers in these two categories.

(2) Due to the dissolution of the Redevelopment agencies, no tax increments will be reported on the entity-wide statements.

(3) Starting in 2015, connection fee revenues were reported as part of program revenues for the Water fund.

(4) Starting in 2015, the special item related to pollution remediation has been reported as a liability. Any expenses incurred will be accounted for as a reduction to the liability.

(5) Starting in 2015, general revenues for grants and contributions not restricted to specific programs other related governmental activities were reclassified to provide more specific category revenue types.

**CITY OF MODESTO  
FUND BALANCES OF GOVERNMENTAL FUNDS  
LAST TEN FISCAL YEARS  
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	<u>2010</u>	<u>2011<sup>(b)</sup></u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
General Fund										
Reserved	\$ 2,871,715	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	10,103,645	-	-	-	-	-	-	-	-	-
Nonspendable	-	-	123,061	126,603	102,152	2,770,844	2,647,692	2,515,146	2,881,523	2,723,032
Restricted	-	4,313,287	3,998,539	3,713,640	3,718,682	1,341,972	2,092,126	1,970,622	2,674,200	2,209,485
Committed	-	-	-	-	3,000,000	3,000,000	3,000,000	15,800,000	18,397,817	18,397,817
Assigned	-	458,415	519,051	1,173,377	1,024,149	3,119,753	6,503,769	4,854,307	1,096,566	509,751
Unassigned	-	10,215,682	10,806,111	11,758,746	12,069,864	14,586,931	12,822,134	4,509,693	1,695,476	1,742,785
Total General Fund	<u>\$ 12,975,360</u>	<u>\$ 14,987,384</u>	<u>\$ 15,446,762</u>	<u>\$ 16,772,366</u>	<u>\$ 19,914,847</u>	<u>\$ 24,819,500</u>	<u>\$ 27,065,721</u>	<u>\$ 29,649,768</u>	<u>\$ 26,745,582</u>	<u>\$ 25,582,870</u>
All Other Governmental Funds										
Reserved	\$ 39,686,892	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	6,867,750	-	-	-	-	-	-	-	-	-
Capital project funds	54,341,594	-	-	-	-	-	-	-	-	-
Nonspendable	-	-	119	746	3,907	88,057	86,242	81,007	23,816	13,290
Restricted	-	118,919,268	109,145,041	106,724,809	108,672,378	79,643,971	80,563,574	85,531,411	91,786,367	89,210,020
Assigned	-	3,647,941	2,604,281	3,965,851	3,700,733	14,962,522	10,063,058	7,975,865	17,126,893	19,304,837
Unassigned	-	(23,614,308)	(18,852,239)	(32,965,286)	(34,656,617)	(3,866,450)	(724,841)	(3,156,679)	(1,723,380)	(2,809,303)
Total all other governmental funds	<u>\$ 100,896,236</u>	<u>\$ 98,952,901</u>	<u>\$ 92,897,202</u>	<u>\$ 77,726,120</u>	<u>\$ 77,720,401</u>	<u>\$ 90,828,100</u>	<u>\$ 89,988,033</u>	<u>\$ 90,431,604</u>	<u>\$ 107,213,696</u>	<u>\$ 105,718,844</u>

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 ten years of data for this schedule.

(b) The City implemented the provisions of GASB Statement 54 in fiscal year 2011.

**CITY OF MODESTO**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**LAST TEN FISCAL YEARS**  
**(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenues</b>										
Taxes	\$52,606,197	\$52,068,220	\$49,856,697	\$50,034,153	\$50,096,127	\$52,619,101	\$54,965,459	\$57,045,850	\$59,468,267	\$61,114,320
Licenses and permits	138,811	139,073	131,302	175,720	174,734	149,888	186,624	201,445	153,226	344,855
Intergovernmental	61,551,617	74,242,596	68,682,778	75,737,161	67,426,885	88,906,770	76,317,229	72,069,739	85,629,758	96,174,839
Charges for services	23,509,170	22,638,801	19,897,159	19,800,718	19,457,298	22,337,357	20,429,860	24,454,286	25,467,795	23,226,714
Special assessments levied	38,520	1,852,529	1,860,905	1,781,896	2,063,784	1,924,623	3,168,260	3,014,768	5,715,030	4,260,281
Interest and rent	1,322,005	838,178	1,145,251	835,994	1,019,357	957,846	1,297,734	1,402,387	1,574,347	2,219,282
Net increase (decrease) in fair value of investments	399,322	(89,608)	(452,987)	(584,090)	(423,827)	(320,398)	102,422	(572,616)	(645,593)	1,294,543
Fines and forfeits	2,253,014	2,929,182	2,169,482	2,004,133	1,844,607	1,171,076	904,802	1,263,407	1,127,877	1,143,506
Miscellaneous	2,502,397	1,630,467	1,821,336	2,081,776	4,653,746	2,784,295	2,286,597	516,844	818,542	722,662
<b>Total Revenues</b>	<b>144,321,053</b>	<b>156,249,438</b>	<b>145,111,923</b>	<b>151,867,461</b>	<b>146,312,711</b>	<b>170,530,558</b>	<b>159,658,987</b>	<b>159,396,110</b>	<b>179,309,249</b>	<b>190,501,002</b>
<b>Expenditures</b>										
Current:										
General government	11,482,240	10,879,751	12,411,413	11,169,669	11,643,579	11,334,202	12,414,982	11,542,131	11,837,635	12,262,797
Community development	18,536,120	26,077,905	12,831,734	23,673,373	12,589,817	11,511,154	12,453,678	13,264,050	13,234,820	13,796,154
Highways and streets	8,102,327	11,530,856	8,434,681	8,560,717	8,744,899	9,672,790	8,498,783	9,240,654	8,936,163	10,102,646
Public works	6,124,685	6,035,524	5,283,123	2,993,702	3,088,701	9,228,780	10,393,169	10,919,102	6,509,418	3,017,247
Parks and recreation	12,138,077	8,722,311	9,756,888	11,299,979	11,947,862	4,212,301	3,385,484	3,269,360	3,420,453	13,843,885
Public safety	75,081,791	73,207,608	72,131,852	74,094,399	74,595,533	81,353,131	84,022,670	86,475,891	92,341,706	97,411,634
Capital outlay	16,655,242	11,219,489	20,839,517	26,616,638	12,901,002	30,339,677	19,817,025	21,431,186	19,037,250	38,522,334
Debt service:										
Principal retirement	2,045,000	2,234,000	2,397,000	1,451,000	1,596,000	1,789,335	2,345,362	2,535,093	2,849,343	2,562,498
Interest	4,032,612	3,620,851	3,229,440	2,330,962	2,159,672	2,417,840	2,043,278	2,075,202	2,114,488	1,897,384
Other	1,408,771	57,557	48,738	932,460	872,350	783,264	697,405	430,779	396,686	506,333
<b>Total Expenditures</b>	<b>155,606,865</b>	<b>153,585,852</b>	<b>147,364,386</b>	<b>163,122,899</b>	<b>140,139,415</b>	<b>162,642,474</b>	<b>156,071,836</b>	<b>161,183,448</b>	<b>160,677,962</b>	<b>193,922,912</b>
Excess of revenues over (under) expenditures	(11,285,812)	2,663,586	(2,252,463)	(11,255,438)	6,173,296	7,888,084	3,587,151	(1,787,338)	18,631,287	(3,421,910)
<b>Other Financing Sources (Uses)</b>										
Transfers in	12,346,246	10,557,218	11,384,460	18,230,774	7,962,817	8,157,278	6,960,425	5,559,720	10,707,217	21,496,638
Transfers out	(12,402,937)	(13,069,195)	(14,223,663)	(18,417,413)	(11,164,994)	(10,682,539)	(10,572,346)	(6,659,759)	(13,568,675)	(20,760,150)
Capital leases	-	-	-	-	-	1,070,472	330,947	5,883,756	-	-
Sale of assets	-	-	-	72,489	200,838	94,489	106,582	31,239	154,458	87,608
<b>Total other financing sources (uses)</b>	<b>(56,691)</b>	<b>(2,511,977)</b>	<b>(2,839,203)</b>	<b>(114,150)</b>	<b>(3,001,339)</b>	<b>(1,360,300)</b>	<b>(3,174,392)</b>	<b>4,814,956</b>	<b>(2,707,000)</b>	<b>824,096</b>
<b>Extraordinary Items:</b>										
RDA dissolution transactions	-	-	(403,850)	-	-	-	-	-	-	-
RDA advance receivable elimination	-	-	(966,127)	-	-	-	-	-	-	-
<b>Total extraordinary items</b>	<b>-</b>	<b>-</b>	<b>(1,369,977)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Change in fund balances	(11,342,503)	151,609	(6,461,643)	(11,369,588)	3,171,957	6,527,784	412,759	3,027,618	15,924,287	(2,597,814)
FUND BALANCES, July 1	125,888,535	113,871,596	113,940,285	108,343,964	94,498,486	97,635,248	115,647,600	117,053,754	120,081,372	133,959,278
PRIOR PERIOD ADJUSTMENTS	(674,436)	(82,920)	865,322	(2,475,890)	(35,195)	11,484,568	993,395	-	(2,046,381)	(59,750)
<b>FUND BALANCES, June 30</b>	<b>\$113,871,596</b>	<b>\$113,940,285</b>	<b>\$108,343,964</b>	<b>\$94,498,486</b>	<b>\$97,635,248</b>	<b>\$115,647,600</b>	<b>\$117,053,754</b>	<b>\$120,081,372</b>	<b>\$133,959,278</b>	<b>\$131,301,714</b>
Debt service as a percentage of noncapital expenditures	4.62%	4.29%	4.66%	2.87%	3.06%	3.30%	3.35%	3.42%	3.64%	2.96%

The debt service percentage was revised to only include principal and interest.

**CITY OF MODESTO**  
**REVENUE CAPACITY - MOST SIGNIFICANT LOCAL REVENUE SOURCE**  
**WATER UTILITY SYSTEM**  
**(YEAR ENDED JUNE 30, 2019)**

Ten Largest Customers of Water Utility System, Year Ended 06/30/2019

<u>Customer</u>	<u>Usage (ccf) <sup>(1)</sup></u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) Modesto City Schools	398,593	1.86%	\$ 1,022,725	1.52%
2) Stanislaus Food Products	471,926	2.20%	\$ 919,894	1.37%
3) City of Modesto-Stores	312,111	1.45%	\$ 912,307	1.36%
4) Foster Farms	344,731	1.61%	\$ 663,025	0.98%
5) Modesto Irrigation District	200,456	0.93%	\$ 442,570	0.66%
6) Stanislaus Housing Authority	142,602	0.66%	\$ 412,328	0.61%
7) Sunopta	184,653	0.86%	\$ 366,061	0.54%
8) Yosemite Community College	108,670	0.51%	\$ 294,383	0.44%
9) STANCO	80,397	0.37%	\$ 274,653	0.41%
10) Memorial	102,532	0.48%	\$ 235,630	0.35%
Total Top Ten	<u>2,346,671</u>	<u>10.93%</u>	<u>\$ 5,543,576</u>	<u>8.24%</u>

Total Flat/Metered Revenues (Water Sales)

\$ 67,318,644

(1) "ccf" means "hundred cubic feet"

Water Sales Revenue, Year Ended 06/30/2019

Residential - Flat Rates

\$ 4,385,017

Commercial, Industrial and Municipal - Metered Rates

\$ 62,933,627

Total Water Sales <sup>(2)</sup>

\$ 67,318,644

Water Rates and Charges as of 07/01/2018

The average monthly flat rate service charge for residential customers is:

\$ 60.89

Commercial Accounts:

<u>Meter Size</u>	
3/4"	\$ 23.34
1"	\$ 33.48
1 1/2"	\$ 58.83
2"	\$ 89.25
3"	\$ 185.59
4"	\$ 327.55
6"	\$ 667.24
8"	\$ 1,224.95
10"	\$ 1,934.76
12"	\$ 2,543.16

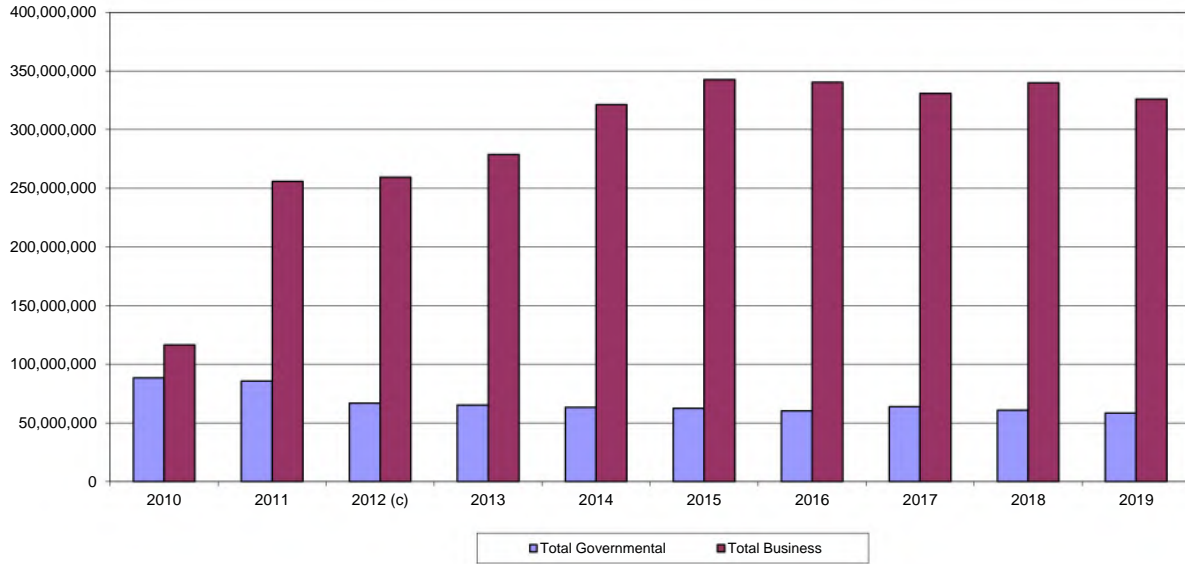
In addition to these minimum charges, commercial accounts are charged \$1.93 per 100 cubic feet of water used.

(2) Water sales only reflect the revenues in the Water Operating Fund and do not include revenue generated from developer fees and fleet replacement revenues.

Source:

City of Modesto-Utilities Division

**CITY OF MODESTO**  
**RATIO OF OUTSTANDING DEBT BY TYPE**  
**Last Ten Fiscal Years**



**Governmental Activities**

Fiscal Year	Loans Payable <sup>(h)</sup>	Certificates of Participation	Lease Revenue Bonds	Notes Payable	Obligations Under Capital Leases	Total
2010	905,000	18,015,000	64,275,000	3,802,436	1,221,553	88,218,989
2011	905,030	16,975,000	63,255,000	3,594,658	975,955	85,705,643
2012 <sup>(c)</sup>	500,000	-	62,130,000	3,392,000	742,937	66,764,937
2013	500,000	-	60,870,000	3,201,000	502,622	65,073,622
2014	500,000	-	59,475,000	3,000,000	256,945	63,231,945
2015	500,000	-	57,970,000	2,789,000	1,070,472	62,329,472
2016	500,000	-	56,305,000	2,568,000	942,057	60,315,057
2017	500,000	-	54,470,000	2,335,000	6,358,720	63,663,720
2018	500,000	-	52,775,000	2,090,000	5,449,379	60,814,379
2019	500,000	-	50,915,000	1,834,000	5,002,881	58,251,881

**Business-Type Activities**

Fiscal Year	Loans Payable	Certificates of Participation	Reimbursement Agreement related to MID <sup>(e)</sup>	Revenue Bonds <sup>(b)</sup>	Obligations Under Capital Leases	Total <sup>(f)</sup>	Total Primary Government	Percentage of Personal Income <sup>(a) (e)</sup>	Per Capita <sup>(a) (e)</sup>
2010	1,326,174	67,066,213	-	48,050,000	-	116,442,387	\$ 204,661,376	3.66%	968
2011 <sup>(d)</sup>	6,522,243	50,757,779	-	198,654,489	-	255,934,511	341,640,154	6.51%	1,698
2012 <sup>(d)</sup>	16,098,866	50,237,067	-	193,098,177	-	259,434,110	326,199,047	5.18%	1,617
2013	41,921,784	49,681,357	-	187,251,865	-	278,855,006	343,928,628	7.53%	1,670
2014	88,922,403	49,634,062	-	182,792,914	-	321,349,379	384,581,324	8.15%	1,860
2015	117,690,257	48,989,556	137,055,810	39,057,561	-	342,793,184	405,122,656	8.63%	1,937
2016 <sup>(g)</sup>	125,787,342	48,330,053	132,375,084	33,945,516	-	340,437,995	400,753,052	8.21%	1,891
2017	124,280,500	47,630,552	127,484,358	31,605,936	-	331,001,346	394,665,066	8.13%	1,859
2018	147,366,699	47,015,000	119,525,000	26,025,381	73,589	340,005,669	400,820,048	7.22%	1,871
2019	141,471,062	46,240,000	114,765,000	23,566,286	19,510	326,061,858	384,313,739	7.12%	1,787

- (a) See Demographic and Economic Statistics for personal income and population data.
- (b) The MID Treatment and Delivery issued by MID on behalf of the City has been reported as a City liability.
- (c) The Certificates of Participation bonds for the Governmental Activities due to the dissolution of the Redevelopment Agency.
- (d) In 2011, the OPEB was reported in the Certificates of Participation in error. In 2012 the Loans payable increase from the bond reimbursements related to the State Revolving loan approved for the construction of a new tertiary treatment plant.
- (e) In 2015, the Reimbursement agreement with MID was reclassified from revenue bonds payable to reimbursement agreement related to MID since this long-term debt is listed under MID but is the City's liability due to nature of the treatment and delivery agreement.
- (f) The total for Business-Type Activities did not include the capital leases in error. The total has been updated to account for this debt.
- (g) Starting in 2016, the amounts presented include net of unamortized premiums or discounts.

**CITY OF MODESTO**  
**COMPUTATION OF DIRECT AND OVERLAPPING DEBT**  
**JUNE 30, 2019**

<u>Jurisdiction</u>	<u>Net Debt Outstanding <sup>(1)</sup></u>	<u>Percentage Applicable to City of Modesto <sup>(2)</sup></u>	<u>Amount Applicable to City of Modesto</u>
Direct debt:			
City of Modesto	\$ <u>60,814,379</u>	100%	\$ <u>60,814,379</u>
Overlapping General Obligation debt - school districts:			
Ceres Unified School District	93,103,785	4.15%	3,863,807
Hart-Ransom Union School District	3,670,225	31.06%	1,139,972
Modesto Elementary School District	33,908,870	77.43%	26,255,638
Modesto High School District	28,176,385	67.52%	19,024,695
Paradise Elementary School District	330,000	0.00%	-
Salida Union Elementary District	2,715,000	28.23%	766,445
Stanislaus Union School District	19,627,238	78.76%	15,458,413
Sylvan School District	33,858,646	78.08%	26,436,831
Yosemite Community College District	<u>270,173,899</u>	24.51%	<u>66,219,623</u>
Total overlapping debt	<u>485,564,048</u>		<u>159,165,424</u>
Total direct and overlapping debt	\$ <u><u>546,378,427</u></u>		\$ <u><u>219,979,803</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.

**CITY OF MODESTO**  
**COMPUTATION OF LEGAL DEBT MARGIN**  
**JUNE 30, 2019**

Net assessed value <sup>(1)(3)</sup>	\$ 16,308,358,058
Plus homeowners' exemption <sup>(1)(3)</sup>	<u>201,430,177</u>
Gross assessed value <sup>(1)(3)</sup>	<u>\$ 16,509,788,235</u>

Debt limit - 15% of gross assessed value (2) \$ 2,476,468,235

Amount of debt applicable to debt limit:

Total general bonded debt, including special assessment debt \$ \_\_\_\_\_ -

Less: Assets in debt service funds available for payment of principal \$ \_\_\_\_\_ -

Other deductions: Special assessment debt \_\_\_\_\_ -

Total deductions \_\_\_\_\_ -

Total amount of debt applicable to debt limit \_\_\_\_\_ -

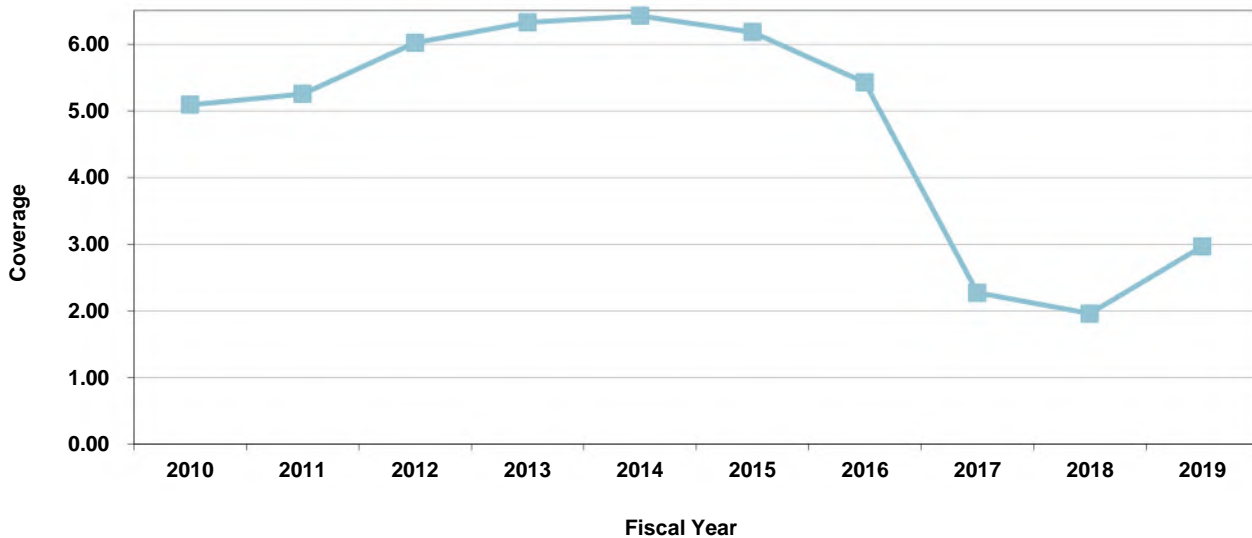
Legal debt margin \$ 2,476,468,235

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a Percentage of Debt Limit
2010	1,945,371,241	-	1,945,371,241	0%
2011	1,856,710,771	-	1,856,710,771	0%
2012	1,823,551,939	-	1,823,551,939	0%
2013	1,724,049,678	-	1,724,049,678	0%
2014	1,825,518,342	-	1,825,518,342	0%
2015	2,017,621,335	-	2,017,621,335	0%
2016	2,120,160,392	-	2,120,160,392	0%
2017	2,232,042,092	-	2,232,042,092	0%
2018	2,476,468,235	-	2,476,468,235	0%
2019	2,476,468,235	-	2,476,468,235	0%

Note: The City has elected to show ten years worth of data for this schedule.

- (1) Source: Stanislaus County Auditor
- (2) Section 43605 California Government Code.
- (3) Figures are based on Stanislaus County

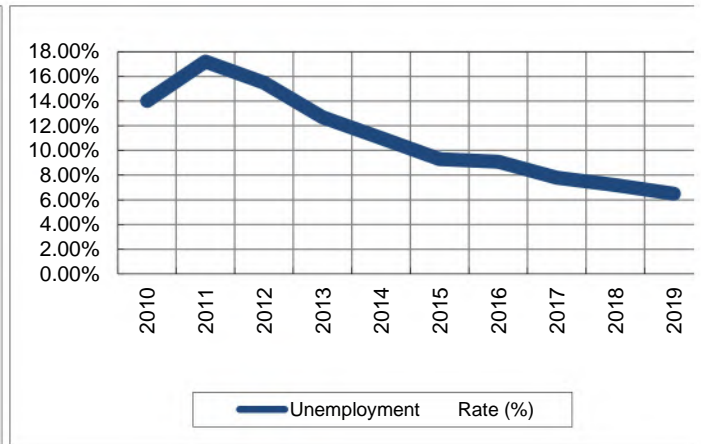
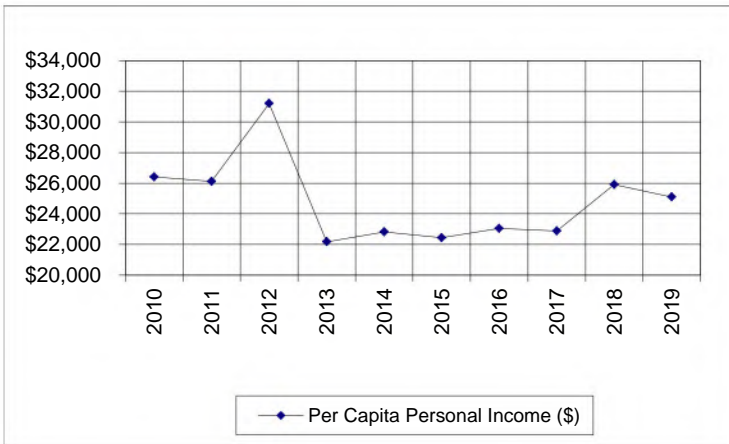
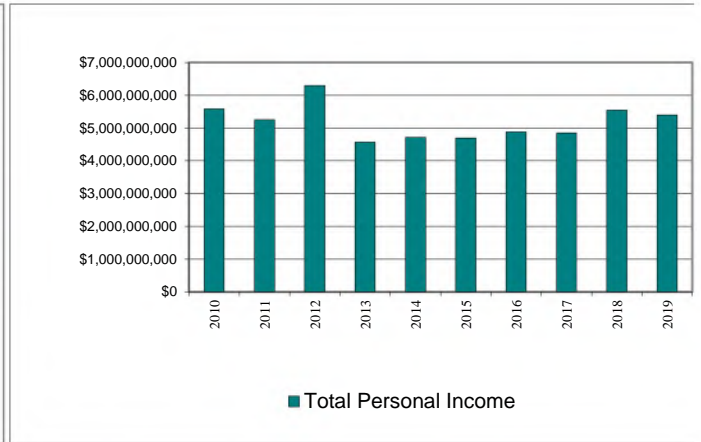
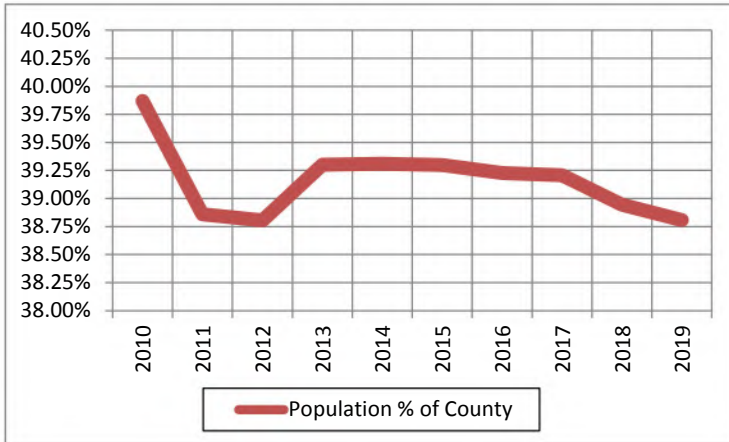
**CITY OF MODESTO**  
**REVENUE BOND COVERAGE**  
**WASTEWATER REVENUE BONDS**  
**LAST TEN FISCAL YEARS <sup>(4)</sup>**



<u>Fiscal Year</u>	<u>Gross Revenue <sup>(1)</sup></u>	<u>Operating Expenses <sup>(2)(4)</sup></u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements<sup>(3)</sup></u>	<u>Coverage</u>
2010	39,086,504	18,161,292	20,925,212	4,110,221	5.09
2011	39,844,523	18,722,729	21,121,794	4,021,108	5.25
2012	43,453,216	19,287,894	24,165,322	4,014,808	6.02
2013	45,018,125	19,586,799	25,431,326	4,019,558	6.33
2014	47,233,028	19,860,430	27,372,598	4,261,980	6.42
2015	46,853,368	21,207,025	25,646,343	4,150,322	6.18
2016	50,207,559	25,418,140	24,789,419	4,570,286	5.42
2017	50,907,228	25,212,214	25,695,014	11,311,098	2.27
2018	53,770,230	27,227,948	26,542,282	13,536,703	1.96
2019	62,618,527	27,144,632	35,473,895	11,958,407	2.97

- Notes:
- (1) Consists of all receipts of the Sewer fund not dedicated to capital spending purposes and including charges for services, connection fees, interest and rental income.
  - (2) Reflects total sewer fund operating expenses less depreciation; also includes certain transfers out that are made for operational costs incurred in other funds.
  - (3) Includes total principal and interest of Wastewater Refunding Revenue Bonds Series 2005 A and 2005 B and 2006 Wastewater Revenue Bonds. In fiscal year 2016-17, began repaying State Revolving Fund loan for Phase 2 - Tertiary Treatment Project debt service.
  - (4) The amount reported in 2014 was corrected from \$28,203,399 to \$19,860,430. The former amount included \$8.4 million for the State Revolving Fund loan which should not have been included in the calculation.

**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
2010	211,536	5,586,877,296	26,411	14.02%	530,584	39.87%
2011	201,165	5,251,613,490	26,106	17.20%	517,685	38.86%
2012	201,761	6,294,337,917	31,197	15.50%	519,940	38.80%
2013	205,987	4,566,113,829	22,167	12.70%	524,124	39.30%
2014	206,785	4,719,247,270	22,822	11.00%	526,042	39.31%
2015	209,186	4,693,924,654	22,439	9.30%	532,297	39.30%
2016	211,903	4,880,973,702	23,034	9.10%	540,214	39.23%
2017	212,287	4,856,701,986	22,878	7.80%	541,466	39.21%
2018	214,181	5,549,643,891	25,911	7.20%	549,976	38.94%
2019	215,030	5,396,177,850	25,095	6.50%	554,108	38.81%

Source: State of California, Department of Finance (population)  
 State of California, Employment Development Department (unemployment rate)  
 U.S. Department of Commerce, Census Bureau (income)

**CITY OF MODESTO  
PRINCIPAL EMPLOYERS**

Employer	2018/19			2010/11		
	Number of (1) Employees	Rank	Percentage of Total City Employment	Number of (1) Employees	Rank	Percentage of Total City Employment
E & J Gallo Winery	6,700	1	3.41%	3,308	1	3.17%
Stanislaus County	4,048	2	2.06%			
Modesto City Schools	3,200	3	1.63%	3,113	2	2.98%
Dotors Medical Center	2,600	4	1.33%	1,984	5	1.90%
Memorial Medical Ctr	2,400	5	1.22%	3,013	3	2.89%
Foster Farms Poultry	2,200	6	1.12%			
Del Monte Foods Inc	2,010	7	1.02%	1,700	6	1.63%
Stanislaus Food Products	1,875	8	0.96%	1,500	8	1.44%
Save Mart Supermarkets	1,650	9	0.84%			
Turlock Unified School District	1,500	10	0.76%			
Seneca				2,100	4	2.01%
Modesto Junior College				1,643	7	1.58%
Kaiser Permanete Modesto				1,500	9	1.44%
City of Modesto				1,187	10	1.14%
Subtotal	<u>28,183</u>		<u>14.36%</u>	<u>21,048</u>		<u>20.18%</u>
Total Labor Force	196,200					
Total City Population	215,030					

Source: Stanislaus County Final Budget 2018-2019/2019-2020  
(1) The number of employees include both part-time and full time.

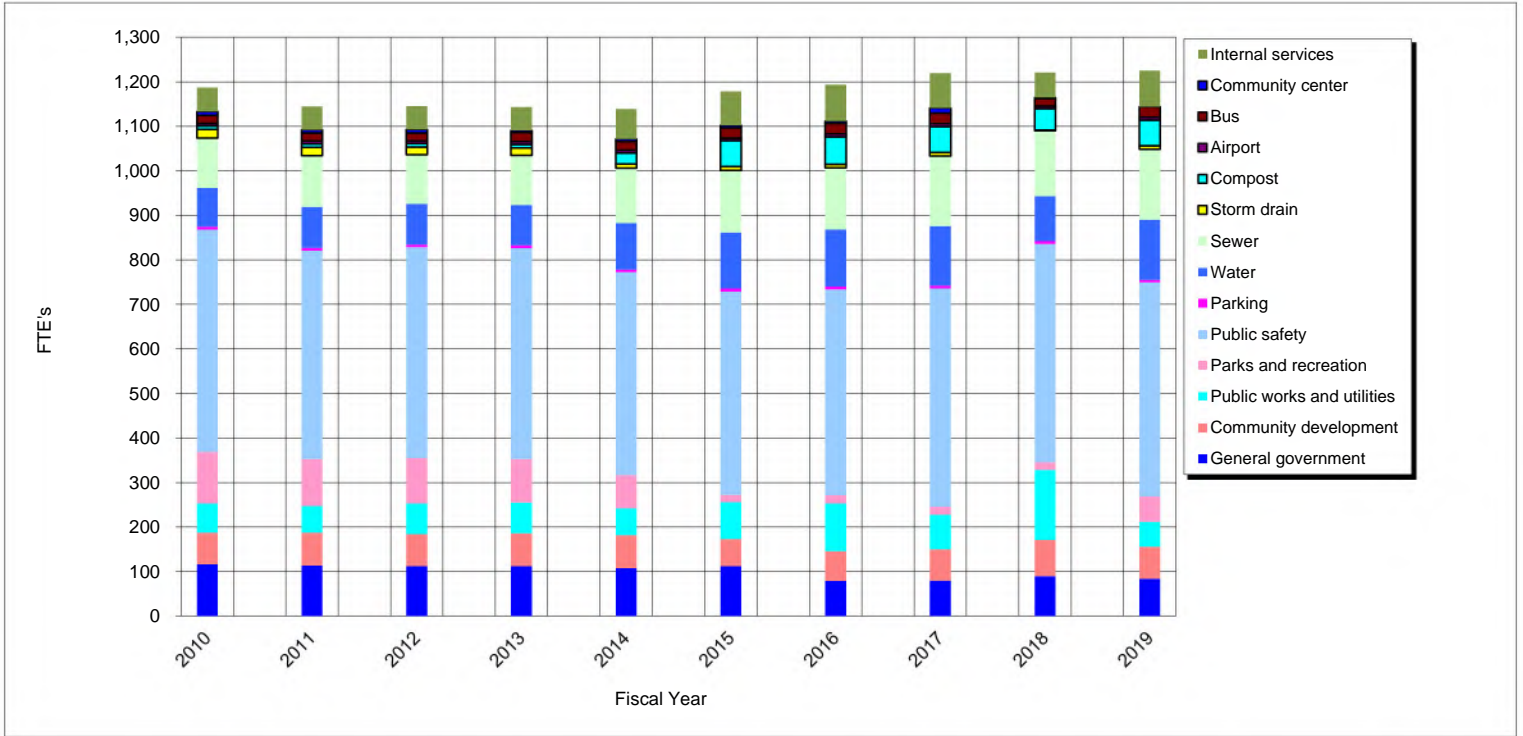
**CITY OF MODESTO  
PRINCIPAL PROPERTY TAXPAYERS**

Employer	2018/19			2010/11		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Pacific Gas & Electric Company	\$ 370,154,285	1	2.24%	\$ 165,879,478	4	0.47%
Gallo Glass Co	360,532,219	2	2.18%	233,194,981	2	0.59%
World International LLC	22,917,418	3	0.14%	18,467,607	1	0.69%
Gallo E & J Winery	310,792,474	4	1.88%	201,206,757	3	0.51%
E & J Gallo Winery	196,586,720	5	1.19%			
Frito Lay Inc	163,761,720	6	0.99%	108,562,980	8	0.27%
Excel Monte Vista LP	143,579,507	7	0.87%			
WR Griffin Patterson LLC	104,246,116	8	0.63%			
Bronco Wine Company	147,644,067	9	0.89%			
Doctors Medical Center	137,496,750	10	0.83%	122,103,700	6	0.30%
Fresno Farming LLC				85,530,809	9	0.27%
AT&T California				113,657,178	5	0.32%
Hunt Wesson Foods, Inc				112,983,862	7	0.29%
Foster Dairy Farms				106,846,247	10	0.27%
Subtotal	<u>\$ 1,957,711,276</u>		<u>11.87%</u>	<u>\$ 1,268,433,599</u>		<u>3.99%</u>
Total assessed value of \$	\$ 16,509,788,235			\$ 12,378,071,806		

Source: Stanislaus County Treasurer-Tax Collector

Note: Information based on entire Stanislaus County

**CITY OF MODESTO**  
**FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION**  
**LAST TEN FISCAL YEARS**



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Function</b>										
General government	116.60	113.60	112.00	112.00	108.00	112.10	79.00	80.00	90.00	84.00
Community development	71.20	74.20	72.20	74.00	73.80	60.75	67.00	70.00	81.00	72.00
Public works and utilities	65.00	59.00	69.00	69.00	60.00	83.00	107.00	78.00	157.00	56.00
Parks and recreation	116.00	106.23	101.48	97.50	75.38	16.50	18.50	17.50	17.50	56.75
Public safety	499.00	467.75	473.75	474.00	455.00	456.50	462.50	490.50	490.50	480.50
Parking	7.00	6.00	6.00	6.00	6.00	7.00	6.00	6.00	6.00	6.00
Water	87.00	92.00	91.00	91.00	104.00	126.00	128.00	134.00	101.00	135.00
Sewer	112.00	115.00	111.00	111.00	124.00	139.00	139.00	157.00	146.80	158.00
Storm drain	19.00	19.00	17.00	17.00	9.00	9.00	8.00	8.00	2.00	8.00
Compost	8.00	8.00	8.00	8.00	24.80	57.80	61.80	58.80	48.00	57.80
Airport	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Bus	18.00	18.00	18.00	20.00	20.00	23.00	24.00	24.00	16.00	24.00
Community center	8.50	7.25	7.25	5.50	5.50	6.00	5.00	11.00	3.00	0.00
Internal services	54.00	53.00	53.00	52.00	67.30	76.00	82.00	79.00	56.00	81.00
<b>Total</b>	<b>1,187.30</b>	<b>1,145.03</b>	<b>1,145.68</b>	<b>1,143.00</b>	<b>1,138.78</b>	<b>1,178.65</b>	<b>1,193.80</b>	<b>1,219.80</b>	<b>1,220.80</b>	<b>1,225.05</b>

Source: City of Modesto

**CITY OF MODESTO  
OPERATING INDICATORS BY FUNCTION**

Function/Program	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Public safety:										
Fire:										
Fire calls for service <sup>(1)</sup>	20,888	20,400	20,970	22,846	24,281	24,712	21,135	26,288	28,444	30,341
Primary fire inspections conducted	1,012	1,214	1,618	818	989	1,050	764	1,060	1,509	2,011
Police:										
Communication Center calls answered										
Police calls for service	167,576	154,549	168,242	174,113	123,357	122,270	129,439	129,802	194,931	181,430
Law violations:										
Part I and Part II crimes	52,182	49,914	47,175	52,272	53,032	50,729	53,609	53,142	53,543	47,141
Physical arrests (adult and juvenile)	15,105	11,872	11,536	12,418	15,039	18,634	12,303	11,760	13,247	12,388
Traffic violations	30,941	24,278	16,330	14,761	15,477	12,700	11,451	15,428	16,930	17,098
Parking violations	18,041	20,452	15,772	12,150	12,327	5,493	6,139	10,841	9,414	7,443
Public works										
Streets:										
Street resurfacing ( lane miles)	7	6	-	6	12	8	4	12	4	8
Potholes repaired (square miles)	39,705	27,724	38,290	13,282	12,573	14,515	24,059	8,745	25,004	36,709
Water utility customer repaired (sq. ft)	6,990	58,044	112,136	81,261	29,108	611	-	-	-	-
Crack sealing (lane miles)	16	23	-	20	33	12	37	29	48	29
Airport:										
Number of passengers enplaned <sup>(2)</sup>	25,640	22,514	19,188	16,532	11,703	-	-	-	-	-
Number of tenant aircraft	190	183	184	184	172	162	173	162	153	167
Number of hangars	118	118	118	118	118	119	119	119	119	119
Number of runways	2	2	2	2	2	2	2	2	2	2
Annual fuel consumption in gallons	639,971	311,500	645,283	653,153	682,769	582,473	443,272	582,602	580,383	631,891
Bus service:										
Number of buses	56	63	55	65	55	56	60	59	57	61
Number of routes	20	20	20	20	20	21	21	21	17	17
Total route miles	362	362	362	362	362	362	362	362	245	245
Average weekday number of passengers	12,524	10,688	11,553	11,616	12,538	11,598	12,441	10,523	9,354	8,869
Total number of passengers carried	3,478,120	3,145,400	3,413,421	3,434,409	3,666,824	3,416,314	3,664,689	3,108,307	2,762,922	2,589,049
Community development										
Building safety & NPU:										
Permits issued	3,733	3,801	3,288	3,566	3,871	4,511	4,939	4,973	5,033	4,335
Estimated cost of construction	\$ 67,488,906	\$ 73,397,148	\$ 76,362,371	\$ 81,095,370	\$ 58,850,241	\$ 137,453,763	\$ 92,768,634	\$ 118,527,812	\$ 172,595,385	\$ 112,433,029
Building Inspections made	32,846	29,034	25,549	27,816	30,034	31,571	23,187	36,158	42,891	39,086
Traffic electrical:										
Street lights	13,765	13,765	13,765	13,765	13,761	13,764	13,764	13,764	13,764	13,764
Traffic signals	149	143	143	144	144	147	151	153	155	155
Lighted ped walks	28	28	30	28	29	28	28	28	24	26
Beacons	12	5	8	8	11	11	11	11	3	4
Four way flashers	9	9	9	10	10	10	10	10	5	3
School flashers	22	22	22	22	22	22	23	24	16	13
CCTV	38	38	38	41	41	41	41	41	30	24
Hubs	5	5	5	6	6	6	6	6	2	6
Culture and recreation:										
Recreation class participants	3,171	2,297	2,072	264,670	150,514	151,323	150,091	150,500	154,000	160,656
Solid waste:										
Recyclables processed (tons per year)	47,170	50,789	67,317	37,647	46,936	55,020	56,493	71,155	62,701	60,947
Yard waste	48,856	60,408	58,650	55,147	39,117	48,832	58,730	62,859	64,873	66,017
Commercial food waste	667	814	735	765	827	817	845	914	1,550	1,145
Waste tires	3,683	2,388	1,247	1,674	4,969	4,152	4,497	4,931	4,285	4,320

(1) FY13 Fire calls for service was originally reported incorrectly due to duplicate entries found on the NFIRS reports. This figure was corrected 10/24/2014.

Source: City of Modesto - Various Departments

(2) The enplanements subsided with the loss of commercial service in FY 2014.

**CITY OF MODESTO**  
**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<b>Function/Program</b>										
Public safety:										
Fire stations	11	11	11	11	11	11	11	11	11	11
Police stations	1	1	1	1	1	1	1	1	1	1
Police patrol units	100	98	98	105	105	105	105	104	104	100
Public works										
Streets:										
Miles of streets <sup>(1)</sup>	675	676	684	684	691	691	692	692	692	693
Water:										
Miles of water mains	1,008	1,008	1,008	1,009	1,009	914	887	887	908	908
Fire hydrants	7,516	7,536	7,566	7,584	7,596	7,748	7,845	7,859	7,921	7,974
Storage capacity (thousands of gallons)	13,100,000	12,300,000	12,300,000	12,300,000	12,300,000	12,300,000	18,300,000	18,300,000	18,300,000	22,300,000
Wastewater:										
Miles of sanitary sewers	642	642	642	639	639	639	639	655	656	656
Miles of storm sewers	183	183	183	183	183	183	183	170	170	170
Number of treatment plants <sup>(2)</sup>	2	2	2	2	2	2	2	2	2	2
Treatment capacity (millions of gallons) <sup>(5)</sup>	72	72	72	70	70	70	70	19	19	19
Community services:										
City parks <sup>(3)</sup>	76	76	76	76	76	76	76	76	76	76
City parks acreage	1,088	1,088	1,088	1,110	1,110	1,110	1,240	1,240	1,240	1,240
Playgrounds	55	55	55	55	55	58	58	58	58	58
City trails	4	4	7	7	7	6	6	6	6	6
City trails miles	12	12	14	14	14	15	15	15	16	16
Regional park acreage	324	324	324	324	324	375	375	375	375	375
Regional park facilities:										
Golf courses (18 holes)	2	2	2	2	2	2	2	2	2	2
Golf courses (9 holes)	1	1	1	1	1	1	1	1	1	1
Clubhouse and banquet facility	8	8	8	8	8	8	8	8	8	8
Historic house <sup>(4)</sup>	4	4	4	4	4	4	3	3	3	3
Community gardens	2	2	2	2	2	2	2	1	1	1
Community centers	7	6	6	7	7	7	7	7	7	7
Senior centers	1	1	1	1	1	1	1	1	1	1
Sports centers	1	1	1	1	1	1	1	1	1	1
Performing arts centers	1	1	1	1	1	1	1	1	1	1
Swimming pools	13	4	4	4	4	4	4	1	1	1
Tennis courts	37	37	37	37	37	37	37	37	37	37
Baseball/softball diamonds	24	24	24	24	24	24	24	24	24	24
Soccer/football fields	22	22	22	29	29	29	29	29	29	29
Splash play in Existing parks	-	-	10	10	10	10	10	10	10	9

(1) Information reported from the City's GIS system.

(2) The City has both a Primary and a Secondary treatment facility.

(3) The number of parks for fiscal years 2013, 2014, 2015 was reported incorrectly as 77. Figures have been corrected to reflect accurately since FY 2016.

(4) The number of historic houses was reduced by one due to the Crismon House burning down. There are no plans to rebuild.

(5) The City has a new process and permit. Previous permit was 70 MGD seasonal Oct. through May. Current permit is 19 MGD year round.

Source: City of Modesto - Various Departments

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**CONTINUING DISCLOSURE  
SECTION**

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### **Continuing Disclosure Section**

This part of the Comprehensive Annual Financial Report provides information in order to comply with the City's contractual commitment established by certain continuing disclosure undertaking of the City, entered into in accordance with Securities and Exchange Commission Rule 15c2-12 (the "Rule") for the City's bond obligations listed below. In contrast to the financial section, the continuing disclosure section information is not subject to independent audit.

1. Wastewater Revenue Refunding Bonds, Series 2015
2. Wastewater Revenue Refunding Bonds, Series 2018A
3. Water Revenue Refinancing Certificates of Participation, 2008 Series A
4. Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G
5. Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION**  
**YEAR ENDED JUNE 30, 2019**

Wastewater Revenue Refunding Bonds, Series 2018 A <sup>(a)</sup>, and  
Wastewater Revenue Refunding Bonds, Series 2015

Connection charge information: The Sewer Enterprise imposes connection fees on an on-time basis to new users of the sewer system and to users who significantly expand their usage. The fees have three components:

Capacity charge: \$2,643 per Equivalent Dwelling Unit for residential units. Commercial and industrial property charged based on type of business.  
 Sub-trunk sewer charge: \$645 per acre  
 Connection (lateral) charge: \$33 per linear foot of lot frontage adjacent to the sewer line.

<u>Category</u>	<u>Customer Base by Type of Account</u>		
	<u>Number of Accounts</u>	<u>% of Total Accounts</u>	<u>% of Sewer Fee Operating Revenue</u>
Residential	58,421	94.65%	45.56%
Commercial	3,258	5.28%	9.61%
Industrial	45	0.07%	27.39%
Total	61,724	100.00%	82.56%

Ten Largest Users of Sewer Facilities, Year Ended 6/30/19

<u>User</u>	<u>Sewer Fee Revenue</u>	<u>% of Sewer Fee Operating Revenue</u>
1) Stanislaus Food Products	\$ 2,008,408	3.46%
2) E & J Gallo Winery	\$ 1,957,871	3.44%
3) City of Ceres	\$ 1,537,966	3.43%
4) Foster Farms	\$ 1,309,839	2.60%
5) Del Monte Foods	\$ 1,308,196	2.26%
6) Frito-Lay, Inc	\$ 1,171,939	2.11%
7) Sunopta	\$ 612,485	1.03%
8) Nestle Food Company	\$ 524,244	0.95%
9) Rizo Lopez Foods	\$ 481,833	0.90%
10) Memorial Hospital	\$ 335,392	0.79%
Total (Top Ten Customers)	\$ 11,248,173	20.97%
Total (All Customers)	\$ 52,179,822	

The average single-family residence monthly sewer charge is: \$35.78

<u>Commercial Group</u>	<u>Charge Per 1,000 Gallons</u>	<u>Fixed Charge</u>
Group 1 (no food, just toilets or working facilities)	\$3.29	\$4.46
Group 2 (commercial laundromats, service stations, hotels without food)	\$4.40	\$4.46
Group 3 (industrial laundromats, hotels with food)	\$5.50	\$4.46
Group 4 (restaurants, bakeries, auto steam, markets)	\$6.83	\$4.46

Industrial users pay a minimum account charge of \$4.46 with additional charges of: \$3,212.00 per million gallons of flow, \$238.00 per 1,000 pounds of excess biochemical oxygen demand (BOD), and \$471.00 per 1,000 pounds of Total Suspended Solids (TSS).

Industrial users on the Cannery Segregation line pay a minimum account charge of \$4.46 with additional charges of: \$3,012.00 per \$1.57 per 1,000 pounds of biochemical oxygen demand (BOD), and \$4.46 per 1,000 pounds of Total Suspended Solids (TSS) while in production during the months of July, August and September.

(a) In the Fiscal Year ending June 30, 2018, the 2018A Wastewater bonds were issued, refunding the 2006A bonds.

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 Position	Page 27	
Principal Amount of Bonds and Other Parity Debt	Page 52-53	(Note III-C)
Historical Debt Service Coverage	Page 145	
	(continued)	

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**YEAR ENDED JUNE 30, 2019**

**WASTEWATER COMPARISON INFORMATION**

Residential, commercial and industrial rates have increased according to the following approved schedule.

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Ten Year History of Rate Increases**

<b><u>Fiscal Year</u></b>	<b><u>Percent Increase</u></b>
2009-10	0.00
2010-11	3.00
2011-12	8.00
2012-13	6.00
2013-14	6.00
2014-15	2.00
2015-16	3.00
2016-17	6.00
2017-18	6.00
2018-19	6.00

***Comparative Monthly Wastewater Service Charges.***

The City's residential charges as of July 1, 2018 are set forth below with a comparison to other Central Valley and Northern California cities.

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Monthly Sewer Charge Comparison**  
**Residential Service**  
**As of July 1, 2018**

<b><u>City</u></b>	<b><u>Monthly Residential Charge</u></b>
Fresno	\$31.80
Lodi	\$25.40
<b>Modesto</b>	<b>\$37.85</b>
Stockton	\$44.10
Tracy	\$34.00
Turlock	\$28.95

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**YEAR ENDED JUNE 30, 2019**

**CITY OF MODESTO**  
**WASTEWATER SYSTEM**  
**Wastewater Connection Fees Comparison**  
**As of July 1, 2018**

<u>City</u>	<u>Connection Fee</u>
Fresno <sup>(1)</sup>	\$2,241.00
Lodi <sup>(2)</sup>	\$3,071.00
<b>Modesto</b>	<b>\$2,643.00</b>
Stockton	\$2,264.41
Tracy	\$7,624.00
Turlock	\$2,820.71

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(1) Connection fees are based on the size of the lot & location.

(2) Connection fees are based on the size of the water meter.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**YEAR ENDED JUNE 30, 2019**

Water Revenue Refinancing Certificates of Participation, 2008 Series A  
Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G<sup>(1)</sup>  
Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F<sup>(1)</sup>

Reserve Account Requirement as of 6/30/19	\$ 4,011,410
Surety Policy Value:	\$ (2,082,513)
Balance in Parity Reserve Account as of 6/30/19	<u>\$ (1,968,260)</u>
Shortfall/(Excess) Reserve Coverage:	<u>\$ (39,363)</u>

Ten Largest Customers of Water Utility System, Year Ended 6/30/19

<u>Customer</u>	<u>Business Type</u>	<u>Usage<sup>(ccf)</sup> (2)</u>	<u>% of Total Usage</u>	<u>Water Sales Revenue (\$)</u>	<u>% of Total Water Sales Revenue</u>
1) Modesto City Schools	Education	398,593	1.86%	\$1,022,725	1.56%
2) Stanislaus Food Products	Cannery	471,926	2.20%	\$919,894	1.40%
3) City of Modesto - Stores	Local Government	312,111	1.45%	\$912,307	1.39%
4) Foster Farms	Dairy Processor	344,731	1.61%	\$663,025	1.01%
5) Modesto Irrigation District	Power Company	200,456	0.93%	\$442,570	0.67%
6) Stanislaus Housing Authority	Housing Authority	142,602	0.66%	\$412,328	0.63%
7) Sunpota	Cannery	184,653	0.86%	\$366,061	0.56%
8) Yosemite Community College	Education	108,670	0.51%	\$294,383	0.45%
9) STANCO	Local Government	80,397	0.37%	\$274,653	0.42%
10) Memorial Hospital	Hospital	102,532	0.48%	\$235,630	0.36%
Total Top Ten		<u>2,346,671</u>	<u>10.93%</u>	<u>\$5,543,576</u>	<u>8.45%</u>

Total Flat/Metered Revenues (Water Sales)	<u>\$65,619,235</u>
(1) Grover Landscaping maintains City parks	
(2) "ccf" means "hundred cubic feet"	

Water Sales Revenue, Year Ended 6/30/2019

Residential - flat rates	\$ 4,385,017
Commercial, industrial and municipal - metered rates	<u>\$62,933,627</u>
Total Water Sales	<u>\$67,318,644</u>
The average monthly flat rate service charge for residential customers is:	<u>\$ 60.89</u>

Current Water Rates as of 07/01/2018- Commercial Accounts

<u>Meter Size</u>	
3/4"	\$ 23.34
1"	\$ 33.48
1 1/2"	\$ 58.83
2"	\$ 89.25
3"	\$ 185.59
4"	\$ 327.55
6"	\$ 667.24
8"	\$ 1,224.95
10"	\$ 1,934.76
12"	\$ 2,543.16

In addition to these minimum charges, commercial accounts are charged \$1.82 per 100 cubic feet of water used.

The Annual Budget of the City of Modesto is available from the City of Modesto Finance Department.

(1) Water Fund parity debt obligations, 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. On August 14, 2013 Modesto Irrigation District Financing Authority refunded the 1998 D Bond, with the 2013 G Bond. As of 6/30/2019, the balance of the 2013 G Bond was \$21,575,000 and the balance of the 2007 F Bond was \$93,190,000.

(2) Water sales only reflect the revenues in the Water Operating Fund and do not include revenue generated from developer fees and fleet replacement revenues.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**CITY WATER- HISTORICAL DEBT SERVICE COVERAGE**  
**LAST TEN FISCAL YEARS**

CITY WATER UTILITY SYSTEM  
Historical Debt Service Coverage

	2010	2011 <sup>(10)</sup>	2012	2013 <sup>(11)</sup>	2014 <sup>(13)</sup>	2015 <sup>(11)</sup>	2016 <sup>(12)</sup>	2017	2018 <sup>(17)</sup>	2019 <sup>(18)</sup>
Charges for services	\$ 51,572,801	\$ 51,876,505	\$ 53,453,708	\$ 56,906,488	\$ 56,940,812	\$ 54,779,417	\$ 51,489,077	\$ 63,253,114	\$ 68,928,504	\$ 71,952,653
Connection charges	647,579	452,021	516,839	295,632	357,432	1,024,626	935,987	1,435,654	1,661,151	1,081,913
Refunds, damages & recoveries	428,083	460,766	166,522	260,802	215,271	20,988	511,063	57,533	(121,929)	95,591
Interest and rental income	1,006,611	588,917	670,046	174,224	235,246	353,305	535,823	574,899	689,500	999,269
Service credits <sup>(2)</sup>	2,170,367	2,562,986	2,966,465	3,201,951	2,678,999	3,033,487	3,026,911	3,304,911	3,408,238	3,309,703
Miscellaneous	25,782	58,083	118,203	150,949	154,700	365,808	2,979,500	231,134	1,117,571	1,120,960
<b>Total gross operating revenues</b>	<b>55,851,223</b>	<b>55,999,278</b>	<b>57,891,783</b>	<b>60,990,046</b>	<b>60,582,460</b>	<b>59,577,631</b>	<b>59,478,361</b>	<b>68,857,245</b>	<b>75,683,035</b>	<b>78,560,089</b>
Operating expenses <sup>(3)(16)</sup>	30,219,002	26,638,348	30,755,822	28,530,554	36,598,298	33,773,198	38,722,320	35,508,887	35,685,576	38,806,127
Operating transfers <sup>(4)(5)</sup>	765,000	776,000	1,257,406	838,421	765,000	765,000	765,954	765,000	1,239,943	3,129,583
CIP expenses moved to operating <sup>(6)</sup>	1,127,185	-	-	-	-	-	-	-	-	-
<b>Total operating expenses<sup>(7)</sup></b>	<b>32,111,187</b>	<b>27,414,348</b>	<b>32,013,228</b>	<b>29,368,975</b>	<b>37,363,298</b>	<b>34,538,198</b>	<b>39,488,274</b>	<b>36,273,887</b>	<b>36,925,519</b>	<b>41,935,710</b>
<b>Net operating revenues</b>	<b>\$ 23,740,036</b>	<b>\$ 28,584,930</b>	<b>\$ 25,878,555</b>	<b>\$ 31,621,071</b>	<b>\$ 23,219,162</b>	<b>\$ 25,039,433</b>	<b>\$ 19,990,087</b>	<b>\$ 32,583,358</b>	<b>\$ 38,757,516</b>	<b>\$ 36,624,379</b>
1997 Refunding Certificate of Participation <sup>(8)</sup>	1,794,688	1,797,013	-	-	-	-	-	-	-	-
2008 Revenue Certificates of Participation	2,145,966	2,271,034	2,684,462	2,632,225	2,648,783	2,531,179	2,313,857	2,468,593	2,268,298	2,121,410
MID Treatment & Delivery Agreement <sup>(9)</sup>	7,455,918	10,794,041	10,888,790	10,889,760	8,885,208	9,930,040	10,203,352	10,202,108	10,208,384	10,214,947
CDWR Loan	264,719	264,719	255,942	264,719	264,719	262,692	131,322	-	-	-
ARRA Grant	-	-	5,137	36,289	36,103	36,095	36,089	36,084	36,080	37,123
<b>Total debt service</b>	<b>\$ 11,661,291</b>	<b>\$ 15,126,807</b>	<b>\$ 13,834,331</b>	<b>\$ 13,822,993</b>	<b>\$ 11,834,813</b>	<b>\$ 12,760,006</b>	<b>\$ 12,684,620</b>	<b>\$ 12,706,785</b>	<b>\$ 12,512,762</b>	<b>\$ 12,373,480</b>
<b>Debt service coverage<sup>(14)(15)</sup></b>	<b>2.04</b>	<b>1.89</b>	<b>1.87</b>	<b>2.29</b>	<b>1.96</b>	<b>1.96</b>	<b>1.58</b>	<b>2.56</b>	<b>3.10</b>	<b>2.96</b>

(1) In fiscal year 2012-13, the amount reported for Charges for Services was incorrectly reported in the amount of \$59,906,488. The correct amount is \$56,906,488 which is reflected in the table above.

(2) Service Credits are reimbursements from other City funds of costs associated with employee time worked on other projects.

In fiscal year 2009-10 Cashiering, Utilities, and Collections division was moved into the Water Fund. This caused a structural change and in return an increase in service credits.

(3) Beginning in fiscal year 2008-09 total operating expenses increased as a result of the initiation of a meter program and increases in costs associated with supplies, maintenance, water treatment litigation and administration. Reduced fiscal year 2016 Operating Expenses as the 131,322 CDWR Loan payment (along with 2 dollars attributed to rounding error) were counted both in Operating Expense and in the debt service section.

(4) Operating transfers in fiscal year 2008-09 increased due to an administrative oversight and funds were returned to the correct fund.

(5) Includes operating transfers for building rental fee of \$65,000 annually and commencing in fiscal year 2009-10 \$700,000 annual transfer to the Storm Drain Fund to actively protect the groundwater supply source from contamination. In fiscal year 2011-12 \$668,610 a one time transfer for information technology internal service funds.

(6) In fiscal year 2009-10, the City made a prior period adjustment to reclassify certain operating costs previously recorded as capital improvements. This prior period adjustment has been reflected in this table in the years costs were incurred.

(7) Total operating expenses excludes depreciation and amortization, as well as the debt service component under the Treatment and Delivery Agreement. Fiscal year 2016 Total operating expense reduced from 39,619,604 to 39,488,274 since the Operating expenses was adjusted (see note 3)

(8) 1997 COPS were prepaid in full in fiscal year 2010-11

(9) Increased fiscal year 2014-15 2008 Revenue Certificates of Participation from 2,501,891 to 2,531,179 to account for actual expenditure instead of the internal transfer.

(10) Debt service payment increased by \$4.1 million in fiscal year 2010-11 due to the expiration of capitalized interest. Fiscal year 2015 MID Treatment & Delivery Agreement increased from 9,905,923 to 9,930,040 to account for actual expenditure.

(11) Reduced fiscal year 2014-15 Operating expenses from 40,349,338 to 33,773,198.

(12) The sale of the Waterford-Hickman Water System for \$2.6 million had a significant impact to the Water Fund debt service calculation. Without the sale of this system Water Fund debt service coverage would have been 1.35. Reduced fiscal year 2015-16 Operating Expenses as the 131,322 Del Estate Water Company loan payment (along with 2 dollars attributed to rounding error) were counted both in Operating Expense and in the Debt service section.

(13) Del Estate Water Company (CDWR) loan payment for fiscal year 2014-15 was reduced from 264,719 to 262,692 and fiscal year 2015-16 reduced from 264,719 to 131,322. Loan repayment was completed in fiscal year 2015-16.

(14) Changed fiscal year 2014-15 ARRA Grant from 36,290 to 36,095 and changed fiscal year 2015-16 ARRA Grant from 36,290 to 36,089. Fiscal Year 2013 rate was reported incorrectly in previous reports.

(15) Fiscal year 2015-16 Debt service coverage increased from 1.55 to 1.57 and fiscal year 2014-15 Debt service coverage increased from 1.45 to 1.96 after above stated changes were made.

(16) The financial figures reported only reflect net operating revenues in the Water Operating Fund.

(17) 2018 Miscellaneous revenues include \$1,048,863 of one-time transfer as result of the dissolution of the Central Stores Fund.

(18) Fiscal Year 2018-19 Operating Transfers of \$3,129,583 includes \$2,300,000 in one-time loan to fund 4893 (Carpenter Road Landfill) to be repaid over 6 years.

Source: City of Modesto

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**CITY WATER UTILITY SYSTEM**  
**PROJECTED OPERATING RESULTS <sup>(1)</sup>**

The City has prepared the following table of projections of operating results of the Water Utility System for the five fiscal years 2020-24. The projected amounts set forth below are based on certain assumptions made by the City. To the extent that actual future conditions vary from those assumed in preparing the projections, the actual results will vary.

	Fiscal Year Projected 2020	Fiscal Year Projected 2021 <sup>(5)</sup>	Fiscal Year Projected 2022	Fiscal Year Projected 2023	Fiscal Year Projected 2024
Charges for services <sup>(2)</sup>	\$ 76,299,050	\$ 81,431,893	\$ 86,807,593	\$ 86,807,593	\$ 86,807,593
Connection charges	1,289,641	1,315,434	1,341,742	1,368,577	1,395,949
Refunds, damages & recoveries	155,650	158,763	161,938	165,177	168,481
Interest and rental income	196,549	171,330	172,125	172,938	173,767
Service credits	2,671,967	2,698,687	2,725,674	2,725,674	2,780,460
Miscellaneous	6,200	6,324	6,450	6,579	6,711
6-year Loan Repayment from fund 4893 (Carpenter Road Landfill)	-	34,270	480,765	480,766	480,767
Total gross operating revenues	<u>80,619,057</u>	<u>85,816,701</u>	<u>91,696,287</u>	<u>91,727,304</u>	<u>91,813,728</u>
Operating expenses <sup>(3)</sup>	48,435,455	49,783,658	50,862,475	51,964,946	53,091,598
Operating transfers	765,000	765,000	765,000	765,000	765,000
Total operating expenses <sup>(4)</sup>	<u>\$ 49,200,455</u>	<u>\$ 50,548,658</u>	<u>\$ 51,627,475</u>	<u>\$ 52,729,946</u>	<u>\$ 53,856,598</u>
Net operating revenues	<u>\$ 31,418,602</u>	<u>\$ 35,268,043</u>	<u>\$ 40,068,812</u>	<u>\$ 38,997,358</u>	<u>\$ 37,957,130</u>
2008 Revenue Certificates of Participation	\$ 3,076,639	\$ 3,076,639	\$ 3,076,639	\$ 3,076,639	\$ 4,244,303
MID Treatment & Delivery Agreement	10,208,561	10,195,601	10,443,035	9,065,124	8,398,606
ARRA Grant	36,600	36,600	36,600	36,600	36,600
Total debt service	<u>\$ 13,321,800</u>	<u>\$ 13,308,840</u>	<u>\$ 13,556,274</u>	<u>\$ 12,178,363</u>	<u>\$ 12,679,509</u>
Debt service coverage	2.36	2.65	2.96	3.20	2.99

\* Please note that fiscal year 2018 thru fiscal year 2021 projection is derived from the May 2016 Water Rate and Fee Study. Fiscal year 2011-22 has been kept flat until another Water Rate and Fee Study is completed.

(2) Revenues do NOT include a Consumer Price Index (CPI) increase. There were approved water rate increases as follows: fiscal year 2016-17 at 25.04%, fiscal year 2017-18 at 11.08%, fiscal year 2018-19 at 9.00%, fiscal year 2019-20 at 9.00%, and

(3) Operating expenses have assumed an inflationary rate of 2% in 2018-22 thru fiscal year 2021-22.

(4) Total operating expenses exclude depreciation and amortization, as well as the debt service component under the MID Treatment & Delivery Agreement.

(5) Increase in Debt Service Coverage from fiscal year 2017-18 to fiscal year 2020-21 is due to larger increase in water rates compared to operating expenses. See note (2) and note (3). The increase in water rates is intended to fund pay-as-you-go CIPs not reflected on this table.

Source: City of Modesto.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**YEAR ENDED JUNE 30, 2019**

**CITY WATER UTILITY SYSTEM STATISTICS**  
**(Calendar Years 2010 through 2019)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of Service Accounts	76,508.0	76,983.0	76,788.0	75,357.0	75,006.0	74,665.0	72,825.0	73,135.0	73,423.0	73,591.0
Total Water Production <sup>(MG)</sup> <sup>(1)</sup>	21,712.0	20,892.0	21,765.0	21,606.0	20,630.0	17,692.0	15,155.0	15,319.5	16,782.0	16,059.0
Capacity <sup>(MGD)</sup> <sup>(2)</sup>	166.0	166.0	175.2	175.2	175.2	175.2	175.2	175.2	168.0	168.2
Peak Daily Distribution <sup>(MGD)</sup>	110.0	98.5	97.2	99.8	95.3	84.6	74.7	84.3	77.5	83.5
Average Daily Distribution <sup>(MGD)</sup>	59.5	57.2	59.5	59.2	56.5	48.5	41.5	42.0	46.0	44.0

- (1) "MG" means million gallons.  
(2) "MGD" means million gallons daily.

**CITY WATER UTILITY SYSTEM**  
**Service Area Total Production (Billion Gallons)**  
**(Fiscal Years 2010 through 2019)**

Fiscal Year Ended	Well Water	Surface Water	Total
2010	11.32	10.39	21.71
2011	11.72	9.17	20.89
2012	11.57	10.19	21.76
2013	10.62	10.99	21.61
2014	10.72	9.91	20.63
2015	10.63	5.85	16.48
2016	9.22	5.02	14.24
2017	8.63	5.86	14.49
2018	9.82	6.23	16.05
2019	5.45	9.86	15.31

**CITY WATER UTILITY SYSTEM**  
**Average Monthly Water Rates Comparison**  
**Flat Rate (1" Service)**  
**As of July 1, 2018**

City	Flat Rate Typical Home
Fresno <sup>(1)</sup>	\$ 17.90
Lodi <sup>(2)</sup>	\$ 34.34
<b>Modesto</b>	<b>\$ 60.89</b>
Stockton <sup>(1)</sup>	\$ 32.90
Tracy <sup>(2)</sup>	\$ 24.72
Turlock <sup>(1)</sup>	\$ 26.50

- (1) Water is metered. Charge varies per meter size.  
(2) Water is both metered and flat rate. Charge varies per meter and dwelling size.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**YEAR ENDED JUNE 30, 2019**

The following table sets forth connection fees for all users except multi-family units by meter size for year 2018-2019:

**CITY WATER UTILITY SYSTEM**  
**Connection Fees Comparison**  
**Except Multiple Family Units**  
**(Fiscal Year 2018-2019)**

<u>Meter Size</u>	<u>Connection Fees</u>
5/8" meter**	\$2,202
1" meter	\$3,671
1-1/2" meter	\$7,341
2" meter	\$11,746
3" meter	\$25,695
4" meter	\$46,250
6" meter	\$95,437
8" meter	\$176,191
10" meter	\$278,970
12" meter	\$367,065

\*\*NOTE- Single-family residences qualify for the 5/8" connection fee only under the following conditions:  
 Single story, single-family residences on a lot of 4,000 square feet or less.  
 Two-story single family residence on a lot of 4,000 square feet or less, provided the request for such a service accompanied by a report from a licensed professional engineer that certifies that the 5/8" service is adequate to meet the needs of the proposed dwelling.  
 A 5/8" "service" shall not be allowed for a single-family dwellings of greater than 2 stories on lots less than 4,000 square feet.

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**YEAR ENDED JUNE 30, 2019**

**CITY WATER UTILITY SYSTEM**  
**Sale of Water**  
**(Year Ended June 30, 2019)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues (\$000)										
Residential (Flat Rates)	\$21,256,928	\$16,888,754	\$14,464,689	\$12,955,005	\$10,723,594	\$9,037,477	\$7,320,096	\$6,767,446	\$5,506,216	\$4,385,017
Commercial, Industrial and Municipal (Metered)	28,758,412	33,190,426	37,162,861	42,452,862	44,093,862	43,118,855	40,242,493	51,960,729	60,113,019	62,933,627
Total Water Sales	\$50,015,340	\$50,079,180	\$51,627,550	\$55,407,867	\$54,817,456	\$52,156,332	\$47,562,589	\$58,728,175	\$65,619,235	\$67,318,644

The table below sets forth the adopted single family residential flat rates approved through fiscal year 2018-19.

**CITY WATER UTILITY SYSTEM**  
**Monthly Single Family Residential Flat Water Rates <sup>(1)</sup>**

Lot Size	Effective July 1, 2009	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013	Effective July 1, 2014	Effective July 1, 2015	Effective July 1, 2016	Effective July 1, 2017	Effective July 1, 2018
0-5,000 sq. ft. lot	\$37.23	\$38.01	\$38.69	\$39.89	\$40.81	\$40.81	\$40.81	\$47.38	\$48.77	\$52.97
5,001-7,000 sq. ft. lot	42.31	43.20	43.98	45.34	46.38	46.38	46.38	54.72	56.23	60.89
7,001-11,000 sq. ft. lot	50.21	51.26	52.18	53.80	55.04	55.04	55.04	69.22	70.98	76.52
11,001-17,000 sq. ft. lot	53.30	54.42	55.40	57.12	58.43	58.43	58.43	90.88	93.00	99.87
over 17,000 sq. ft. lot	62.66	63.98	65.13	67.15	68.69	68.69	68.69	101.80	104.10	111.65

(1) Single family residential properties with water meters that are read for billing purposes, are charged the meter water rate.

NOTE: Additional financial information available at [www.modestogov.com](http://www.modestogov.com)

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**YEAR ENDED JUNE 30, 2019**

The following table sets forth the adopted monthly service charge and volume charge for commercial accounts through fiscal year 2018-19.

**CITY WATER UTILITY SYSTEM**  
**Water Rates and Charges**  
**Commercial Accounts**

	Effective July 1, 2010	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013	Effective July 1, 2014	Effective July 1, 2015	Effective July 1, 2016	Effective July 1, 2017	Effective July 1, 2018
Volume-based Rate (\$/hcf)	\$1.28	\$1.33	\$1.33	\$1.37	\$1.40	\$1.40	\$1.40	\$1.40	\$1.79	\$1.93
Fixed Monthly Meter Charge (in addition to volume-based charges)										
5/8"-3/4" meter	\$13.71	\$14.00	\$14.25	\$14.69	\$15.03	\$15.03	\$15.03	\$15.03	\$20.79	\$23.34
1" meter	19.45	19.86	20.22	20.85	21.33	21.33	21.33	21.33	29.30	33.48
1-1/2" meter	33.66	34.37	34.99	36.07	36.90	36.90	36.90	36.90	50.58	58.83
2" meter	50.79	51.86	52.79	54.43	55.68	55.68	55.68	55.68	76.11	89.25
3" meter	96.51	98.54	100.31	103.42	105.80	105.80	105.80	105.80	156.98	185.59
4" meter	147.88	150.99	153.71	158.48	162.13	162.13	162.13	162.13	276.14	327.55
6" meter	290.51	296.61	301.95	311.31	318.47	318.47	318.47	318.47	561.28	667.24
8" meter	461.75	471.45	479.94	494.82	506.20	506.20	506.20	506.20	1,029.42	1,224.95
10" meter	661.58	675.47	687.63	708.95	725.26	725.26	725.26	725.26	1,625.23	1,934.76
12" meter	1,232.31	1,258.19	1,280.84	1,320.55	1,350.92	1,350.92	1,350.92	1,350.92	2,135.93	2,543.16

Note: Additional financial information is available at [www.modestogov.com](http://www.modestogov.com)

**CITY OF MODESTO**  
**CONTINUING DISCLOSURE REQUIREMENTS INFORMATION (continued)**  
**FISCAL YEAR ENDED JUNE 30, 2019**

**BOND RATINGS**

<u>Bonds</u>	<u>Moody's Rating</u>	<u>Standard &amp; Poor's Rating</u>	<u>Fitch Rating</u>
Wastewater Revenue Bonds, Series 2006A	A1		AA-
2008 Lease Revenue Bonds		A/A-1	A+
2008 Water Certificates of Participation	Aa1	AA+/A-1	
Wastewater Revenue Bonds, Series 2018A		AA+/A-1+	

Sources: [www.moodys.com](http://www.moodys.com)  
[www.standardandpoors.com](http://www.standardandpoors.com)  
[www.Fitchratings.com](http://www.Fitchratings.com)

## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

*The following is a brief summary of certain provisions of the Indenture. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture. Reference is directed to the Indenture for the complete text thereof. Copies of the Indenture are available from the City Clerk/Auditor of the City of Modesto.*

#### Definitions

“**Accreted Value**” means, with respect to any Capital Appreciation Indebtedness, the principal amount thereof plus the interest accrued thereon, compounded at the interest rate thereon on each date as specified therein.

“**Annual Debt Service**” means, for any Fiscal Year, the aggregate amount of principal and interest on all Bonds and Parity Debt becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

“**Average Annual Debt Service**” means, as of any date of calculation, an amount equal to (i) the Annual Debt Service remaining to be paid on all Bonds and Parity Debt on the date of calculation, divided by (ii) the number of Fiscal Years (or partial years) commencing with the Fiscal Year of the date of calculation to and including the Fiscal Year which includes the first date on which none of such Bonds or Parity Debt remains Outstanding. Such interest and principal will be calculated on the assumption that no Bonds or Parity Debt at the date of calculation will cease to be Outstanding except by reason of the payment when due of each principal installment (including mandatory sinking account payments).

“**Balloon Indebtedness**” means any Series of Bonds or Parity Debt 50% or more of the principal of which matures or is payable on the same date and which is not required by the instrument pursuant to which such Bonds or Parity Debt were issued to be amortized by payment or redemption prior to such date.

“**Bond Obligation**” means, as of any given date of calculation, (1) with respect to any Current Interest Indebtedness, the principal amount thereof, and (2) with respect to any Capital Appreciation Indebtedness, the Accreted Value thereof.

“**Bonds**” means the City of Modesto, California Wastewater Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

“**Business Day**” means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, and (2) for purposes of payments and other actions relating to Bonds secured by a letter of credit, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under the letter of credit are to be presented are authorized or obligated by law or executive order to be closed.

**“Capital Appreciation Indebtedness”** means Bonds and Parity Debt on which interest is compounded and paid less frequently than annually.

**“Certificate,” “Statement,” “Request,” “Requisition” or “Order”** of the City mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the City by its City Manager, Finance Director or any other person authorized by the City Manager or Finance Director to execute such instruments. 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 will be read and construed as a single instrument. If and to the extent required by the Indenture, certificates and opinions will include the statements provided for in the Indenture.

**“City”** means the City of Modesto, California.

**“City Council”** means the City Council of the City or any other legislative body of the City hereafter provided for pursuant to law.

**“Code”** means the Internal Revenue Code of 1986, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code will be deemed to be a reference to any successor to any such section.

**“Continuing Disclosure Agreement”** means any Continuing Disclosure Agreement executed and delivered by the City relating to any Series of Bonds.

**“Corporate Trust Office” or “corporate trust office”** means the corporate trust office of the Trustee at One California Street, Suite 2550, San Francisco, California 94111, Attention: Corporate Trust Services, or such other or additional offices as may be designated by the Trustee.

**“Current Interest Indebtedness”** means Bonds and Parity Debt on which interest is paid at least annually.

**“Debt Service”** means, during any period of computation, the amount of principal and interest becoming due and payable on all Bonds and Parity Debt for such period, determined by totaling the following amounts:

(a) The Bond Obligation of all Outstanding Serial Bonds and all Parity Debt coming due and payable by their terms in such period;

(b) The minimum Bond Obligation of all Outstanding Term Bonds and all Parity Debt scheduled to be redeemed by operation of mandatory sinking fund deposits in such period, together with any premium thereon; and

(c) The interest which would be due during such period on the aggregate principal amount of Bonds and Parity Debt which would be Outstanding in such period if the Bonds or Parity Debt are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds or Parity Debt no longer Outstanding;

provided, that for the purposes of determining compliance with the requirements for issuance of additional Bonds or Parity Debt, the rate covenant contained in the Indenture and the amount of the Reserve Fund Requirement, the following provisions apply:

(i) Generally. Except as otherwise provided in subparagraph (ii) below with respect to Variable Interest Rate Indebtedness, in subparagraph (iii) below with respect to Bonds or Parity Debt with respect to which a Public Finance Contract is in force, and in subparagraph (iv) below with respect to Balloon Indebtedness, interest on any Bond or Parity Debt will be calculated based on the actual amount of interest that is payable under such Bond or Parity Debt;

(ii) Interest on Variable Interest Rate Indebtedness. Interest deemed to be payable on any Variable Interest Rate Indebtedness for periods when the actual interest rate can be determined will be the actual Variable Interest Rates and for periods when the actual interest rate cannot yet be determined will be calculated on the assumption that the interest rate on such Variable Interest Rate Indebtedness would be equal to (a) the average rate that accrued on such Variable Interest Rate Indebtedness over the preceding twelve (12) months, or (b) if the Variable Interest Rate Indebtedness has not been accruing interest at a variable rate for twelve (12) months, the average interest rate that accrued on any outstanding Variable Interest Rate Indebtedness for which interest is computed on substantially the same basis during the preceding twelve (12) month period, or (c) if no such comparable Variable Interest Rate Indebtedness was outstanding during the twelve (12) months preceding the date of calculation, then (x) if the interest on such Variable Interest Rate Indebtedness is excluded from gross income for purposes of Federal income taxation, 90% of the average rate of interest for The Bond Buyer Revenue Bond Index over the preceding twelve (12) months, or, if that index is no longer published, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Variable Rate Interest Indebtedness, or if there are no such Treasury Bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets, and (y) if interest on such Variable Interest Rate Indebtedness is not excluded from gross income for purposes of Federal income taxation, 110% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Variable Rate Interest Indebtedness, or if there are no such United States Treasury Bonds having equivalent maturities, 110% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets;

(iii) Interest on Bonds or Parity Debt with respect to which a Public Finance Contract is in force. Interest deemed to be payable on any Bonds or Parity Debt with respect to which a Public Finance Contract is in force will be based on the net economic effect on the City expected to be produced by the terms of such Bonds or Parity Debt and such Public Finance Contract, including

but not limited to the effects that (a) such Bonds or Parity Debt would, but for such Public Finance Contract, be treated as an obligation bearing interest at a Variable Interest Rate instead will be treated as an obligation bearing interest at a fixed interest rate, and (b) such Bonds or Parity Debt would, but for such Public Finance Contract, be treated as an obligation bearing interest at a fixed interest rate instead will be treated as an obligation bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Bonds or Parity Debt with respect to which a Public Finance Contract is in force will be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Bonds or Parity Debt plus the Public Finance Contract Payments minus the Public Finance Contract Receipts, and for the purpose of calculating as nearly as practicable the Public Finance Contract Receipts and the Public Finance Contract Payments under such Bonds or Parity Debt, the following assumptions will be made:

(1) City Obligated to Pay Net Variable Payments. If a Public Finance Contract has been entered into by the City with respect to Bonds or Parity Debt resulting in the payment of a net variable interest rate with respect to such Bonds or Parity Debt and Public Finance Contract by the City, the interest rate on such Bonds or Parity Debt for future periods when the actual interest rate cannot yet be determined will be assumed (but only during the period the Public Finance Contract is in effect) to be equal to the sum of (x) the fixed rate or rates stated in such Bonds or Parity Debt, minus (y) the fixed rate paid by the Qualified Counterparty to the City, plus (z) the lesser of (A) the interest rate cap, if any, provided by a Qualified Counterparty with respect to such Public Finance Contract (but only during the period that such interest rate cap is in effect) and (B) the applicable Variable Interest Rate calculated in accordance with subparagraph (ii) above; and

(2) City Obligated to Pay Net Fixed Payments. If a Public Finance Contract has been entered into by the City with respect to Bonds or Parity Debt resulting in the payment of a net fixed interest rate with respect to such Bonds or Parity Debt and Public Finance Contract by the City, the interest on such Bonds or Parity Debt will be included in the calculation of Debt Service (but only during the period the Public Finance Contract is in effect) by including for each Fiscal Year or twelve (12) calendar month period an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Public Finance Contract;

(iv) Interest on Balloon Indebtedness. If any outstanding Bonds or Parity Debt constitute Balloon Indebtedness (and such Bonds or Parity Debt do not constitute Short Term Indebtedness excluded from the calculation of the Debt Service pursuant to clause (v), below) or if Bonds or Parity Debt proposed to be incurred would constitute Balloon Indebtedness (and such Bonds or Parity Debt would not constitute Short Term Indebtedness excluded from the calculation of the Debt Service pursuant to clause (v), below), then such Balloon Indebtedness

will be treated as if the principal amount of such Bonds or Parity Debt were amortized from the date originally incurred in substantially equal installments of principal and interest over a term of thirty (30) years; provided, however, that the full principal amount of such Balloon Indebtedness will be included in making such calculation if such principal amount is due within ninety (90) days of the date such calculation is being made); and, if interest accrues under such Balloon Indebtedness at other than a fixed rate, the interest rate used for such computation will be (x) if the interest on such Bonds or Parity Debt is excluded from gross income for purposes of Federal income taxation, 90% of the average rate of interest for The Bond Buyer Revenue Bond Index over the preceding twelve (12) months, or if that index is no longer published, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Bonds or Parity Debt on the date incurred, or if there are no such United States Treasury bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets, and (y) if the interest on such Bonds or Parity Debt is not excluded from gross income for purposes of Federal income taxation, the rate equal to 110% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Balloon Indebtedness, or, if there are no such United States Treasury Bonds having equivalent maturities, 110% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets;

(v) Exclusion of Certain Short-Term Indebtedness. If any outstanding Bonds or Parity Debt constitute Short Term Indebtedness or if the Bonds or Parity Debt proposed to be issued would constitute Short Term Indebtedness, and such Short Term Indebtedness are or will be payable only out of Net Revenues of the Fiscal Year in which such Short Term Indebtedness are incurred, then such Short Term Indebtedness will be disregarded and not included in calculating Debt Service;

(vi) Credit for Accrued and Capitalized Interest. If amounts constituting accrued interest or capitalized interest have been deposited with a trustee for such Bonds or Parity Debt, then the interest payable from such amounts with respect to such Bonds or Parity Debt will be disregarded and not included in calculating Debt Service.

**“Defeasance Securities”** means any of the following:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of the United States of America;

(ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (i) held by a bank or trust company as custodian, under which the owner thereof is the real party in interest and has the right to

proceed directly and individually against the obligor and the underlying bonds or other obligations which as to principal and interest constitute direct obligations of the United States of America are not available to any person claiming through the custodian or to whom the custodian may be obligated; or

(iii) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i) or (ii) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i) or (ii) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (iii) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (iii), as appropriate, and (d) which have been rated “AAA” by Standard & Poor’s and “Aaa” by Moody’s or which are eligible to be rated “AAA” by Standard & Poor’s under the then existing defeasance criteria of Standard & Poor’s;

“**Enterprise**” means any and all facilities of the City for the disposal or reuse of wastewater, including sewage treatment plants, intercepting and collecting sewers, outfall sewers, force mains, pumping stations, ejector stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification or disposal of sewage and any necessary lands, rights of way and other real or personal property useful in connection therewith. The term “Enterprise” does not include, however, facilities relating to the production, distribution and use of methane gas.

“**Event of Default**” means any of the events specified as such in the Indenture as described under the caption “Events of Default” below.

“**Fiscal Year**” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the City which designation will be provided to the Trustee in a Certificate of the City.

“**Gross Revenues**” means all gross income and revenue received by the City from the ownership and operation of the Enterprise, including (a) all fees and charges received by the City for the services of the Enterprise, (b) all other income and revenue howsoever derived by the City from the ownership and operation of the Enterprise or arising from the Enterprise, and (c) all sums deposited, or required under the Indenture to be deposited, in the Sewer Enterprise

Fund; but excluding (x) the proceeds of any ad valorem property taxes received by the City to pay debt service on any outstanding obligations of the City, (y) any contributed capital (other than connection fees), and (z) any moneys received by the City as a result of litigation arising out of perchloroethylene (PCE) contamination that are to be expended on capital costs of the Enterprise.

“**Indenture**” means the Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, as originally executed and as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions of the Indenture.

“**Independent Accountant**” means any accountant or firm of such accountants appointed and paid by the City, and who, or each of whom-

- (a) is in fact independent and not under domination of the City;
- (b) does not have any substantial interest, direct or indirect, with the City; and
- (c) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

“**Interest Fund**” means the fund by that name established with the Trustee pursuant to the Indenture.

“**Investment Securities**” means the following:

- (i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the federal agencies and federally sponsored entities set forth in clause (iii) below to the extent unconditionally guaranteed by the United States of America;
- (ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (i);
- (iii) obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks, and Federal Home Loan Mortgage Corporation;
- (iv) obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing; provided that at the time of their purchase such obligations are rated not lower than their respective ratings on the Bonds by Moody’s (if Moody’s is then rating the Bonds) and Standard & Poor’s (if Standard & Poor’s is then rating the Bonds);

(v) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i), (ii) or (iii) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i), (ii) or (iii) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (v) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (v), as appropriate, and (d) which have been rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(vi) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds) in their respective highest short-term Rating Categories, or, if the term of such indebtedness is longer than three (3) years, rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(vii) demand or time deposits or certificates of deposit, whether negotiable or nonnegotiable, issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee), provided that such certificates of deposit will be purchased directly from such a bank, trust company or national banking association and will be either (1) continuously and fully insured by the Federal Deposit Insurance Corporation, or (2) continuously and fully secured by such securities and obligations as are described above in clauses (i) through (iv), inclusive, which will have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and will be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit, and the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured will furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to the principal amount of each such certificate of deposit and the Trustee will be entitled to rely on each such undertaking;

(viii) taxable commercial paper or tax-exempt commercial paper, rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(ix) variable rate obligations required to be redeemed or purchased by the obligor or its agent or designee upon demand of the holder thereof secured as to such redemption or purchase requirement by a liquidity agreement with a corporation and as to the payment of interest and principal either upon maturity or redemption (other than upon demand by the holder thereof) thereof by an unconditional credit facility of a corporation provided that the variable rate obligations themselves are rated in their respective highest Rating Categories for its short-term rating, if any, and not lower than their respective ratings on the Bonds for its long-term rating, if any, by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds), and that the corporations providing the liquidity agreement and credit facility have, at the date of acquisition of the variable rate obligation by the Trustee, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(x) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of one hundred million dollars (\$100,000,000) and with short-term debt rated by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds) in their respective four highest short-term rating categories or with government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clauses (i), (ii), or (iii) above, which will have a market value (exclusive of accrued interest and valued at least monthly) at least equal to the principal amount of such investment and will be lodged with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement, and the entity executing each such repurchase agreement required to be so secured will furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to the principal amount of each such repurchase agreement and the Trustee will be entitled to rely on each such undertaking;

(xi) any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (i), (ii), (iii), (iv) and (x) of the definition of Investment Securities and any money market fund, the entire investments of which are limited to investments described in clauses (i), (ii), (iii), (iv) and (x) of the definition of Investment Securities and which money market fund is rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds); provided that as used in this clause (xi) and clause (xii) investments will be deemed to satisfy the requirements of clause (x) if they meet the requirements set forth in clause (x)

ending with the words “clauses (i), (ii), or (iii) above” and without regard to the remainder of such clause (x);

(xii) investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least “AA” by Standard & Poor’s and “Aa” by Moody’s; provided that the terms of the investment agreement will be approved in writing by each insurer of the Bonds, if any;

(xiii) shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (i) through (xii) of the definition of Investment Securities and which companies are rated in their respective highest Rating Categories by Moody’s (if Moody’s is then rating the Bonds) and Standard & Poor’s (if Standard & Poor’s is then rating the Bonds) or have an investment advisor registered with the Securities and Exchange Commission with not less than 5 years experience investing in such securities and obligations and with assets under management in excess of \$500,000,000;

(xiv) the California Asset Management Program (CAMP);

(xv) forward purchase and sale agreements for underlying securities otherwise authorized under this definition of “Investment Securities” with providers acceptable to each insurer of the Bonds, if any; and

(xvi) any other investment approved by the City Council.

**“Maximum Annual Debt Service”** means the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Debt in the Fiscal Year in which the calculation is made or any subsequent Fiscal Year using the principles and assumptions set forth under the definition of Debt Service.

**“Moody’s”** means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency selected by the City.

**“Net Revenues”** means, with respect to any period, the amount of the Gross Revenues received during such period less the amount of Operating Expenses becoming payable during such period.

**“Operating Expenses”** means the reasonable and necessary costs of maintaining and operating the Enterprise, calculated on the basis of generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar

costs, but excluding (a) depreciation, replacement and obsolescence charges or reserves therefor or other bookkeeping entries of a similar nature, and (b) interest on the Bonds and any Parity Debt.

**“Opinion of Bond Counsel”** means a written opinion of a law firm of national standing in the field of public finance selected by the City.

**“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 cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the City will have been discharged in accordance with the Indenture, including Bonds (or portions of Bonds) for which money has been set aside for the payment of the interest, principal or Redemption Price due as provided in the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds will have been authenticated and delivered by the Trustee pursuant to the Indenture.

**“Owner”** or **“Bondholder”** or **“Bondowner,”** whenever used in the Indenture with respect to a Bond, means the person in whose name such Bond is registered.

**“Parity Debt”** means any indebtedness, installment sale obligation, lease obligation or other obligation of the City for borrowed money having an equal lien and charge upon the Net Revenues, therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

**“Parity Reserve Fund”** means the fund by that name established with the Trustee pursuant to the Indenture.

**“Principal Fund”** means the fund by that name established with the Trustee pursuant to the Indenture.

**“Public Finance Contract”** means a written agreement for the purpose of managing or reducing the City’s exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the City and a Qualified Counterparty as authorized under any applicable laws of the State in connection with, or incidental to, the issuance of Bonds or Parity Debt, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device.

**“Public Finance Contract Payments”** means the amounts periodically required to be paid by the City to all Qualified Counterparties under all Public Finance Contracts.

**“Public Finance Contract Receipts”** means the amounts periodically required to be paid by all Qualified Counterparties to the City under all Public Finance Contracts.

**“Qualified Counterparty”** means a party (other than the City or a party related to the City) who is the other party to a Public Finance Contract and (1) (A) who is rated at least “A2” from Moody’s and “A” from Standard & Poor’s, or (B) whose senior debt obligations are rated

at least “A2” from Moody’s and “A” from Standard & Poor’s, or guaranteed by an entity so rated, or (C) whose obligations under the Public Finance Contract are guaranteed for the entire term of the Public Finance Contract by a bond insurer or other institution which has been assigned a credit rating at least equal to “A2” from Moody’s and “A” from Standard & Poor’s, or (D) whose obligations under the Public Finance Contract are collateralized in such a manner as to obtain a rating at least equal to the ratings assigned by each of the Rating Agencies to the Bonds or Parity Debt to which such Public Finance Contract relates, and (2) who is otherwise qualified to act as the other party to a Public Finance Contract under all applicable laws of the State.

**“Rating Category”** means (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

**“Rebate Fund”** means the fund by that name established with the Trustee pursuant to the Indenture.

**“Rebate Requirement”** means the Rebate Requirement defined in the Tax Certificate.

**“Redemption Fund”** means the fund by that name established with the Trustee pursuant to the Indenture.

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

**“Reserve Fund Requirement”** means, as of any date of determination and excluding any Bonds or Parity Debt for which no reserve fund is to be maintained and any Parity Debt for which a separate reserve fund is to be maintained, the lesser of (a) the Maximum Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, or (b) one hundred twenty-five percent (125%) of the Average Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund; provided that in no event will the deposit to the Parity Reserve Fund with respect to any Series of Bonds or Parity Debt to be secured by the Parity Reserve Fund be an amount greater than ten percent (10%) of the initial offering price to the public of each Series of Bonds and any Parity Debt to be secured by the Parity Reserve Fund as determined under the Code, all as computed and determined by the City and specified in writing to the Trustee.

**“Serial Bonds”** means Bonds, maturing in specified years, for which no mandatory sinking fund payments are provided.

**“Series,”** whenever used in the Indenture with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any

Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

“**Sewer Enterprise Fund**” means the existing fund by that name established and held by the City with respect to the Enterprise.

“**Short-Term Indebtedness**” means Bonds or Parity Debt having an original maturity of less than or equal to one year and which are not renewable at the option of the City for a term greater than one year beyond the date of original incurrence.

“**Standard & Poor’s**” means Standard & Poor’s, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term “Standard & Poor’s” will be deemed to refer to any other nationally recognized securities rating agency selected by the City.

“**State**” means the State of California.

“**Supplemental Indenture**” means any indenture hereafter duly executed and delivered, supplementing, modifying or amending the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

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

“**Term Bonds**” means Bonds payable at or before their specified maturity date or dates from mandatory sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“**Trustee**” means The Bank of New York Mellon Trust Company, N.A., acting as trustee under the Indenture, or its successor, as Trustee as provided in the Indenture.

“**Variable Interest Rate**” means any variable interest rate or rates to be paid under any Bonds or Parity Debt, the method of computing which variable interest rate will be as specified in the Supplemental Indenture providing for the issuance of the applicable Bonds or the instrument providing for the issuance of the Parity Debt, which Supplemental Indenture or other instrument will also specify either (i) the payment period or periods or time or manner of determining such period or periods or time for which each value of such variable interest rate will remain in effect, and (ii) the time or times based upon which any change in such variable interest rate will become effective, and which variable interest rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indices.

“**Variable Interest Rate Indebtedness**” means, for any period of time, any Bonds or Parity Debt that bear a Variable Interest Rate during such period, except that no Bonds or Parity Debt will be treated as a Variable Interest Rate Indebtedness if the net economic effect of a Public Finance Contract with respect to any particular Bonds or Parity Debt is to produce

obligations that bear interest at a fixed interest rate, and any Bonds or Parity Debt with respect to which a Public Finance Contract is in force will be treated as a Variable Interest Rate Indebtedness if the net economic effect of the Public Finance Contract is to produce obligations that bear interest at a Variable Interest Rate.

### **Issuance of Bonds and Parity Debt**

*Issuance of Bonds.* The City may by Supplemental Indenture establish one or more Series of Bonds payable from Net Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued, and the City may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as will be determined by the City, but only, with respect to each Series of Bonds, upon compliance by the City with the provisions of the Indenture (except any Series of Bonds delivered under a Supplemental Indenture of even date with the Indenture may be issued upon compliance by the City with the requirements of the Indenture described under subparagraph (c) under “Proceedings for Issuance of Additional Series of Bonds” below and without further condition) and any additional requirements set forth in said Supplemental Indenture and subject to the following specific conditions, which are made conditions precedent to the issuance of any such additional Series of Bonds:

- (a) no Event of Default shall have occurred and then be continuing;
- (b) the aggregate principal amount of Bonds issued under the Indenture will not exceed any limitation imposed by law or otherwise;
- (c) there will be deposited in the Parity Reserve Fund an amount of money so as to increase the amount on deposit therein to the Reserve Fund Requirement, provided that Parity Debt may be secured by a separate reserve fund or no reserve fund; and
- (d) The Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (60) days prior to the adoption of the Supplemental Indenture pursuant to which such Series of Bonds are issued or the instrument pursuant to which such Parity Debt is issued, as shown by the books of the City, plus, at the option of the City, any or all of the items designated in (i) and (ii) below, but excluding connection charges, will at least equal one hundred twenty-five percent (125%) of the Maximum Annual Debt Service on all Bonds and Parity Debt to be Outstanding immediately subsequent to the issuance of such Series of Bonds or Parity Debt. The items any or all of which may be added to such Net Revenues for the purpose of issuing or incurring additional Series of Bonds or Parity Debt under the Indenture are the following:
  - (i) An allowance for Net Revenues from any additions to or improvements or extensions of the Enterprise to be made with the proceeds of such additional Series of Bonds or Parity Debt, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of such

Fiscal Year or such twelve (12) month period, were not in service, all in an amount equal to ninety-five percent (95%) of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first thirty-six (36) month period in which each addition, improvement or extension is respectively to be in operation, all as shown by a Certificate of the City filed with the Trustee.

(ii) An allowance for earnings arising from any increase in the charges made for service from the Enterprise which has become effective prior to the incurring of such additional Series of Bonds or Parity Debt but which, during all or any part of such Fiscal Year or such twelve (12) month period, was not in effect, in an amount equal to ninety-five percent (95%) of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such twelve (12) month period, all as shown by a Certificate of the City filed with the Trustee.

In the event additional assets or revenues are included within the definition of “Net Revenues” by a Supplemental Indenture, such additional assets or revenues will be included in the calculations in (d) above, as appropriate, as if such additional assets or revenues had always been included in Net Revenues.

*Proceedings for Issuance of Additional Series of Bonds.* Whenever the City determines to issue a Series of Bonds pursuant to the Indenture, the City will authorize the execution of a Supplemental Indenture specifying the principal amount, and prescribing the form or forms of Bonds of such additional Series and providing the terms, conditions, distinctive designation, denominations, date, maturity date or dates, interest rate or rates (or the manner of determining the same), redemption provisions and place or places of payment of principal or Redemption Price, if any, of and interest on such Bonds, and any other provisions respecting the Bonds of such Series not inconsistent with the terms of the Indenture.

Before such additional Series of Bonds is issued and delivered, the City will file the following documents with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Bonds have been satisfied):

- (a) an executed copy of the Supplemental Indenture authorizing such Series;
- (b) a Certificate of the City stating that no Event of Default has occurred and is then continuing;
- (c) an Opinion of Bond Counsel to the effect that the execution of the Supplemental Indenture has been duly authorized by the City in accordance with the Indenture; that such Series, when duly executed by the City and authenticated and delivered by the Trustee, will be valid and binding limited obligations of the City, and that upon the delivery of such Series the aggregate principal amount of Bonds then Outstanding will not exceed the amount permitted by law or otherwise;
- (d) the Certificate of the City required by the Indenture; and

(e) a Certificate of the City or of an independent certified public accountant that upon delivery of such Bonds, the aggregate principal amount of Bonds then Outstanding will not exceed the amount permitted under the Indenture.

*Issuance of Refunding Bonds.* Notwithstanding any provisions in the Indenture, there will be no limitation on the ability of the City to issue any Bonds at any time to refund any outstanding Bonds or Parity Debt; provided, however, that the Maximum Annual Debt Service with respect to any such refunding Bonds will not exceed 1.10 times the Maximum Annual Debt Service with respect to the Bonds or Parity Debt being refunded.

*Limitations on the Issuance of Obligations.* The City will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Net Revenues, except the following:

(a) Bonds of any Series authorized pursuant to the Indenture as described under the captions “Issuance of Bonds” and “Proceedings for Issuance of Additional Series of Bonds” above;

(b) refunding Bonds authorized pursuant to the Indenture as described under “Issuance of Refunding Bonds” above.

(c) Parity Debt payable on a parity with the Bonds and which will have, when issued, an equal lien and charge upon the Net Revenues, provided that the following conditions to the issuance of such Parity Debt are satisfied:

(1) such Parity Debt has been duly and legally authorized for any lawful purpose;

(2) no Event of Default shall have occurred and then be continuing, as evidenced in a Certificate of the City filed with the Trustee;

(3) unless such Parity Debt is for the refunding purposes specified in the Indenture, the City will have obtained and placed on file with the Trustee a Certificate of the City that (on the basis of calculations as of the date of delivery of such Parity Debt) the requirements of the Indenture with respect to additional Bonds have been met with respect to such Parity Debt;

(4) the City will have filed with the Trustee an Opinion of Bond Counsel to the effect that such Parity Debt has been duly authorized in accordance with law and constitutes a valid and binding obligation of the City payable from Net Revenues on a parity with the Bonds; and

(5) the Trustee will be designated as paying agent or trustee for such Parity Debt and the City will deliver to the Trustee a transcript of the proceedings providing for the issuance of such Parity Debt (but the Trustee will not be responsible for the validity or sufficiency of such proceedings or such Parity Debt); or

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

### **Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts**

*Pledge of Net Revenues.* The Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues and from the other funds pledged under the Indenture. All Net Revenues are pledged to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds and any Parity Debt in accordance with their terms, 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 to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), 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. Said pledge will constitute a first lien on the Net Revenues and amounts in such funds and will be valid and binding from and after delivery by the Trustee of the Bonds or Parity Debt, without any physical delivery thereof or further act.

The Net Revenues are pledged to the payment of Bonds and Parity Debt without priority or distinction of one over the other and the Net Revenues constitute a trust fund for the security and payment of the Bonds and Parity Debt; but nevertheless out of Net Revenues, certain amounts may be applied for other purposes as provided in the Indenture.

Out of Net Revenues, there will be applied as set forth in the Indenture all sums required for the payment of the principal of (including any premium thereon) and interest on the Bonds and all Parity Debt, together with any reserve fund requirements with respect thereto. All remaining Net Revenues, after making the foregoing allocation, will be available to the City for all lawful City purposes. The pledge of Net Revenues in the Indenture made will be irrevocable until all of the Bonds and all Parity Debt are no longer outstanding.

*Sewer Enterprise Fund.* In order to carry out and effectuate the obligation of the City contained in the Indenture to pay the Bonds, so long as any Bonds are Outstanding, the City covenants and agrees that all Gross Revenues, when and as received, will be received, deposited and held by the City in the Sewer Enterprise Fund and will be accounted for through and held in trust in the Sewer Enterprise Fund, and the City will have no beneficial right or interest in any of such moneys except only as provided in the Indenture. The City covenants and agrees to maintain the Sewer Enterprise Fund at all times so long as any Bonds will be Outstanding under the Indenture. All Gross Revenues and Net Revenues, whether held by the City or deposited

with the Trustee, all as provided in the Indenture, will nevertheless be disbursed, allocated, and applied solely to the uses and purposes set forth in the Indenture.

All amounts in the Sewer Enterprise Fund required to pay Operating Expenses of the Enterprise will be applied for such purpose from time to time by the City. So long as any Bonds are Outstanding, the City will transfer the remaining moneys in the Sewer Enterprise Fund to the Trustee as required for deposit into the following respective funds (each of which the Trustee will establish, maintain and hold in trust for the benefit of the Owners of the Bonds) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Net Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to outstanding Parity Debt as provided in the proceedings for such Parity Debt (which will be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Debt):

(1) Interest Fund. The City will transfer to the Trustee and the Trustee will set aside in the Interest Fund on or before the third Business Day prior to each interest payment date therefor an amount equal to the interest becoming due and payable on the Outstanding Bonds (excluding interest for which there are moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source to pay such interest).

(2) Principal Fund: Sinking Accounts. The City will transfer to the Trustee and the Trustee will set aside in the Principal Fund on or before the third Business Day prior to each principal or mandatory sinking fund payment date therefor an amount equal to (a) the amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds, plus (b) the mandatory sinking fund payments to be paid into the respective Sinking Accounts for the Term Bonds; provided that if the City certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from excess amounts on deposit in the Parity Reserve Fund or other bond reserve fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid mandatory sinking fund payments will be made without priority of any payment into any one such Sinking Account over any other such payment.

(3) Parity Reserve Fund. Upon the occurrence of any deficiency in the Parity Reserve Fund established pursuant to the Indenture, the City will transfer to the Trustee and the Trustee will set aside in the Parity Reserve Fund an amount equal to the aggregate amount of each unreplenished prior withdrawal from the Parity Reserve Fund until there is on deposit in the Parity Reserve Fund an amount equal to the Reserve Fund Requirement.

Any Net Revenues remaining in the Sewer Enterprise Fund after the transfers described above, except as otherwise provided in a Supplemental Indenture, will be held free and clear of the Indenture by the City and it may use and apply such Net Revenues for any lawful purpose of

the City, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

If on any principal payment date, interest payment date or mandatory sinking fund redemption date the amounts on deposit in the Interest Fund and Principal Fund, including the Sinking Accounts therein, are insufficient to make such payments, the Trustee will immediately notify the City, by telephone or facsimile machine, of such deficiency and direct that the City transfer the amount of such deficiency to the Trustee on such payment date. The City covenants and agrees to transfer to the Trustee from any Net Revenues in its possession the amount of such deficiency on the principal, interest or mandatory redemption date referenced in such notice.

*Application of Interest Fund.* All amounts in the Interest Fund will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it will become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture). In addition if so directed by the City, the Trustee may deposit into the Interest Fund, Public Finance Contract Receipts of the City and may pay from the Interest Fund, Public Finance Contract Payments on behalf of the City.

*Application of Principal Fund.* All amounts in the Principal Fund will be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that all amounts in the Sinking Accounts will be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided in the Indenture.

The Trustee will establish and maintain within the Principal Fund a separate sinking account for the Term Bonds of each Series and maturity. On or before the Business Day prior to any date upon which a mandatory sinking fund payment is due, the Trustee will transfer the amount of such mandatory sinking fund payment (being the principal thereof, in the case of Current Interest Bonds and the Accreted Value, in the case of Capital Appreciation Bonds from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each mandatory sinking fund payment date established for such Sinking Account, the Trustee will apply the mandatory sinking fund payment required on that date to the redemption of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of such redemption, the Trustee will, upon receipt of a Request of the City, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the City, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) will not exceed the principal amount or Accreted Value thereof. If the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or purchased or redeemed Term Bonds of such Series and maturity at any time from the Redemption Fund and allocable to said mandatory sinking fund payment, or if the City has purchased or otherwise acquired Term Bonds and deposited such Term Bonds with the Trustee, such Term Bonds so purchased or deposited or redeemed by the Trustee or the City will be applied, to the extent of the full principal amount

thereof, to reduce said mandatory sinking fund payment. All Term Bonds so purchased or deposited as described under this caption, "Application of Principal Fund" will be cancelled and destroyed by the Trustee. Any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding will be withdrawn by the Trustee and transferred to the City to be deposited in the Sewer Enterprise Fund. All Term Bonds so purchased will be allocated first to the next succeeding mandatory sinking fund payment for such Series and maturity of Term Bonds, then as a credit against such future mandatory sinking fund payment for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed from the Redemption Fund will be credited to such future mandatory sinking fund payment for such Series and maturity of Term Bonds as may be specified in a Request of the City.

*Application of Redemption Fund.* The Trustee will establish, maintain and hold in trust a special fund designated as the "Redemption Fund" when required. All moneys deposited by the City with the Trustee for the purpose of redeeming Bonds of any Series pursuant to optional redemption or special mandatory redemption provisions applicable to such Series of Bonds will, unless otherwise directed by the City, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund will be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving notice of such redemption, the Trustee will, upon receipt of a Request of the City, apply such amounts to the purchase of Bonds of such Series at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Account) as is directed by the City, except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund will be allocated to mandatory sinking fund payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the City.

*Parity Reserve Fund.* The Trustee will 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 "Parity Reserve Fund." Amounts on deposit in the Parity Reserve Fund are pledged to the payment of the Bonds and any Parity Debt to be secured by the Parity Reserve Fund and will be applied only for such purposes as permitted in the Indenture. The Trustee will deposit in the Parity Reserve Fund, upon the direction of the City, the Reserve Fund Requirement and such other amounts transferred to the Trustee by the City pursuant to the Indenture. No deposit need be made in the Parity Reserve Fund so long as there will be on deposit therein a sum equal to at least the amount required to be on deposit therein as described in this paragraph. Whenever the amount on deposit in the Parity Reserve Fund is less than the Reserve Fund Requirement, notice thereof will be provided to the insurer of the Bonds, if any, and such amount will be increased to the Reserve Fund Requirement as described in this paragraph not later than twelve months thereafter. Moneys on deposit in the Parity Reserve Fund (including all amounts that may be obtained from letters of credit and surety bonds and insurance policies, as provided below, on deposit in the Parity Reserve Fund) will be transferred by the Trustee to the Principal Fund and Interest Fund to pay principal of and interest on the Bonds on any interest payment date in the event amounts on deposit therein are insufficient for such purposes. The Trustee will also, from

such amounts on deposit in the Parity Reserve Fund, transfer or cause to be transferred to any applicable debt service fund for any Parity Debt to be secured by the Parity Reserve Fund, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without discrimination or preference, that sum or sums, if any, equal to the amount required to be deposited therein pursuant to the documents under which any such Parity Debt to be secured by the Parity Reserve Fund is issued or incurred. Amounts on deposit in the Parity Reserve Fund in excess of the Reserve Fund Requirement will, at the written Request of the City, be withdrawn from the Parity Reserve Fund and transferred to the City.

The City may provide for all or any part of the Reserve Fund Requirement by delivering to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest Rating Categories of Moody's or Standard & Poor's, without regard to modifiers, securing an amount, together with moneys, Investment Securities or surety bonds or insurance policies (as described in the immediately succeeding paragraph under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts Parity Reserve Fund") on deposit in the Parity Reserve Fund, equal to the Reserve Fund Requirement. Such letter of credit will have an original term of no less than three (3) years or, if less, the final maturity of the Bonds and such letter of credit will provide by its terms that it may be drawn upon as provided in the Indenture. At least one year prior to the stated expiration of such letter of credit, the City will either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year or, if less, the maturity of the Bonds or (iii) deliver to the Trustee a surety bond or an insurance policy satisfying the requirements described in the immediately succeeding paragraph under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts-Parity Reserve Fund." Upon delivery of such replacement letter of credit, extended letter of credit, or surety bond or insurance policy, the Trustee will deliver the then effective letter of credit to or upon the order of the City. If the City fails to deposit a replacement letter of credit, extended letter of credit, surety bond or insurance policy with the Trustee, the City will immediately commence to make monthly deposits with the Trustee so that an amount equal to the Reserve Fund Requirement will be on deposit in the Parity Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Reserve Fund Requirement, as of the date following the expiration of the letter of credit, is not on deposit in the Parity Reserve Fund one week prior to the stated expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee will draw on the letter of credit to fund the amount of any such deficiency in the Parity Reserve Fund.

The City may also provide for all or any part of the Parity Reserve Fund by delivering to the Trustee a surety bond or an insurance policy securing an amount, together with moneys, Investment Securities or letters of credit on deposit in the Parity Reserve Fund, equal to the Reserve Fund Requirement. Such surety bond or insurance policy will be issued by an insurance company whose unsecured debt obligations (or obligations secured by such insurance company's insurance policies) are rated in one of the two highest Rating Categories of Moody's or Standard & Poor's, without regard to modifiers. Such surety bond or insurance policy will have a term of no less than the final maturity of the Bonds. In the event that such surety bond or insurance policy for any reason lapses or expires, the City will immediately implement the actions described in clause (i) or (iii) of the immediately preceding paragraph under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts-Parity Reserve Fund"

above or make the required deposits to the Parity Reserve Fund. Repayment of any draw under any such surety bond or insurance policy, and any expenses and accrued interest related to such draw (collectively the "Policy Costs") will commence in the first month following each such draw, and will be paid at the time specified in the first paragraph under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts-Parity Reserve Fund" above in an amount not less than one-twelfth (1/12th) of the aggregate of the Policy Costs related to such draw. If and to the extent that cash has also been deposited in the Parity Reserve Fund, all such cash will be used (including investments purchased with such cash, which will be liquidated and the proceeds thereof applied as required under the Indenture) prior to any drawing under surety bond or insurance policy, and repayment of any Policy Costs will be made prior to any replenishment of any such cash amounts. If the City fails to repay any Policy Costs in accordance with the Indenture, the insurance company issuing such surety bond or insurance policy will be entitled to exercise any and all remedies available at law or under the Indenture other than (i) an acceleration of the interest on or principal of the Bonds as provided in the Indenture or (ii) any other remedy that would adversely affect Bondholders. The Trustee will ascertain the necessity for a claim upon any surety bond or insurance policy provided pursuant to the provisions of the Indenture described under this caption "Pledge of Net Revenues; Sewer Enterprise Fund; Trustee Funds and Accounts-Parity Reserve Fund" and provide notice to the insurance company issuing such bond or policy in accordance with the terms and conditions of such bond or insurance policy not less than two (2) Business Days prior to any interest payment date upon which such a claim should be paid.

In the event of any deficiency in the Principal Fund or Interest Fund for the payment of principal and interest payments for the Bonds pursuant to clause (A) above, the Trustee will, after first applying all cash and Investment Securities held in the Parity Reserve Fund to pay the Bond Obligation of, any mandatory sinking fund payments with respect to, and interest on, the Bonds when due, on a pro rata basis with respect to the portion of the Parity Reserve Fund held in the form of letters of credit and amounts held in the form of surety bonds and insurance policies (calculated by reference to the maximum amounts of such letters of credit and surety bonds and insurance policies), draw under each letter of credit or surety bond or insurance policy issued with respect to the Parity Reserve Fund, in a timely manner and pursuant to the terms of such letter of credit or surety bond or insurance policy to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, any mandatory sinking fund payments with respect to, and interest on, the Bonds when due. In the event that the Trustee has written notice from the City or any Bondholder that any payment of principal of, or interest on, a Bond has been recovered from a Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to and provided that the terms of the letter of credit or surety bond or insurance policy, if any, credited to the Parity Reserve Fund so provide, will so notify the issuer thereof and draw on such letter of credit or surety bond or insurance policy to the lesser of the extent required or the maximum amount of such letter of credit or surety bond or insurance policy in order to pay to such Bondholder the principal of and interest so recovered. All amounts in the Parity Reserve Fund (other than amounts that may be obtained from letters of credit and surety bonds and insurance policies on deposit in the Parity Reserve Fund) may be used and withdrawn by the Trustee, if so directed by the City, for the payment or redemption of all Bonds then Outstanding, or for the payment of the final principal and interest payments of the Bonds.

## **Investment of Moneys in Funds and Accounts**

All moneys in any of the funds and accounts held by the Trustee and established pursuant to the Indenture will be invested, as directed by the City, solely in Investment Securities; provided, however, that Investment Securities (other than those described in clauses (x), (xii), (xv) or (xvi) of the definition thereof) purchased with moneys held by the Trustee in the Parity Reserve Fund will have an average weighted term to maturity not greater than five years. All Investment Securities will, as directed by the City in writing or by telephone, promptly confirmed in writing, be acquired subject to the limitations as to maturities set forth in the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by Request of the City. The Trustee may conclusively rely upon any investment direction from the City as a certification to the Trustee that such investment constitutes an Investment Security. If and to the extent the Trustee does not receive investment instructions from the City with respect to the moneys in the funds and accounts held by the Trustee pursuant to the Indenture, such moneys will be invested in Investment Securities described in clause (xi) of the definition thereof and the Trustee will thereupon request investment instructions from the City for such moneys.

Unless otherwise provided in the Indenture or in a Supplemental Indenture, all interest, profits and other income received from the investment of moneys in any fund or account, other than the Rebate Fund, will be transferred by the Trustee to the City for deposit in the Sewer Enterprise Fund when received. All interest, profits and other income received from the investment of moneys in the Rebate Fund will be deposited in the Rebate Fund, except as otherwise provided in the Indenture. Notwithstanding anything to the contrary contained in the Indenture, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security will be credited to the fund or account from which such accrued interest was paid.

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture will be accounted for separately as required by the Indenture. The Trustee may act as principal or agent in the making or disposing of any investment and, with the prior written consent of the City, may impose its customary charge therefor. The Trustee may sell or present for redemption, any Investment Securities so purchased whenever it will 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, and the Trustee will not be liable or responsible for any loss resulting from such investment.

The Trustee and the City will each keep proper books of record and accounts containing complete and correct entries of all transactions made by it relating to the receipt, investment, disbursement, allocation and application of the moneys related to the Bonds, including moneys derived from, pledged to, or to be used to make payments on the Bonds. Such records will specify the account or fund to which each investment (or portion thereof) is to be allocated and will set forth, in the case of each investment security, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, including accrued interest, (d) the amounts and

dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City will not receive such confirmations to the extent permitted by law. The Trustee will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

The Trustee may make any investments under the Indenture through its own bond or investment department or trust investment department, or those of its parent or any affiliate.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

The Trustee will also provide to the City in accordance with a Request of the City, with respect to each Investment Security such documentation as is reasonably available to the Trustee and specified by the City to the Trustee in writing and is required by the Code or other applicable law to be obtained by the City as evidence to establish that each investment had been acquired and disposed of on an established market in an arm's-length transaction at a price equal to its fair market value and with no amounts having been paid to reduce the yield on the investments, or will be United States Treasury Obligations-State and Local Government Series as set forth in the Tax Certificate.

## **Covenants**

Pursuant to the Indenture, the City has covenanted as follows:

*Punctual Payment.* The City will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and will punctually pay or cause to be paid all mandatory sinking fund payments, but in each case only out of Net Revenues, as provided in the Indenture.

*Operation of Enterprise in Efficient and Economical Manner.* The City covenants and agrees to operate the Enterprise in an efficient and economical manner and to operate, maintain and preserve the Enterprise in good repair and working order.

*Waiver of Laws.* The City will 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 the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the City to the extent permitted by law.

*Further Assurances.* The City will make, execute and deliver any and all such 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 Owners of the Bonds of the rights and benefits provided in the Indenture.

*Discharge of Claims.* The City covenants that in order to fully preserve and protect the priority and security of the Bonds, the City will pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with Enterprise which, if unpaid, may become a lien or charge upon the Gross Revenues or the Net Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The City will also pay from the Gross Revenues all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Enterprise or upon any part thereof or upon any of the Gross Revenues or the Net Revenues therefrom.

*Against Sale, Eminent Domain.* Except as provided in the Indenture, the City covenants that the property, facilities and improvements of the Enterprise will not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless: (a) the City will cause to be filed with the Trustee written evidence from each Rating Agency that such sale or other disposition will not cause a reduction or withdrawal of the rating then assigned to the Bonds by each such Rating Agency; (b) such sale or other disposition will be so arranged as to provide for a continuance of payments into the Sewer Enterprise Fund sufficient in amount to permit payment therefrom of the principal of and interest on and premiums, if any, due upon the call and redemption, thereof of the Outstanding Bonds, and also to provide for such payments into the funds as are required under the terms of the Indenture and any Supplemental Indenture; and (c) the City will have filed with the Trustee an opinion of nationally- recognized bond counsel to the effect that such sale or other disposition will not adversely affect the exemption from federal income taxation of interest on the Bonds. The City further covenants that the Net Revenues or any other funds pledged or otherwise made available to secure payment of the principal of and interest on the Outstanding Bonds will not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used except as authorized by the terms of the Indenture. The City further covenants that it will not enter into any agreement which impairs the operation of the Enterprise or any part of it necessary to secure adequate Net Revenues to pay the principal and interest of the Bonds or which otherwise would impair the rights of the Bond Owners with respect to the Net Revenues. If any substantial part of the Enterprise is sold the payment therefor will either be used for the acquisition and/or construction of improvements and extensions of the Enterprise or will be deposited with the Trustee and will be used to redeem the Outstanding Bonds and Parity Debt in respective amounts and on the respective dates identified by the City in writing.

The City covenants that any amounts received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the City, will either (a) be used for the acquisition and or construction of improvements and extension of the Enterprise, or (b) be deposited with the Trustee (in an amount required to redeem the maximum amount of Outstanding Bonds and Parity Debt) to be used to pay or redeem the Outstanding Bonds and Parity Debt in respective amounts and on the respective dates identified by the City in writing.

*Insurance.* The City covenants that it will at all times maintain with responsible insurers all such insurance on the Enterprise as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Enterprise is damaged or destroyed, such part will be restored to use. The money collected from insurance against accident to or destruction of the physical Enterprise will

either (a) be used for repairing or rebuilding the damaged or destroyed Enterprise, and to the extent not so applied will be deposited with the Trustee (in an amount required to redeem the maximum amount of Outstanding Bonds and Parity Debt) to be used to pay or redeem the Outstanding Bonds and Parity Debt in respective amounts and on the respective dates identified by the City in writing.

Any such insurance will be in the form of policies or contracts for insurance with insurers of good standing and will be payable to the City, or may in the form of self-insurance by the City. The City will establish such fund or funds or reserves as are necessary to provide for its share of any such self-insurance. The City will file or cause to be filed with the Trustee, annually within one hundred twenty (120) days after the close of each Fiscal Year, a Certificate of the City (a) stating that the City is then in compliance with the requirements of the Indenture described under this caption "Covenants-Insurance," and (b) stating whether during the preceding Fiscal Year any loss has been incurred with respect to the Enterprise and, if so, the amount of insurance proceeds, including the proceeds of any self-insurance fund covering such loss and specifying the reasonable and necessary costs of repair, reconstruction or replacement thereof.

*Records and Accounts.* The City covenants that it will keep proper books of record and accounts of the Enterprise, separate from all other records and accounts, in which complete and correct entries will be made of all transactions relating to the Enterprise. Said books will, upon reasonable request, be subject to the inspection of the Owners of not less than ten percent (10%) of the Outstanding Bonds or their representatives authorized in writing.

The City covenants that it will cause the books and accounts of the Enterprise to be audited annually by an Independent Accountant and will make available for inspection by the Bond Owners at the Trust Office of the Trustee, upon reasonable request, a copy of the report of such Independent Accountant.

*Rates and Charges.* The City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which (together with other funds accumulated from Gross Revenues and which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year) are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

- (a) all Operating Expenses estimated by the City to become due and payable in such Fiscal Year;
- (b) the Debt Service on the Outstanding Bonds and Parity Debt becoming due and payable during such Fiscal Year;
- (c) all other payments required for compliance with the Indenture and the instruments pursuant to which any Parity Debt will have been issued; and
- (d) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or the Net Revenues.

In addition, the City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which are sufficient to yield Net Revenues during such Fiscal Year equal to at least 1.25 times the amount determined pursuant to the (b) above. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but will not reduce such fees and charges below those then in effect unless the Gross Revenues from such reduced fees and charges will at all times be sufficient to meet the requirements of the Indenture described in this caption "Covenants Rates and Charges."

*No Priority for Additional Obligations.* The City covenants that no additional bonds, notes or other indebtedness will be issued or incurred having any priority in payment of principal or interest out of the Net Revenues over the Bonds. Nothing in the Indenture will prohibit or impair the authority of the City to issue bonds or other obligations which are unsecured or which are secured by a lien on Net Revenues which is subordinate to the lien established under the Indenture, upon such terms and in such principal amount as the City may determine.

*Tax Covenants.* The City covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the City may exclude the application of the tax covenants contained in the Indenture to such Series of Bonds. The City will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the City, or take or omit to take any action that would cause the Bonds to be arbitrage bonds within the meaning of Section 148(a) of the Code. To that end, the City will comply with all requirements of Section 148 of the Code to the extent applicable to the Bonds. In the event that at any time the City is of the opinion that for purposes of the tax covenants contained in the Indenture it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the City will so instruct the Trustee in writing, and the Trustee will take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the City agrees that there will be paid from time to time all amounts required to be rebated to the federal government of the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. The City specifically covenants to pay or cause to be paid to the federal government of the United States of America the Rebate Requirement at the times and in the amounts determined under and as described in the Tax Certificate.

Notwithstanding any of the tax covenants contained in the Indenture, if the City will receive an Opinion of Bond Counsel to the effect that any action required by the tax covenants contained in the Indenture is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the City and the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants under the Indenture will be deemed to be modified to that extent.

*Continuing Disclosure Agreement.* The City will comply with and carry out all of its obligations under any Continuing Disclosure Agreement executed in connection with a Series of Bonds. Upon the failure of the City to comply with the Continuing Disclosure Agreement relating to any Series of Bonds, the Trustee (at the written request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Owners of at least 25% in aggregate Bond Obligation of the related Series of Bonds, will, but only to the extent indemnified to its satisfaction from any liability or expense, including, without limitation, fees and expenses of its attorneys) 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 City, to comply with its obligations under this paragraph. For purposes of the covenant described in this paragraph, “Beneficial Owner” will have the meaning prescribed thereto in the respective Continuing Disclosure Agreement relating to such Series of Bonds.

### **Events of Default and Remedies**

*Events of Default.* The following events will be Events of Default under the Indenture:

(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 declaration or otherwise in the amounts and at the times provided therefor;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) failure by the City to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in (a) or (b) under this caption “Events of Default,” for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, has been given to the City by the Trustee; except that, if such failure can be remedied but not within such thirty (30) day period and if the City has taken all action reasonably possible to remedy such failure within such thirty (30) day period, such failure shall not become an Event of Default for so long as the City shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee or any insurer of the Bonds;

(d) default by the City under any agreement governing any Parity Debt and the continuance of such default beyond the therein stated grace period, if any, with respect to such default;

(e) the filing by the City of a petition in voluntary bankruptcy for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or an assignment by the City for the benefit of creditors, or the admission by the City in writing to its insolvency or inability to pay debts as they mature, or the consent by the City in writing to the appointment of a trustee or receiver for itself;

(f) the entering by a court of competent jurisdiction of an order, judgment or decree declaring the City insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the City, or approving a petition filed against the City seeking reorganization of the City under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof; or

(g) the assumption, under the provisions of any other law for the relief or aid of debtors, by any court of competent jurisdiction of custody or control of the City or of the Net Revenues and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control.

*Application of Net Revenues and Other Funds After Default; Acceleration.* If an Event of Default shall occur and be continuing, the City shall immediately transfer to the Trustee all Net Revenues held by it and received thereafter and the Trustee shall apply all Net Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (except as otherwise provided in the Indenture) 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 Owners of the Bonds and Parity Debt, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) To the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Debt (upon presentation of the Bonds and Parity Debt to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation at the rate or rates of interest borne by the respective Bonds and Parity Debt, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Debt 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 Bond Obligation and Parity Debt at the rate borne by the respective Bonds and Parity Debt, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Debt due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or interest or Accreted Value (plus accrued interest) due on such date to the persons entitled thereto, without any discrimination or preference.

In each and every such case during the continuance of such Event of Default (and subject to any rights granted to any insurer of the Bonds with respect to the enforcement of remedies upon an Event of Default pursuant to a Supplemental Indenture), the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds at the time Outstanding shall be entitled, upon notice in writing to the City, to declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any

such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, the City shall pay to or shall deposit with the Trustee a sum sufficient to pay all principal on such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds at the time Outstanding, by written notice to the City and to the Trustee, may, on behalf of the Owners of all the Bonds, rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

*Trustee to Represent Bondholders.* The Trustee is irrevocably appointed (and the successive respective Owners 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 Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture 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 Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation 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 Owners 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 in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Indenture 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 Net Revenues, and other assets pledged under the Indenture, pending such proceedings. All rights of 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 Owners of such Bonds, subject to the provisions of the Indenture.

*Bondholders' Direction of Proceedings.* Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate amount of Bond Obligation 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 furnishing the Trustee with indemnification satisfactory to it, 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, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, 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 or holders of Parity Debt not parties to such direction.

*Limitation on Bondholders' Right to Sue.* No Owner 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 or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation 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; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (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; and (5) the Trustee shall not have received contrary directions from the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Indenture 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 Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

*Absolute Obligation of the City.* Nothing in any other provision of the Indenture or in the Bonds contained shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal or Redemption Price of and interest on the Bonds to the respective Owners of the Bonds at their respective due dates therefor or upon call for redemption, as provided in the Indenture, but only out of the Net Revenues and other assets pledged in the Indenture therefor, or affect or impair the right of such Owners, 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 any one 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 City, the Trustee 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 City, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

*Remedies Not Exclusive.* No remedy conferred in the Indenture upon or reserved to the Trustee or to the Owners of the Bonds 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 hereafter existing at law or in equity or otherwise.

*No Waiver of Default.* No delay or omission of the Trustee or of any Owner of the Bonds 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 Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

## **The Trustee**

*Appointment; Duties, Immunities and Liabilities of Trustee.* The Bank of New York Trust Company, N.A. serves as successor Trustee under the Indenture and accepts the trust imposed upon it as Trustee under the Indenture and to perform all the functions and duties of the Trustee under the Indenture, subject to the terms and conditions set forth in the Indenture. The Trustee shall, prior to an Event of Default, and after the curing or waiver 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 no implied covenants 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 or waived), 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 would exercise or use under the circumstances in the conduct of his or her own affairs.

The City may 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 Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee will cease to be eligible in accordance with the requirements of the Indenture, or will become incapable of acting, or will be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property will be appointed, or any public officer will 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 will 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 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 City will promptly appoint a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of himself 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, will signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will 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 City or the request of the successor Trustee, such predecessor Trustee will 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 will 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 request of the successor Trustee, the City will 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 acceptance of appointment by a successor Trustee as described under this caption "The Trustee," the City will give notice of the succession of such Trustee to the trusts under the Indenture by mail to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the City fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the City.

Any Trustee appointed under the provisions of the Indenture in succession to the Trustee will be a trust company or bank having the powers of a trust company having a corporate trust office in the State, having a combined capital and surplus of at least fifty million dollars (\$50,000,000) 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 the Indenture described in this paragraph, the combined capital and surplus of such bank or trust company will 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 will cease to be eligible in accordance with the provisions of the Indenture described in this paragraph, the Trustee will resign immediately in the manner and with the effect described under this caption "The Trustee."

If, by reason of the judgment of any court, the Trustee or any successor Trustee is rendered unable to perform its duties under the Indenture, and if no successor Trustee be then appointed, all such duties and all of the rights and powers of the Trustee under the Indenture will be assumed by and vest in the Treasurer of the City in trust for the benefit of the Bondowners.

*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 is 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 will be eligible under the Indenture, will 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 recitals of facts in the Indenture and in the Bonds contained will be taken as statements of the City, and the Trustee assumes no responsibility for the correctness of the same (other than the certificate of authentication of the Trustee on each Bond), and makes no representations as to the validity or sufficiency of the Indenture or of the Bonds or of any Investment Security, as to the sufficiency of the Net Revenues, or the priority of the lien of the Indenture thereon, or as to the financial or technical feasibility of the Enterprise and will not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence, willful misconduct or breach of the express terms and conditions of the Indenture. The Trustee and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if the Trustee was not the Trustee under the Indenture. The Trustee may in good faith hold any other form of indebtedness of the City, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of the City and make disbursements for the City and enter into any commercial or business arrangement therewith, without limitation.

The Trustee will not be liable for any error of judgment made in good faith by a responsible officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts. The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it under the Indenture by or through attorneys, agents, or receivers, and will be entitled to advice of counsel concerning all matters of trust and its duty under the Indenture, but the Trustee will be answerable for the negligence or misconduct of any such attorney, agent, or receiver selected by it; provided, however, that the Trustee will not be answerable for the negligence or misconduct of any attorney or certified public accountant selected by it with due care.

The Trustee will 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 Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation 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 is 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, including, without limitation, the provisions of the Indenture, unless such Bondholders has offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby.

No provision of the Indenture will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties under the Indenture.

The Trustee shall not be deemed to have knowledge of and shall not be required to take any action with respect to, any Event of Default (other than an Event of Default described under (a) or (b) under the caption “Events of Default” above) or event which would, with the giving of notice, the passage of time or both, constitute an Event of Default, unless the Trustee shall have actual knowledge of such event or shall have been notified of such event by the City or the Owners of twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds at the time Outstanding. Without limiting the generality of the foregoing, the Trustee shall not be required to ascertain, monitor or inquire as to the performance or observance by the City of the terms, conditions, covenants or agreements set forth in the Indenture (including, without limitation, the covenants of the City set forth in the Indenture relating to insurance and records and accounts), other than the covenants of the City to make payments with respect to the Bonds when due as set forth in the Indenture and to file with the Trustee when due, such reports and certifications as the City is required to file with the Trustee under the Indenture.

No permissive power, right or remedy conferred upon the Trustee under the Indenture will be construed to impose a duty to exercise such power, right or remedy.

The Trustee will not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee will determine to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of the City, personally or by agent or attorney.

The Trustee will not be responsible for:

- (1) the application or handling by the City of any Net Revenues or other moneys transferred to or pursuant to any Requisition or Request of the City in accordance with the terms and conditions of the Indenture;
- (2) the application and handling by the City of any other fund or account designated to be held by the City under the Indenture;
- (3) any error or omission by the City in making any computation or giving any instruction pursuant to the covenant provisions of the Indenture relating to insurance and records and accounts and may rely conclusively on any computations or instructions furnished to it by the City in connection with the requirements of the Indenture and the Tax Certificate; or
- (4) the construction, operation or maintenance of the Enterprise by the City.

Whether or not therein expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee will be subject to the provisions of the Indenture described under this caption “The Trustee.”

The Trustee will have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

## **Amendments**

*Amendments Permitted with Consent.* The Indenture and the rights and obligations of the City, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding has been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding described under this under this caption “Amendments.”

For any Series of Bonds for which there is a letter of credit or policy of bond insurance in place securing such Series of Bonds, the written consents of each provider of a letter of credit or a policy of bond insurance for such Series of Bonds filed with the Trustee shall be accepted in lieu of consent of the Owners of such Series of Bonds and shall be deemed to be the consent of all of the Owners of such Series of Bonds for purposes of satisfying the requirements described in the preceding paragraph, provided that at the time such consent is given, the payment of all the principal of and interest on all Outstanding Bonds of such Series will be insured by a policy or policies of municipal bond insurance or payable under a letter of credit the provider of which will be a financial institution or association having unsecured debt obligations rated, or insuring or securing other debt obligations rated on the basis of such insurance or letters of credit, in one of the two highest Rating Categories of Moody’s or Standard & Poor’s.

No such modification or amendment will (a) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any mandatory sinking fund payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof exclusively, without the consent of the Owner of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture on such Net Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof. Promptly after the execution and delivery by the Trustee and the City of any

Supplemental Indenture under the provisions of the Indenture described under this caption “Amendments Permitted With Consent,” the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Owners of the Bonds at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

A copy of each Supplemental Indenture entered into by the City and the Trustee pursuant to the provisions described under this caption “Amendments Permitted with Consent” will be sent by the City to Moody’s and Standard & Poor’s.

*Amendments Not Requiring Consent.* The Indenture and the rights and obligations of the City, of the Trustee and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the City may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City in the Indenture contained 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 in the Indenture to or conferred upon the City;

(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 City may deem necessary or desirable, and which will not materially and adversely affect the interests of the Owners of the Bonds;

(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 hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said Act or similar federal statute, and which will not materially and adversely affect the interests of the Owners of the Bonds;

(4) to make modifications or adjustments necessary, appropriate or desirable to provide for the issuance of Variable Rate Indebtedness, Capital Appreciation Indebtedness or Parity Debt with such interest rate, payment, maturity and other terms as the City may deem desirable; subject to the provisions of the Indenture;

(5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision will materially and adversely affect the interests of the Owners of the Bonds;

(6) if the City agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(7) to provide for the issuance of an additional Series of Bonds pursuant to provisions of the Indenture; and

(8) for any other purpose that does not materially and adversely affect the interests of the Owners of the Bonds.

## **Defeasance**

*Discharge of Indenture.* Bonds of any Series or a portion thereof may be paid by the City in any of the following ways:

(a) by paying or causing to be paid the Bond Obligation of and interest on such Outstanding Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount and subject to the conditions as described under “Deposit of Moneys or Securities with Trustee” to pay or redeem such Outstanding Bonds; or

(c) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the City pays all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable under the Indenture by the City, then and in that case (but subject to any additional requirements in connection therewith as may be imposed by any insurer of the Bonds and set forth in a Supplemental Indenture), at the election of the City (evidenced by a Certificate of the City filed with the Trustee signifying the intention of the City to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds have not been surrendered for payment, the Indenture and the pledge of Net Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the City under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the City, the Trustee will cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and will execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from a firm of certified public accountants, are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

*Discharge of Liability on Bonds.* Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount and subject to the conditions as described under “Deposit of Moneys or Securities with Trustee” to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption has been given as in the Indenture provided or provision satisfactory to the Trustee have been made for the giving of such notice, then (but subject to any additional requirements with respect thereto as may be imposed by any insurer of the Bonds and set forth in

a Supplemental Indenture) all liability of the City in respect of such Bond will cease, terminate and be completely discharged, provided that the Owner thereof will thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the City will remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture and the continuing duties of the Trustee under the Indenture.

The City may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

*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 pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will 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, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption has been given as in the Indenture provided or provision satisfactory to the Trustee has been made for the giving of such notice, the amount to be deposited or held will be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Defeasance Securities, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (upon which opinion the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, 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 has been given as in the Indenture provided or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that the Trustee has been irrevocably instructed (by the terms of the Indenture or by Request of the City) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

### **Liability of City Limited to Net Revenues**

Notwithstanding anything in the Indenture or in the Bonds contained, the City will not be required to advance any moneys derived from any source other than the Net 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 Bonds are special, limited obligations of the City. The Bonds will not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but will be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds will not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

## APPENDIX D

### PROPOSED FORM OF BOND COUNSEL OPINION

November 10, 2020

City of Modesto  
Modesto, California

The Bank of New York Mellon Trust Company, N.A.  
San Francisco, California

\$68,840,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020A (Federally Taxable) and

\$25,470,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020B

Ladies and Gentlemen:

We have acted as bond counsel to the City of Modesto, California, (the “City”), a charter city and municipal corporation existing under the laws of the State of California (the “City”), in connection with the issuance by the City of its Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable), in the aggregate principal amount of \$68,840,000 (the “Series 2020A Bonds”), and its Wastewater Revenue Refunding Bonds, Series 2020B, in the aggregate principal amount of \$25,470,000 (the “Series 2020B Bonds” and together with the Series 2020A Bonds, the “Series 2020 Bonds”). The Series 2020 Bonds are being issued under and pursuant to (i) Section 200 of the Charter of the City of Modesto and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the “Bond Law”), and (ii) the Wastewater Revenue Bond Indenture, dated as of April 1, 2005, between the City and The Bank of New York Mellon Trust Company, N.A., successor trustee (the “Trustee”) to U.S. Bank National Association, as amended and supplemented (the “Indenture”), including as amended and supplemented by a Fifth Supplemental Indenture, dated as of November 1, 2020 (the “Fifth Supplemental Indenture”). The Series 2020 Bonds are being issued to provide funds to prepay the City’s outstanding revolving fund loan from the State of California Water Resources Control Board (“State Water Board”) issued in 2011 in the initial principal amount of \$127,157,943.06 (the “2011 State Loan”), of which \$106,812,879.98 is currently outstanding. Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Indenture.

In our capacity as bond counsel, we have reviewed the Charter of the City, the Bond Law, the Indenture, certifications of the City, the Trustee and others, opinions of the City Attorney and counsel to the Trustee, the Tax Certificate executed and delivered by the City in connection with the issuance of the Series 2020 Bonds (the “Tax Certificate”), a letter from the State Water Board addressed to the City, dated October 19, 2020 (the “State Letter”), and such other documents, certificates, opinions and matters of law as we have deemed necessary to enable us to render the opinions expressed herein. We have assumed, but have not verified, that the signatures on all documents, certificates and opinions that we have reviewed are genuine. In our examination, we have assumed, but have not verified, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies or by facsimile or other means of electronic transmission or which we obtained from sites on the internet, and the authenticity of the originals of such latter documents. As to facts and certain other matters and the consequences thereof relevant to the opinions expressed herein and the other statements made herein, we have relied without investigation or verification upon, and have assumed the accuracy, completeness and reasonableness of, certificates and letters (including opinion letters and the State Letter), and upon oral and written statements and representations of public officials, officers and other representatives of the City, the City Attorney and others. As to questions of fact material to the opinions in this letter, we have relied upon such certificates and documents without undertaking to verify the same by independent investigation.

Our services as bond counsel were limited to such examination and to rendering the opinions set forth below. Furthermore, we have assumed compliance with all covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Series 2020A Bonds to be included in gross income for federal tax purposes. With respect to the opinions expressed herein, we call attention to the fact that the enforceability of the rights and obligations under the Series 2020 Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against charter cities in the State of California. In addition, the imposition of certain fees and charges by the City relating to the Enterprise is subject to the provisions of Articles XIII C and XIII D of the California Constitution.

Based upon the foregoing and subject to the limitations and qualifications herein specified, as of the date hereof, we are of the opinion that, under existing law:

1. The Series 2020 Bonds constitute the valid and binding special limited obligations of the City.
2. The Series 2020 Bonds are payable exclusively from and are secured by a pledge of Net Revenues of the Enterprise and certain amounts pledged under the Indenture. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on the Series 2020 Bonds.

3. The Indenture has been duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the City. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Series 2020 Bonds, of the Net Revenues of the Enterprise, and certain other amounts held by the Trustee under the Indenture, as and to the extent set forth in the Indenture and subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

4. Additional bonds and other Parity Debt of the City have been, and may from time to time hereafter be, issued under the Indenture which are payable from Net Revenues on a parity basis with the Series 2020 Bonds.

5. Assuming compliance by the City with certain covenants in the Indenture, the Tax Certificate and other documents pertaining to the Series 2020A Bonds and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of proceeds of the Series 2020A Bonds and the timely payment of certain investment earnings to the United States, interest on the Series 2020A Bonds is not included in the gross income of the owners of the Series 2020A Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Series 2020A Bonds to be included in gross income retroactive to the date of issuance of the Series 2020A Bonds.

6. Interest on the Series 2020A Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax.

7. Interest on the Series 2020 Bonds is exempt from personal income taxes imposed by the State of California.

Other than as described herein, we have not addressed, and are not opining on, the tax consequences to any person of the investment in, or of the receipt or accrual of interest on, the Series 2020 Bonds. Further, certain requirements and procedures contained or referred to in the Indenture or in other documents pertaining to the Series 2020 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 effect of any change to any document pertaining to the Series 2020 Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the exclusion from gross income of the interest on the Series 2020A Bonds for federal income tax purposes.

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 the opinions in this letter in light of any such actions or events.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2020 Bonds.

The opinions in this letter are 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 may not be relied upon in any manner for any purposes by any other person.

Respectfully submitted,

## APPENDIX E

### FORM OF CONTINUING DISCLOSURE AGREEMENT

### DISCLOSURE DISSEMINATION AGENT AGREEMENT

This Disclosure Dissemination Agent Agreement (the “Disclosure Agreement”), dated as of November 10, 2020, is executed and delivered by the City of Modesto, California (the “Issuer”) and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the “Disclosure Dissemination Agent” or “DAC”) for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) and in order to assist the Issuer in processing certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”).

The services provided under this Disclosure Agreement solely relate to the execution of instructions received from the Issuer through use of the DAC system and do not constitute “advice” within the meaning of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”). DAC will not provide any advice or recommendation to the Issuer or anyone on the Issuer’s behalf regarding the “issuance of municipal securities” or any “municipal financial product” as defined in the Act and nothing in this Disclosure Agreement shall be interpreted to the contrary. DAC is not a “Municipal Advisor” as such term is defined in Section 15B of the Securities Exchange Act of 1934, as amended, and related rules.

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

“Annual Filing Date” means the date, set in Sections 2(a) and 2(f) hereof, by which the Annual Report is to be filed with the MSRB.

“Annual Financial Information” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

“Annual Report” means an Annual Report containing Annual Financial Information described in and consistent with Section 3 of this Disclosure Agreement.

“Audited Financial Statements” means the annual financial statements of the Issuer for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i)(B) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

“Bonds” means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure required to be submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Issuer and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“Disclosure Dissemination Agent” means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Issuer pursuant to Section 9 hereof.

“Disclosure Representative” means the Director of Finance or his or her designee, or such other person as the Issuer shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Failure to File Event” means the Issuer’s failure to file an Annual Report on or before the Annual Filing Date.

“Financial Obligation” as used in this Disclosure Agreement is defined in the Rule, as may be amended, as (i) a debt obligation; (ii) derivative instrument entered into in connection with, or pledged as a security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Force Majeure Event” means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent’s reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

“Holder” means any person (a) having 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) treated as the owner of any Bonds for federal income tax purposes.

“Information” means, collectively, the Annual Reports, the Audited Financial Statements, the Notice Event notices, the Failure to File Event notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

“MSRB” means the Municipal Securities Rulemaking Board, or any successor thereto, established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

“Notice Event” means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

“Obligated Person” means any person, including the Issuer, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities), as shown on Exhibit A.

“Official Statement” means that Official Statement prepared by the Issuer in connection with the Bonds, as listed in Exhibit A.

“Trustee” means the institution, if any, identified as such in the document under which the Bonds were issued.

“Voluntary Event Disclosure” means information of the category specified in any of subsections (e)(vi)(1) through (e)(vi)(10) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(a) of this Disclosure Agreement.

“Voluntary Financial Disclosure” means information of the category specified in any of subsections (e)(vii)(1) through (e)(vii)(9) of Section 2 of this Disclosure Agreement that is accompanied by a

Certification of the Disclosure Representative containing the information prescribed by Section 7(b) of this Disclosure Agreement.

SECTION 2. Provision of Annual Reports.

(a) The Issuer shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the MSRB not later than the 25<sup>th</sup> day of February following the end of each fiscal year of the Issuer, commencing with the fiscal year ending June 30, 2019. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15<sup>th</sup>) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Issuer of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the Issuer irrevocably directs the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B without reference to the anticipated filing date for the Annual Report, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(d) If Audited Financial Statements of the Issuer are prepared but not available prior to the Annual Filing Date, the Issuer shall, when the Audited Financial Statements are available, provide at such time an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, together with a copy for the Trustee, if any, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

- (i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;
- (ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) hereof with the MSRB;
- (iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) hereof with the MSRB;
- (iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) hereof with the MSRB, identifying the Notice Event as instructed by the Issuer pursuant to Section 4(a) or 4(b)(ii) hereof (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Agreement:

1. “Principal and interest payment delinquencies;”

2. “Non-Payment related defaults, if material;”
3. “Unscheduled draws on debt service reserves reflecting financial difficulties;”
4. “Unscheduled draws on credit enhancements reflecting financial difficulties;”
5. “Substitution of credit or liquidity providers, or their failure to perform;”
6. “Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;”
7. “Modifications to rights of holders of the Bonds, if material;”
8. “Bond calls, if material, and tender offers;”
9. “Defeasances;”
10. “Release, substitution, or sale of property securing repayment of the securities, if material;”
11. “Rating changes;”
12. “Bankruptcy, insolvency, receivership or similar event of the obligated person;”<sup>1</sup>
13. “The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;”
14. “Appointment of a successor or additional trustee, or the change of name of a trustee, if material;”
15. “Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and
16. “Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.”

- (v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as “Failure to provide annual financial

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<sup>1</sup> This event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

information as required” when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;

(vi) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 7(a) hereof with the MSRB, identifying the Voluntary Event Disclosure as instructed by the Issuer pursuant to Section 7(a) (being any of the categories set forth below) when filing pursuant to Section 7(a) of this Disclosure Agreement:

1. “amendment to continuing disclosure undertaking;”
2. “change in obligated person;”
3. “notice to investors pursuant to bond documents;”
4. “certain communications from the Internal Revenue Service; other than those communications included in the Rule;”
5. “secondary market purchases;”
6. “bid for auction rate or other securities;”
7. “capital or other financing plan;”
8. “litigation/enforcement action;”
9. “change of tender agent, remarketing agent, or other on-going party;”
10. “other event-based disclosures;”

(vii) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 7(b) hereof with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the Issuer pursuant to Section 7(b) (being any of the categories set forth below) when filing pursuant to Section 7(b) of this Disclosure Agreement:

1. “quarterly/monthly financial information;”
2. “change in fiscal year/timing of annual disclosure;”
3. “change in accounting standard;”
4. “interim/additional financial information/operating data;”
5. “budget;”
6. “investment/debt/financial policy;”
7. “information provided to rating agency, credit/liquidity provider or other third party;”
8. “consultant reports;” and
9. “other financial/operating data.”

- (viii) provide the Issuer evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Issuer may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Anything in this Disclosure Agreement to the contrary notwithstanding, any Information received by the Disclosure Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

### SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the Issuer, including the information provided in the Official Statement with respect to the City in the most recent Fiscal Year in Tables 3-15 and Table 18; provided that, with respect to Tables 6 and 10, the City will provide such information on an “as available” basis.

(b) Audited Financial Statements as described in the Official Statement will be included in the Annual Report. If audited financial statements are not available, then unaudited financial statements, prepared in accordance with Generally Accepted Accounting Principles as described in the Official Statement will be included in the Annual Report. In such event, Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Issuer is an “obligated person” (as defined by the Rule), which have been previously filed with the Securities and Exchange Commission or available on the MSRB Internet Website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer will clearly identify each such document so incorporated by reference.

If the Annual Financial Information contains modified operating data or financial information different from the Annual Financial Information agreed to in the continuing disclosure undertaking related to the Bonds, the Issuer is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

### SECTION 4. Reporting of Notice Events.

- (a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:
  1. Principal and interest payment delinquencies;
  2. Non-payment related defaults, if material;
  3. Unscheduled draws on debt service reserves reflecting financial difficulties;
  4. Unscheduled draws on credit enhancements reflecting financial difficulties;
  5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. Modifications to rights of Bond holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

**Note to subsection (a)(12) of this Section 4:** For the purposes of the event described in subsection (a)(12) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material; and
15. Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

The Issuer shall, in a timely manner not later than nine (9) business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the Issuer or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the Issuer determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that either (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with MSRB in accordance with Section 2 (e)(iv) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

SECTION 5. CUSIP Numbers. The Issuer will provide the Dissemination Agent with the CUSIP numbers for (i) new bonds at such time as they are issued or become subject to the Rule and (ii) any Bonds to which new CUSIP numbers are assigned in substitution for the CUSIP numbers previously assigned to such Bonds.

SECTION 6. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws. The Issuer acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Filing.

(a) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(e)(vi) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(a) to file a Voluntary Event Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Event Disclosure with the MSRB in accordance with Section 2(e)(vi) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(e)(vii) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(b) hereof to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(e)(vii) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-3.

(c) The parties hereto acknowledge that the Issuer is not obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 7(a) hereof or any Voluntary Financial Disclosure pursuant to Section 7(b) hereof.

(d) Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure, in addition to that required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure.

SECTION 8. Termination of Reporting Obligation. The obligations of the Issuer and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Issuer is no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of counsel expert in federal securities laws to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent. The Issuer has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Issuer may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Issuer or DAC, the Issuer agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Issuer shall remain liable to the Disclosure Dissemination Agent until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Issuer.

SECTION 10. Remedies in Event of Default. In the event of a failure of the Issuer or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Issuer has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Issuer and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Issuer's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Issuer has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon Certifications of the Issuer at all times.

The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Issuer.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Disclosure Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Issuer and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Issuer or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Issuer. No such amendment shall become effective if the Issuer shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Trustee, if any, for the Bonds, the Disclosure Dissemination Agent, the underwriters, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of Florida (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure 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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

The Disclosure Dissemination Agent and the Issuer have caused this Continuing Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

**DIGITAL ASSURANCE CERTIFICATION, L.L.C.**, as  
Disclosure Dissemination Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**CITY OF MODESTO, CALIFORNIA**  
as Issuer

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT A**

**NAME AND CUSIP NUMBERS OF BONDS**

Name of Issuer	City of Modesto, California
Obligated Person(s)	City of Modesto, California
Name of Bond Issue:	Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) and Wastewater Revenue Refunding Bonds, Series 2020B
Date of Issuance:	November 10, 2020
Date of Official Statement	October 27, 2020

CUSIP Number:	607802BW4
CUSIP Number:	607802BX2
CUSIP Number:	607802BY0
CUSIP Number:	607802BZ7
CUSIP Number:	607802CA1
CUSIP Number:	607802CB9
CUSIP Number:	607802CC7
CUSIP Number:	607802CD5
CUSIP Number:	607802CE3
CUSIP Number:	607802CF0
CUSIP Number:	607802CG8
CUSIP Number:	607802BR5
CUSIP Number:	607802BS3
CUSIP Number:	607802BT1
CUSIP Number:	607802BU8
CUSIP Number:	607802BV6

**EXHIBIT B**

**NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT**

Issuer: City of Modesto, California

Obligated Person: City of Modesto, California

Name(s) of Bond Issue(s): Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) and Wastewater Revenue Refunding Bonds, Series 2020B

Date(s) of Issuance: November 10, 2020

Date(s) of Disclosure Agreement: November 10, 2020

CUSIP Number: \_\_\_\_\_

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Disclosure Agreement between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. [The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by \_\_\_\_\_].

Dated: \_\_\_\_\_

Digital Assurance Certification, L.L.C., as Disclosure  
Dissemination Agent, on behalf of the Issuer

\_\_\_\_\_

cc: Director Finance of the City of Modesto

**EXHIBIT C-1  
EVENT NOTICE COVER SHEET**

This cover sheet and accompanying "event notice" will be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name:

City of Modesto, California

Issuer's Six-Digit CUSIP Number:

\_\_\_\_\_

or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates:

\_\_\_\_\_

Number of pages attached: \_\_\_\_\_

\_\_\_\_ Description of Notice Events (Check One):

1. \_\_\_\_\_ "Principal and interest payment delinquencies;"
2. \_\_\_\_\_ "Non-Payment related defaults, if material;"
3. \_\_\_\_\_ "Unscheduled draws on debt service reserves reflecting financial difficulties;"
4. \_\_\_\_\_ "Unscheduled draws on credit enhancements reflecting financial difficulties;"
5. \_\_\_\_\_ "Substitution of credit or liquidity providers, or their failure to perform;"
6. \_\_\_\_\_ "Adverse tax opinions, IRS notices or events affecting the tax status of the security;"
7. \_\_\_\_\_ "Modifications to rights of securities holders, if material;"
8. \_\_\_\_\_ "Bond calls, if material;" Tender offers;
9. \_\_\_\_\_ "Defeasances;"
10. \_\_\_\_\_ "Release, substitution, or sale of property securing repayment of the securities, if material;"
11. \_\_\_\_\_ "Rating changes;"
12. \_\_\_\_\_ "Bankruptcy, insolvency, receivership or similar event of the obligated person;"
13. \_\_\_\_\_ "Merger, consolidation, or acquisition of the obligated person, if material;"
14. \_\_\_\_\_ "Appointment of a successor or additional trustee, or the change of name of a trustee, if material;"
15. \_\_\_\_\_ "Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material;" and
16. \_\_\_\_\_ "Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties."

\_\_\_\_ Failure to provide annual financial information as required.

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

\_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Digital Assurance Certification, L.L.C.  
315 E. Robinson Street  
Suite 300  
Orlando, FL 32801  
407-515-1100

Date: \_\_\_\_\_

**EXHIBIT C-2**  
**VOLUNTARY EVENT DISCLOSURE COVER SHEET**

This cover sheet and accompanying “voluntary event disclosure” will be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of November 10, 2020 between the Issuer and DAC.

Issuer’s and/or Other Obligated Person’s Name:

City of Modesto, California

Issuer’s Six-Digit CUSIP Number:

\_\_\_\_\_

\_\_\_\_\_

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

\_\_\_\_\_

Number of pages attached: \_\_\_\_\_

\_\_\_\_\_ Description of Voluntary Event Disclosure (Check One):

1. \_\_\_\_\_ “amendment to continuing disclosure undertaking;”
2. \_\_\_\_\_ “change in obligated person;”
3. \_\_\_\_\_ “notice to investors pursuant to bond documents;”
4. \_\_\_\_\_ “certain communications from the Internal Revenue Service;”
5. \_\_\_\_\_ “secondary market purchases;”
6. \_\_\_\_\_ “bid for auction rate or other securities;”
7. \_\_\_\_\_ “capital or other financing plan;”
8. \_\_\_\_\_ “litigation/enforcement action;”
9. \_\_\_\_\_ “change of tender agent, remarketing agent, or other on-going party;” and
10. \_\_\_\_\_ “other event-based disclosures.”

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

\_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Digital Assurance Certification, L.L.C.  
315 E. Robinson Street  
Suite 300  
Orlando, FL 32801  
407-515-1100

Date: \_\_\_\_\_

**EXHIBIT C-3  
VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET**

This cover sheet and accompanying "voluntary financial disclosure" will be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of November 10, 2020, between the Issuer and DAC.

Issuer's and/or Other Obligated Person's Name:

City of Modesto, California

Issuer's Six-Digit CUSIP Number:

\_\_\_\_\_

\_\_\_\_\_

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

\_\_\_\_\_

Number of pages attached: \_\_\_\_\_

\_\_\_\_\_ Description of Voluntary Financial Disclosure (Check One):

1. \_\_\_\_\_ "quarterly/monthly financial information;"
2. \_\_\_\_\_ "change in fiscal year/timing of annual disclosure;"
3. \_\_\_\_\_ "change in accounting standard;"
4. \_\_\_\_\_ "interim/additional financial information/operating data;"
5. \_\_\_\_\_ "budget;"
6. \_\_\_\_\_ "investment/debt/financial policy;"
7. \_\_\_\_\_ "information provided to rating agency, credit/liquidity provider or other third party;"
8. \_\_\_\_\_ "consultant reports;" and
9. \_\_\_\_\_ "other financial/operating data."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

\_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Digital Assurance Certification, L.L.C.  
315 E. Robinson Street  
Suite 300  
Orlando, FL 32801  
407-515-1100

Date: \_\_\_\_\_

## APPENDIX F

### BOOK ENTRY ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2020 Bonds. The Series 2020 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 Series 2020 Bond certificate will be issued in the aggregate principal amount of each maturity of the Series 2020 Bonds, 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, as amended. DTC holds and provides asset servicing for over 3.5 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 is the holding company of DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Series 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2020 Bond (“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. 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 Series 2020 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 certificates representing their beneficial ownership interests in the Series 2020 Bonds, except in the event that use of the book-entry system for the Series 2020 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020 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 Series 2020 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 Series 2020 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2020 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 Series 2020 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2020 Bonds, such as redemptions, defaults, and proposed amendments to the Series 2020 Bond documents. For example, Beneficial Owners of Series 2020 Bonds may wish to ascertain that the nominee holding the Series 2020 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 Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2020 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2020 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2020 Bonds unless authorized by a Direct Participant in accordance with DTC's Money Market Instrument Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2020 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, redemption proceeds, and interest payments on the Series 2020 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 City or the Trustee, on a payment 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 Participants and not of DTC nor of its nominee, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, redemption proceeds, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City 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 depository with respect to the Series 2020 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2020 Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Series 2020 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

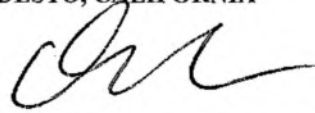
**The City and the Underwriters cannot and do not give any assurances that DTC will distribute to Participants or that Participants or others will distribute to the Beneficial Owners payments of principal of, premium, if any, and interest on the Series 2020 Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The City is not responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Series 2020 Bonds or any error or delay relating thereto.**

**None of the City, the Underwriters or the Trustee will have any responsibility or obligation to Direct Participants, to Indirect Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC, any Direct Participant, or any Indirect Participant; (ii) the payment by DTC or any Direct Participant or Indirect Participant of any amount with respect to the principal of or premium, if any, or interest on the Series 2020 Bonds; (iii) any notice that is permitted or required to be given to Holders under the Indenture; (iv) the selection by DTC, any Direct Participant or any Indirect Participant of any person to receive payment in the event of a partial redemption of the Series 2020 Bonds; (v) any consent given or other action taken by DTC as Bondholder; or (vi) any other procedures or obligations of DTC, Direct Participants or Indirect Participants under the book-entry system.**

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

**CITY OF MODESTO, CALIFORNIA**

By:



\_\_\_\_\_  
Finance Director



NIXON PEABODY LLP  
ATTORNEYS AT LAW

NIXONPEABODY.COM  
@NIXONPEABODYLLP

300 S. Grand Avenue, Suite 4100  
Los Angeles, CA 90071-3151  
213-629-6000

**\$66,285,000\***  
**CITY OF MODESTO, CALIFORNIA**  
**WASTEWATER REVENUE**  
**REFUNDING BONDS,**  
**SERIES 2020A (Federally Taxable)**

**\$27,510,000\***  
**CITY OF MODESTO, CALIFORNIA**  
**WASTEWATER REVENUE**  
**REFUNDING BONDS,**  
**SERIES 2020B**

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**PRELIMINARY BLUE SKY SURVEY**

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October 15, 2020

BofA Securities, Inc.  
as Representative of the Underwriters  
San Francisco, California

Ladies and Gentlemen:

This Preliminary Blue Sky Survey sets forth in summary form our comments as to the requirements of the securities or “blue sky” laws of the jurisdictions enumerated herein with respect to the proposed offering and sale to the public of the above-captioned bonds (the “Bonds”).

This Preliminary Blue Sky Survey is based upon an examination of the various statutes and the related rules, regulations and policy statements, if any, issued thereunder, as reported in standard compilations customarily relied upon in this connection, and upon statements contained in the Preliminary Official Statement relating to the Bonds in the form initially distributed.

We have prepared this Preliminary Blue Sky Survey as attorneys admitted to practice in the State of California, and we have obtained neither opinions from members of the Bar of any other jurisdiction nor formal rulings from regulatory commissions or other administrative bodies or officials. The statements made and conclusions expressed herein are subject to change upon the exercise of broad discretionary powers vested in administrative authorities, which powers authorize them, among other things, to withdraw exemptions, to impose additional requirements, to refuse registrations or to issue stop orders.

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\* Preliminary, subject to change

This Preliminary Blue Sky Survey does not purport to cover the requirements under any of the laws of the jurisdictions enumerated herein with respect to the registration or licensing of dealers, brokers or salespersons, the form or substance of advertising or the legality of investments in the Bonds by any institutional investor which is subject to statutory or other restrictions as to its investments. This Preliminary Blue Sky Survey is furnished for general information purposes only and is not to be relied upon as an opinion of counsel.

Very truly yours,

NIXON PEABODY LLP

## PART I

### SALES BY PERSONS REGISTERED OR LICENSED AS BROKERS OR DEALERS TO THE PUBLIC

#### A. Jurisdictions Where Qualification Not Required.

Offers and sales of the Bonds may be made in any amount to anyone in the following jurisdictions without qualification or registration of the Bonds or the making of any filing or the payment of applicable fees in lieu of such registration or qualification, but only by brokers or dealers registered or licensed in the respective jurisdictions:

Alabama	Missouri
Alaska	Montana
Arizona	Nebraska
Arkansas	New Hampshire
California	New Jersey
Colorado	New Mexico
Connecticut	New York
Delaware	North Carolina
District of Columbia	North Dakota
Florida <sup>(1)</sup>	Ohio <sup>(2)</sup>
Georgia	Oklahoma
Guam	Oregon
Hawaii	Pennsylvania
Idaho	Puerto Rico
Illinois	Rhode Island
Indiana	South Carolina
Iowa	South Dakota
Kansas	Tennessee
Kentucky	Texas
Louisiana	Utah
Maine	Vermont
Maryland	Virginia
Massachusetts	Washington
Michigan	West Virginia
Minnesota	Wisconsin
Mississippi	Wyoming

- 
- (1) Provided that if there has been a default as to payment of principal or interest, since December 31, 1975, on any obligation of the issuer or a successor to the issuer or any guarantee by the guarantor or any successor to the guarantor of the Bonds, there has been and will be in any offering literature "full and fair disclosure," as prescribed by the Florida Department of Banking and Finance, of such default or a statement that the disclosure is required and the reason it is not deemed appropriate and material.
- (2) Provided at the time of 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 the validity of the Bonds.

B. Jurisdictions Where Qualification Not Requested.

In the following jurisdictions, appropriate action is required to either perfect or obtain an exception for the Bonds or qualify the Bonds before the Bonds may be sold or offered to anyone therein other than in exempt transactions. Pursuant to your request, no such action is being taken to establish an exempt status for or to register or qualify the Bonds for offer or sale to the public in the following jurisdictions, or in lieu thereof, to pay the applicable registration or qualification fees unless otherwise indicated in the notes below:

Nevada

C. Jurisdictions Where Qualification Requested.

After applicable requirements, if any, as to filings or with respect to registration or qualification of the Bonds or the payment of applicable fees in lieu of such registration or qualification in the respective jurisdictions have been met, the Bonds may be offered and sold to anyone in the jurisdictions listed below, but only by dealers or brokers registered or licensed in the respective jurisdictions. We are taking such action as we deem appropriate in each of the jurisdictions, and we will notify you if and when the Bonds are so qualified for offer and sale.

None

**PART II**

**SALES TO BROKERS OR DEALERS**

Offers and sales of the Bonds may be made in any amount to brokers or dealers registered or licensed in the following jurisdictions, subject to the qualifications indicated in the notes, without registration of the Bonds or any filings being made. Subject to the qualifications indicated in the notes, such offers and sales may be made either by brokers or dealers registered or licensed in the respective jurisdictions or where such persons are not so registered or licensed as indicated in the notes below.

Alabama	Kentucky <sup>(6)</sup>	Ohio <sup>(18)</sup>
Alaska <sup>(1)</sup>	Louisiana <sup>(9)</sup>	Oklahoma <sup>(1)</sup>
Arizona <sup>(2)</sup>	Maine <sup>(10)</sup>	Oregon <sup>(2)</sup>
Arkansas <sup>(3)</sup>	Maryland <sup>(11)</sup>	Pennsylvania <sup>(6)</sup>
California <sup>(4)</sup>	Massachusetts <sup>(6)</sup>	Puerto Rico <sup>(6)</sup>
Colorado <sup>(5)</sup>	Michigan <sup>(1)</sup>	Rhode Island <sup>(19)</sup>
Connecticut <sup>(6)</sup>	Minnesota <sup>(12)</sup>	South Carolina <sup>(1)</sup>
Delaware <sup>(6)</sup>	Mississippi <sup>(1)</sup>	South Dakota <sup>(1)</sup>
District of Columbia <sup>(7)</sup>	Missouri <sup>(1)</sup>	Tennessee <sup>(20)</sup>
Florida	Montana <sup>(6)</sup>	Texas <sup>(21)</sup>
Georgia <sup>(1)</sup>	Nebraska <sup>(13)</sup>	Utah <sup>(22)</sup>
Guam <sup>(6)</sup>	Nevada <sup>(14)</sup>	Vermont <sup>(7)</sup>
Hawaii <sup>(1)</sup>	New Hampshire <sup>(15)</sup>	Virginia
Idaho <sup>(1)</sup>	New Jersey <sup>(16)</sup>	Washington <sup>(6)</sup>
Illinois <sup>(8)</sup>	New Mexico <sup>(17)</sup>	West Virginia <sup>(22)</sup>
Indiana <sup>(1)</sup>	New York	Wisconsin <sup>(23)</sup>
Iowa <sup>(1)</sup>	North Carolina <sup>(6)</sup>	Wyoming <sup>(24)</sup>
Kansas <sup>(1)</sup>	North Dakota <sup>(17)</sup>	

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- (1) Provided the offeror or seller (i) is registered as a broker dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction, if the only transactions effected by the broker-dealer in this jurisdiction are with the following: (1) the issuer of the securities involved in the transactions; (2) other broker-dealers registered or exempt under this jurisdiction; (3) institutions enumerated with respect to this jurisdiction in Part III; (4) non-affiliated federal covered investment advisors with investments under management in excess of \$100,000,000 acting for the account of others pursuant to discretionary authority in a signed record; (5) bona fide pre-existing customers whose principal place of residence are not in this jurisdiction and the offeror or seller is registered as a broker-dealer under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which the customer maintains a principal place of residence; (6) bona fide pre-existing customers whose principal place of residence are in this jurisdiction but were not present in this jurisdiction when the customer relationship was established if certain other requirements are met; (7) not more than three customers in this jurisdiction during the previous twelve months, in addition to those specified in clauses (1) through (6) and in clause (8), if the offeror or seller is registered under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which such entity has its principal place of business; and (8) any other person exempted by rule adopted or order issued under the laws of this jurisdiction.
- (2) Provided the offeror or seller (i) is a registered broker-dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction and effects transactions exclusively with other broker-dealers registered or exempt from registration in this jurisdiction.

- (3) Provided the offeror or seller (i) is registered as a broker-dealer in Arkansas, or (ii) has no place of business in Arkansas and effects transactions in Arkansas exclusively with or through other broker-dealers, savings and loan associations or with institutions enumerated with respect to Arkansas in Part III herein.
- (4) Provided the offeror or seller (i) is registered as a broker-dealer in California, or (ii) is a broker-dealer registered under the Securities Exchange Act of 1934, who has not previously had any certificate denied or revoked under the California Corporate Securities Law of 1968 or any predecessor statute, has no place of business in California and does not direct offers to sell or buy into California in any manner to persons other than registered broker-dealers or institutions enumerated with respect to California in Part III herein.
- (5) Provided the offeror or seller (i) is registered as a broker or dealer in Colorado, or (ii) is a broker or dealer registered pursuant to the Securities Exchange Act of 1934, has no place of business in Colorado and effects transactions in Colorado exclusively (A) with other broker-dealers registered or exempt from registration in Colorado, except when the broker-dealer is acting as a clearing broker-dealer for such other broker-dealers, (B) with the institutions enumerated with respect to Colorado in Part III herein, (C) with issuers in transaction involving their own securities, (D) with individuals who are existing customers and whose principal places of residence are not in Colorado, or during any twelve consecutive months, with not more than five persons in Colorado, excluding persons described in clauses (A) through (D).
- (6) Provided the offeror or seller (i) is registered as a broker or dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction and effects transactions in this jurisdiction exclusively with or through brokers, dealers or broker-dealers or with institutions enumerated with respect to this jurisdiction in Part III herein.
- (7) Provided the offeror or seller (i) is registered as a broker-dealer in the District of Columbia or (ii) has no place of business in the District of Columbia and effects transactions in the District of Columbia exclusively with depository institutions, another broker-dealer, insurance companies, investment companies as defined in the Investment Company Act of 1940, pension or profit-sharing trusts or other financial institutions or institutional investors.
- (8) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction, or (ii) is not regularly engaged in the business of offering or selling securities in reliance on the exemptions for limited offerings to thirty-five persons or less or preorganization subscriptions and such transactions in the jurisdiction are exclusively with the institutions enumerated with respect to this jurisdiction in Part III.
- (9) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction, or (ii) effects transactions in this jurisdiction exclusively with institutions enumerated with respect to this jurisdiction in Part III herein.
- (10) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction, if the transactions effected by the broker-dealer in this jurisdiction are exclusively with the following: (1) the issuer of the securities involved in the transactions; (2) other broker-dealers licensed or exempt under this jurisdiction, except when the broker-dealer is acting as a clearing broker-dealer for such other broker-dealers; (3) institutions enumerated with respect to this jurisdiction in Part III; (4) non-affiliated federal covered investment advisors with investments under management in excess of \$100,000,000 acting for the account of others pursuant to discretionary authority in a signed record; (5) bona fide pre-existing customers whose principal place of residence are not in this jurisdiction and the offeror or seller is registered as a broker-dealer under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which the customer maintains a principal place of residence; or (6) bona fide pre-existing customers whose principal place of residence are in this jurisdiction but were not present in this jurisdiction when the customer relationship was established if certain other requirements are met.
- (11) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction or (ii) has no place of business in this jurisdiction and effects transactions in this jurisdiction exclusively with or through 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 or institutional buyers.
- (12) Provided the offeror or seller (i) is registered as a broker dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction, if the only transactions effected by the broker-dealer in this jurisdiction are with the following: (1) the issuer of the securities involved in the transactions; (2) other broker-dealers registered or exempt under this jurisdiction; (3) institutions enumerated with respect to this jurisdiction in Part III; (4) accredited investors; (5) non-

affiliated federal covered investment advisors with investments under management in excess of \$100,000,000 acting for the account of others pursuant to discretionary authority in a signed record; (6) bona fide pre-existing customers whose principal place of residence are not in this jurisdiction and the offeror or seller is registered as a broker-dealer under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which the customer maintains a principal place of residence; (7) bona fide pre-existing customers whose principal place of residence are in this jurisdiction but were not present in this jurisdiction when the customer relationship was established if certain other requirements are met; (8) not more than three customers in this jurisdiction during the previous twelve months, in addition to those specified in clauses (1) through (7) and in clause (9), if the offeror or seller is registered under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which such entity has its principal place of business; and (9) any other person exempted by rule adopted or order issued under the laws of this jurisdiction.

- (13) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction, (ii) has no place of business in this jurisdiction and effects transactions in this jurisdiction exclusively with or through banks, savings institutions, credit unions, trust companies, insurance companies, investment companies as defined in the Investment Company Act of 1940, pension or profit sharing trusts, or other financial or institutional buyers, whether acting for themselves or as trustees, or (iii) has no place of business in this jurisdiction if during any period of twelve consecutive months, such person does not direct more than five offers to sell or to buy into this jurisdiction in any manner to persons other than those specified in clause (ii).
- (14) Provided the offeror or seller (i) is registered as a broker-dealer in Nevada, or (ii) is registered, or not required to be registered under the Securities Exchange Act of 1934 and has no place of business in Nevada and effects transactions exclusively with other broker-dealers licensed or exempt under the Nevada Revised Statutes, as amended or with institutions enumerated with respect to Nevada in Part III herein.
- (15) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction, if the only transactions effected by the broker-dealer in this jurisdiction are with the following: (1) the issuer of the securities involved in the transactions; (2) other broker-dealers licensed or exempt under this jurisdiction; (3) institutions enumerated with respect to this jurisdiction in Part III; or (4) bona fide pre-existing customers whose principal place of residence is not in this jurisdiction and the offeror or seller is registered as a broker-dealer under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which the customer maintains a principal place of residence.
- (16) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction, or (ii) effects transactions in this jurisdiction exclusively for the account of registered broker-dealers or with institutions enumerated with respect to this jurisdiction in Part III herein.
- (17) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction, if the transactions effected by the broker-dealer in this jurisdiction are exclusively with the following: (1) the issuer of the securities involved in the transactions; (2) other broker-dealers licensed or exempt under this jurisdiction; (3) institutions enumerated with respect to this jurisdiction in Part III; (4) non-affiliated federal covered investment advisors with investments under management in excess of \$100,000,000 acting for the account of others pursuant to discretionary authority in a signed record; (5) bona fide pre-existing customers whose principal place of residence are not in this jurisdiction and the offeror or seller is registered as a broker-dealer under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which the customer maintains a principal place of residence; or (6) bona fide pre-existing customers whose principal place of residence are in this jurisdiction but were not present in this jurisdiction when the customer relationship was established if certain other requirements are met.
- (18) Provided the offeror or seller (i) is registered or licensed as a broker dealer in Ohio or (ii) has no place of business in Ohio and is registered with the Securities and Exchange Commission and effects transactions in Ohio exclusively with the institutions enumerated with respect to Ohio in Part III herein.
- (19) Provided the offeror or seller (i) is registered as a broker-dealer in Rhode Island or (ii) is registered or not required to be registered under the Securities Exchange Act of 1934 and has no place of business in Rhode Island and effects

transactions in Rhode Island exclusively with any broker dealer and such financial or institutional investors enumerated with respect to Rhode Island in Part III herein.

- (20) Provided the offeror or seller (i) is registered or licensed as a broker-dealer in Tennessee or (ii) has no place of business in Tennessee and is registered as a broker-dealer with the Securities and Exchange Commission or the Financial Industry Regulatory Authority and effects transactions in Tennessee exclusively with or through registered or licensed broker-dealers or with the institutions enumerated with respect to Tennessee in Part III herein.
- (21) Provided the offeree or purchaser is a registered dealer actually engaged in buying and selling securities.
- (22) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction and effects transactions in this jurisdiction exclusively with or through institutions enumerated with respect to this jurisdiction in Part III herein or during any period of twelve consecutive months the person does not direct more than 15 offers to sell or buy into this jurisdiction in any manner to persons other than those specified in Part III herein, whether or not the offeror or an offeree is then present in this jurisdiction.
- (23) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction or not required to be registered as a broker-dealer in Wisconsin, or (ii) effects transactions in this jurisdiction exclusively with broker-dealers registered or exempt under this jurisdiction, accredited investors as described in SEC Rule 501(a) (1), (2), (3), (7) or (8) or with institutions enumerated with respect to Wisconsin in Part III herein.
- (24) Provided the offeror or seller (i) is registered as a broker dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction, if the only transactions effected by the broker-dealer in this jurisdiction are with the following: (1) the issuer of the securities involved in the transactions; (2) other broker-dealers registered or exempt under this jurisdiction; (3) institutions enumerated with respect to this jurisdiction in Part III; (4) non-affiliated federal covered investment advisors with investments under management in excess of \$100,000,000 acting for the account of others pursuant to discretionary authority in a signed record; (5) bona fide pre-existing customers whose principal place of residence are not in this jurisdiction and the offeror or seller is registered as a broker-dealer under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which the customer maintains a principal place of residence; (6) bona fide pre-existing customers whose principal place of residence are in this jurisdiction but were not present in this jurisdiction when the customer relationship was established if certain other requirements are met; (7) not more than one customer in this jurisdiction during the previous twelve months, in addition to those specified in clauses (1) through (6) and in clause (8), if the offeror or seller is registered under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which such entity has its principal place of business; and (8) any other person exempted by rule adopted or order issued under the laws of this jurisdiction.

## PART III

### SALES TO CERTAIN INSTITUTIONS

Offers and sales of the Bonds may be made to the specified institutions in the following jurisdictions, subject to the qualifications indicated in the notes, without registration or qualification of the Bonds or any filings being made. Subject to the qualifications indicated in the notes, such offers and sales may be made either by dealers or brokers registered or licensed in the respective jurisdictions or by persons not so registered or licensed. The status of the Bonds with respect to eligibility for investment by the institutions mentioned herein is not covered in this Survey.

**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.

**Alaska**<sup>(9)(20)</sup> .....Any institutional investor.

**Arizona**<sup>(2)</sup> .....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.

**Arkansas**<sup>(3)</sup> .....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.

**California**<sup>(4)(5)</sup> .....Any bank, savings and loan association, trust company, insurance company, investment company registered under the Investment Company Act of 1940, pension or profit-sharing trust (other than a pension or profit-sharing trust of the issuer, a self-employed individual retirement plan, or individual retirement account), or such other institutional investor or governmental agency or instrumentality designated by rule of the Commissioner of Corporations.

**Colorado**<sup>(6)</sup> .....Any depository institution; insurance company; a separate account of an insurance company; an investment company registered under the federal "Investment Company Act of 1940"; a business development company as defined in the federal "Investment Company Act of 1940"; any private business development company as defined in the federal "Investment Advisers Act of 1940"; an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of five million dollars or its investment decisions are made by a named fiduciary, as defined in the federal "Employee Retirement Income Security Act of 1974", that is a broker-dealer registered under the federal "Securities Exchange Act of 1934", an investment adviser registered or exempt from registration under

the federal “Investment Advisers Act of 1940”, a depository institution, or an insurance company; 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 five million dollars as of the end of its latest fiscal year; a small business investment company licensed by the federal small business administration under the federal “Small Business Investment Act of 1958”; and any other institutional buyer.

**Connecticut**<sup>(1)</sup> .....Any bank and trust company, national banking association, savings bank, savings and loan association, federal savings and loan association, federal savings bank, 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.

**Delaware**<sup>(1)(7)</sup> .....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.

**District of Columbia**<sup>(8)</sup> .....Any depository institution, insurance company, separate account of an insurance company, investment company registered under the Investment Company Act of 1940, business development company as defined in the Investment Company Act of 1940, employee pension or profit-sharing or benefit plan if the plan has total assets in excess of \$5 million 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 advisor registered or exempt from registration under the Investment Advisers Act of 1940, a depository institution or an insurance company, a “qualified institutional buyer” as defined in SEC Rule 144A, an accredited investor as defined in SEC Rule 501(a), a limited liability company with net assets of at least \$500,000.

**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 (17 C.F.R. 230.144(A)(a)).

**Georgia**<sup>(13)(20)</sup> .....Any institutional investor.

- Guam**<sup>(1)</sup> .....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.
- Hawaii**<sup>(13)(20)</sup> .....Any institutional investor.
- Idaho**<sup>(9)(20)</sup> .....Any institutional investor.
- Illinois**<sup>(10)(11)</sup> .....Any corporation, bank, savings bank, savings institution, savings and loan association, trust company, insurance company, building and loan association, pension fund, pension trust, employees' profit-sharing trust, or other financial institution or institutional investor, or any government or political subdivision or instrumentality thereof; any partnership or other association engaged as a substantial part of its business or operations in purchasing or holding securities, or any trust in respect of which a bank or trust company is trustee or co-trustee; any entity in which at least ninety percent (90%) of the equity is owned by person described in subsections C, H or S of Section 4[5/4] of the Illinois Securities Law of 1953, as amended, any employee benefit plan within the meaning of Title I of the Federal ERISA Act if the investment decision is made by a plan fiduciary as defined in §3(21) of the federal ERISA Act and such plan fiduciary is either a bank, savings and loan association, insurance company, registered investment adviser or the plan has total assets in excess of \$5,000,000, or, in the case of a self-directed plan, investment decisions are made solely by persons described under subsections C, D, H or S of Section 4[5/4] of the Illinois Securities Law of 1953, as amended, or to a 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 to 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**<sup>(13)(20)</sup> .....Any institutional investor.
- Iowa**<sup>(12)(20)</sup> .....Any institutional investor.
- Kansas**<sup>(13)(20)</sup> .....Any institutional investor.
- Kentucky**<sup>(1)</sup> .....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.

<b>Louisiana</b> <sup>(14)</sup> .....	Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, as now or hereafter amended, real estate investment trust, small business investment corporation, pension or profit-sharing plan or trust, or other financial institution.
<b>Maine</b> <sup>(15)(16)</sup> .....	Any institutional investor.
<b>Maryland</b> <sup>(17)(18)</sup> .....	Any investment company as defined in the Investment Company Act of 1940, an investment adviser with assets under management of not less than \$1,000,000, savings and loan association, bank, trust company, insurance company, employee benefit plan with assets of not less than \$1,000,000, or governmental agency or instrumentality, whether acting for itself or as a trustee or a fiduciary with investment control or other institutional investor as designated by rule or order.
<b>Massachusetts</b> <sup>(1)(19)</sup> .....	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.
<b>Michigan</b> <sup>(20)(21)</sup> .....	Any institutional investor.
<b>Minnesota</b> <sup>(13)(22)</sup> .....	Any institutional investor or an accredited investor as that term is defined in Rule 501(a) of Regulation D adopted pursuant to the Securities Act of 1933.
<b>Mississippi</b> <sup>(13)(20)</sup> .....	Any institutional investor.
<b>Missouri</b> <sup>(9)(20)</sup> .....	Any institutional investor.
<b>Montana</b> <sup>(1)(23)</sup> .....	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.
<b>Nebraska</b> <sup>(24)(25)</sup> .....	Any bank, savings institution, credit union, trust company, or other financial institution, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, corporation with total assets in excess of five million dollars, not formed for the specific purposes of acquiring the securities offered, Massachusetts or similar business trust with total assets in excess of five million dollars, not formed for the specific purpose of acquiring the securities offered, partnership with total assets in excess of five million dollars, not formed for the specific purpose of acquiring the securities offered, trust with total assets in excess of five million dollars, not formed for the specific purpose of acquiring

the securities, whose purchase is directed by a person who has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of the prospective investment, entity in which all of the equity owners are individuals who are individual accredited investors, institutional buyer as may be defined by rule and regulation or order or individual accredited investor.

- Nevada**<sup>(26)(27)</sup> .....Any financial or institutional investor.
- New Hampshire**<sup>(28)(29)</sup> .....Any institutional investor.
- New Jersey**<sup>(30)</sup> .....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.
- New Mexico**<sup>(13)(31)</sup> .....Any institutional investor.
- New York** .....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, any dealer or broker, or any syndicate, corporation or other group formed for the specific purpose of acquiring such securities for resale to the public directly or through other syndicates or groups.
- North Carolina**<sup>(1)(32)</sup> .....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.
- North Dakota**<sup>(13)(31)</sup> .....Any institutional investor.
- Ohio**<sup>(33)(34)</sup> .....Any institutional investor.
- Oklahoma**<sup>(13)(20)</sup> .....Any institutional investor.
- Oregon**<sup>(2)</sup> .....Any bank, savings institution, trust company, insurance company, investment company, pension or profit-sharing trust, 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 Department of Veteran’s Affairs and the Government National Mortgage Association), or mortgage broker or mortgage banker.
- Pennsylvania**<sup>(1)(35)</sup> .....Any bank, insurance company, pension or profit-sharing plan or trust (except a municipal pension plan or system), investment

company as defined in the Investment Company Act of 1940, or any person, other than an individual, which controls any of the foregoing, the Federal Government, state or any agency or political subdivision thereof, except public school districts in Pennsylvania, or any other person designated as an institutional investor by regulation of the Pennsylvania Securities Commission.

**Puerto Rico**<sup>(1)</sup>.....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, or other financial institution or institutional buyer.

**Rhode Island**<sup>(36)</sup> .....Any depository institution; an insurance company or separate account of an insurance company; an investment company as defined in the Investment Company Act of 1940; 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; and any other institutional buyer.

**South Carolina**<sup>(13)(20)</sup>.....Any institutional investor.

**South Dakota**<sup>(13)(20)</sup> .....Any institutional investor.

**Tennessee**<sup>(37)</sup>.....Any bank, unless the bank is acting as a broker-dealer as such term is defined in the Tennessee Securities Act of 1980, trust company, insurance company, investment company registered under the Investment Company Act of 1940, as amended, 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 or any other person engaged as a substantial part of its business in investing in securities, provided such purchaser has a net worth in excess of \$1,000,000.

**Texas**<sup>(38)</sup>.....Any bank, trust company, building and loan association, insurance company, surety or guaranty company, savings institution, investment company as defined in the Investment Company Act of 1940 or small business investment company as defined in the Small Business Investment Act of 1958, as amended, provided the securities are purchased by such institution 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**<sup>(39)</sup>.....Any depository 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 investor.
- Vermont**<sup>(13)(20)</sup> .....Any institutional investor.
- Virginia**.....Any corporation, investment company or pension or profit-sharing trust.
- Washington**<sup>(1)(40)</sup>.....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.
- West Virginia**<sup>(39)(41)</sup>.....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.
- Wisconsin**<sup>(42)(43)</sup>.....Any institutional investor.
- Wyoming**<sup>(13)(44)</sup>.....Any institutional investor.

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- (1) Provided the offeror or seller (i) is registered or licensed as a dealer or broker in this jurisdiction, or (ii) has no place of business in this jurisdiction and effects transactions in this jurisdiction exclusively with or through registered or licensed dealers or brokers or with institutions enumerated with respect to this jurisdiction in this Part.
  - (2) Provided the offeror or seller (i) is a registered broker-dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction and effects transactions exclusively with other broker-dealers registered or exempt from registration in this jurisdiction.
  - (3) Provided the offeror or seller (i) is registered as a broker-dealer in Arkansas, or (ii) has no place of business in Arkansas and effects transactions in Arkansas exclusively with or through other broker-dealers, savings and loan associations or with institutions enumerated with respect to Arkansas in this Part.
  - (4) Provided the offeror or seller (i) is registered as a broker-dealer in California, or (ii) is a broker-dealer registered under the Securities Exchange Act of 1934, who has not previously had any certificate denied or revoked under the California Corporate Securities Law of 1968 or any predecessor statute, has no place of business in California and does not direct offers to sell or buy into California in any manner to persons other than registered broker-dealers or to institutions enumerated with respect to California in this Part.
  - (5) The institutional investors, governmental agencies and instrumentalities designated by rule of the Commissioner of Corporations are: (a) any organization described in Section 501(c)(3) of the Internal Revenue Code, as amended 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; (b) any corporation which has a net worth on a consolidated basis according to its most recent audited financial statement of not less than \$14,000,000; (c) any wholly owned subsidiary of any institutional investor designated in this Part; and (d) 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 such governments, any state university or state college, and any retirement system for the benefit of employees of any of the foregoing.

- (6) Provided the offeror or seller (i) is registered as a broker-dealer in Colorado, or (ii) is a broker-dealer registered pursuant to the Securities Exchange Act of 1934, has no place of business in Colorado and effects transactions in Colorado exclusively (A) with or through other broker-dealers registered or exempt from registration in Colorado, except when the broker-dealer is acting as a clearing broker-dealer for such other broker-dealers, (B) with institutions enumerated with respect to Colorado in this Part, (C) with issuers in transaction involving their own securities, (D) with individuals who are existing customers and whose principal places of residence are not in Colorado, or during any twelve consecutive months, with not more than five persons in Colorado, excluding persons described in clauses (A) through (D).
- (7) The term “institutional buyer” includes, but is not limited: (i) an “accredited investor” as defined by 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 Rule 501 (a)(5)-(6); (ii) any “qualified institutional buyer” as that term is defined in SEC Rule 144A(a)(1) and (iii) 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, but the offer or sale securities is not exempt under the Delaware Securities Act if the institutional buyer is in fact acting only as an agent for another purchaser that is not an institutional buyer or financial institution listed in this Part.
- (8) Provided the offeror or seller (i) is registered as a broker-dealer in the District of Columbia or (ii) has no place of business in the District of Columbia and effects transactions in the District of Columbia exclusively with depository institutions, another broker-dealer, 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.
- (9) The term “institutional investor” means any of the following, whether acting for itself or for others in a fiduciary capacity, (i) a depository institution, a trust company organized or chartered under the laws of this jurisdiction, or an international banking institution; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the Investment Company Act of 1940; (v) a broker-dealer registered under the securities exchange act of 1934; (vi) an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of ten million dollars (\$10,000,000) 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, an investment adviser registered under the laws of this jurisdiction, a depository institution, or an insurance company; (vii) 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 ten million dollars (\$10,000,000) or its investment decisions are made by a duly designated public official or 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, an investment adviser registered under the laws of this jurisdiction, a depository institution or an insurance company; (viii) a trust, if it has total assets in excess of ten million dollars (\$10,000,000), its trustee is a depository institution, and its participants are exclusively plans of the types identified in the immediately preceding two clauses, regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (ix) an organization described in Section 501(c)(3) of the Internal Revenue Code (26 U.S.C. Section 501(c)(3)), corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of ten million dollars (\$10,000,000); (x) a small business investment company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958 (15 U.S.C. Section 681(c)) with total assets in excess of ten million dollars (\$10,000,000); (xi) a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-2(a)(22)) with total assets in excess of ten million dollars (\$10,000,000); (xii) a federal covered investment adviser acting for its own account; (xiii) 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 (17 C.F.R. 230.144A); (xiv) a “major U.S. institutional investor” as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934 (17 C.F.R. 240.15a-6); (xv) any other person, other than an individual, of institutional character with total assets in excess of ten million dollars (\$10,000,000) not organized for the specific purpose of evading this act; or (xvi) or any other person specified by rule adopted or order issued under this jurisdiction.
- (10) Provided the offeror or seller (i) is registered as a broker dealer in this jurisdiction, or (ii) is not regularly engaged in the business of offering or selling securities in reliance on the exemptions for limited offerings to thirty-five persons or less or preorganization subscriptions and such transactions in the jurisdiction are exclusively with the institutions enumerated with respect to this jurisdiction in Part III.

- (11) The term “institutional investor” shall include, but not be limited to: (a) any investment company, university, or other organization whose primary purpose is to invest its own assets or those held in trust by it for others; (b) any trust account or individual or group retirement account in which a bank, trust company, insurance company or savings and loan institution acts in a fiduciary capacity; and (c) any foundation or endowment fund 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. The Illinois Securities Department has also defined “financial institution” to include, but not be limited to, a 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 10 in number and have a fair market value of not less than \$10,000,000 at the end of the preceding calendar month.
- (12) The term “institutional investor” means any of the following, whether acting for itself or for others in a fiduciary capacity: (i) a depository institution or international banking institution; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the Investment Company Act of 1940; (v) a broker-dealer registered under the Securities Exchange Act of 1934; (vi) an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of five million dollars 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 advisor registered or exempt from registration under the Investment Advisers Act of 1940, an investment advisor registered under the laws of this jurisdiction, a depository institution, or an insurance company; (vii) 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 five million dollars or its investment decisions are made by a duly designated public official or 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 advisor registered or exempt from registration under the Investment Advisers Act of 1940, an investment advisor registered under the laws of this jurisdiction, a depository institution, or an insurance company; (viii) a trust, if it has total assets in excess of five million dollars, its trustee is a depository institution, and its participants are exclusively plans of the types identified in the two immediately preceding clauses, regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (iv) an organization described in section 501(c)(3) of the Internal Revenue Code, 26 U.S.C. Section 501(c)(3), corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of five million dollars; (x) a small business investment company licensed by the small business administration under section 301(c) of the Small Business Investment Act of 1958, 15 U.S.C. Section 681(c), with total assets in excess five million dollars; (xi) a private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940, 15 U.S.C. Section 80b-2(a)(22), with total assets in excess of five million dollars; (xii) a federal covered investment adviser acting for its own account; (xiii) a “qualified institutional buyer” as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(i)(H), adopted by the securities and exchange commission under the Securities Act of 1933, 17 C.F.R. Section 230.144A; (xiv) a “major U.S. institutional investor” as defined in Rule 15a-6(b)(4)(i) adopted by the securities and exchange commission under the Securities Exchange Act of 1933, 17 C.F.R. Section 240.15a-6; (xv) any other person, other than an individual, of institutional character with total assets in excess of five million dollars not organized for the specific purpose of evading the laws of this jurisdiction; or (xvi) or any other person specified by rule adopted or order issued under this jurisdiction.
- (13) The term “institutional investor” means any of the following, whether acting for itself or for others in a fiduciary capacity, (i) a depository institution or an international banking institution; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the Investment Company Act of 1940; (v) a broker-dealer registered under the securities exchange act of 1934; (vi) an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of ten million dollars (\$10,000,000) 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 advisor registered or exempt from registration under the Investment Advisers Act of 1940, an investment advisor registered under the laws of this jurisdiction, a depository institution, or an insurance company; (vii) 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 ten million dollars (\$10,000,000) or its investment decisions are made by a duly designated public official or 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 advisor registered or exempt from registration under the Investment Advisers Act of 1940, an investment advisor registered under the laws of this jurisdiction, a depository institution or an insurance company; (viii) a trust, if it has total assets in excess of ten million dollars (\$10,000,000), its trustee is a depository institution, and its participants are exclusively plans of the types identified in the immediately preceding two clauses, regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (ix) an organization described in Section 501(c)(3) of the Internal Revenue Code (26 U.S.C. Section 501(c)(3)), corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the

specific purpose of acquiring the securities offered, with total assets in excess of ten million dollars (\$10,000,000); (x) a small business investment company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958 (15 U.S.C. Section 681(c)) with total assets in excess of ten million dollars (\$10,000,000); (xi) a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-2(a)(22)) with total assets in excess of ten million dollars (\$10,000,000); (xii) a federal covered investment adviser acting for its own account; (xiii) 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 (17 C.F.R. 230.144A); (xiv) a “major U.S. institutional investor” as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934 (17 C.F.R. 240.15a-6); (xv) any other person, other than an individual, of institutional character with total assets in excess of ten million dollars (\$10,000,000) not organized for the specific purpose of evading this act; or (xvi) or any other person specified by rule adopted or order issued under this jurisdiction.

- (14) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction, or (ii) effects transactions in this jurisdiction exclusively with institutions enumerated with respect to this jurisdiction in Part III herein.
- (15) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction, if the transactions effected by the broker-dealer in this jurisdiction are exclusively with the following: (1) the issuer of the securities involved in the transactions; (2) other broker-dealers licensed or exempt under this jurisdiction, except when the broker-dealer is acting as a clearing broker-dealer for such other broker-dealers; (3) or institutions enumerated with respect to this jurisdiction in this Part III; (4) non-affiliated federal covered investment advisors with investments under management in excess of \$100,000,000 acting for the account of others pursuant to discretionary authority in a signed record; (5) bona fide pre-existing customers whose principal place of residence are not in this jurisdiction and the offeror or seller is registered as a broker-dealer under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which the customer maintains a principal place of residence; or (6) bona fide pre-existing customers whose principal place of residence are in this jurisdiction but were not present in this jurisdiction when the customer relationship was established if certain other requirements are met.
- (16) The term “institutional investor” means any of the following whether in acting for itself or for others in a fiduciary capacity: (i) a depository institution or international banking institution; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the federal Investment Company Act of 1940; (v) 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 the federal Employee Retirement Income Security Act of 1974, that is a broker-dealer registered under the federal Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the federal Investment Advisers Act of 1940, an investment adviser registered under this chapter, a depository institution or an insurance company; (vi) 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 the federal Employee Retirement Income Security Act of 1974, that is a broker –dealer registered under the federal Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the federal Investment Advisers Act of 1940, an investment adviser registered under this chapter, a depository institution or an insurance company; (vii) a trust, if it has total assets in excess of \$10,000,000, its trustee is a depository institution and its participants are exclusively plans of the types identified in previous two clauses, regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (viii) an organization described in Section 501(c)(3) of the Internal Revenue Code, 26 United States Code, Section 501(c)(3), a corporation, a Massachusetts trust or similar business trust, a limited liability company or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of \$10,000,00; (ix) a small business investment company licensed by the United States Small Business Administration under Section 301(c) of the federal Small Business Investment Act of 1958, 15 United States Code, Section 681(c) with total assets in excess of \$5,000,000; (x) a private business development company as defined in Section 202(a)(22) of the federal Investment Advisers Act of 1940, 15 United State Code, Section 80b-2(a)(22) with total assets in excess of \$5,000,000; (xi) a federal covered investment advisor acting for its own account; (xii) a qualified institutional buyer as defined in 17 Code of Federal Regulations, 230.144A(a)(1), except as defined in 17 Code of Federal Regulations 230.144A(a)(1)(i)(H); (xiii) a major U.S. Institutional investor as defined in 17 Code of Federal Regulations, 240.15a-6(b)(4)(i); (xiv) 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 this chapter; or (xv) any other person specified by rule adopted or order issued under this chapter.
- (17) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction or (ii) has no place of business in this jurisdiction and effects transactions in this jurisdiction exclusively with or through 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 or institutional buyers.

- (18) The Maryland Division of Securities has by rule defined institutional investor to include an accredited investor as set forth in Regulation D, 17 CFR §230.501(a)(1)-(3),(7), and (8), and a qualified institutional buyer as set forth in Rule 144A, 55 FR 17933 (1990).
- (19) The term “institutional buyer” includes, but is not limited to, (i) a Small Business Investment Company licensed by the U.S. Small Business Administration under the Small Business Investment Act of 1958, as amended; (ii) a private business development company as defined in §202(a)(22) of the Investment Advisers Act of 1940, as amended; (iii) a Business Development Company as defined in §2(a)(48) of the Investment Company Act of 1940, as amended; (iv) an entity with total assets in excess of \$5 million and which is either: (a) a company (whether a corporation, a Massachusetts or similar business trust, partnership, limited liability company or limited liability 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 are 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 investment; or (b) an organization described in Section 501(c)(3) of the Internal Revenue Code; and (v) a Qualified Institutional Buyer as defined in 17 CFR 230.144A(a).
- (20) Provided the offeror or seller (i) is registered as a broker dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction, if the only transactions effected by the broker-dealer in this jurisdiction are with the following: (1) the issuer of the securities involved in the transactions; (2) other broker-dealers registered or exempt under this jurisdiction; (3) institutions enumerated with respect to this jurisdiction in this Part; (4) non-affiliated federal covered investment advisors with investments under management in excess of \$100,000,000 acting for the account of others pursuant to discretionary authority in a signed record; (5) bona fide pre-existing customers whose principal place of residence are not in this jurisdiction and the offeror or seller is registered as a broker-dealer under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which the customer maintains a principal place of residence; (6) bona fide pre-existing customers whose principal place of residence are in this jurisdiction but were not present in this jurisdiction when the customer relationship was established if certain other requirements are met; (7) not more than three customers in this jurisdiction during the previous twelve months, in addition to those specified in clauses (1) through (6) and in clause (8), if the offeror or seller is registered under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which such entity has its principal place of business; and (8) any other person exempted by rule adopted or order issued under the laws of this jurisdiction.
- (21) The term “institutional investor” means any of the following, whether acting for itself or for others in a fiduciary capacity, (i) a depository institution or an international banking institution; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the Investment Company Act of 1940; (v) a broker-dealer registered under the securities exchange act of 1934; (vi) an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of \$2,500,000 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, an investment adviser registered under the laws of this jurisdiction, a depository institution, or an insurance company; (vii) 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 \$2,500,000 or its investment decisions are made by a duly designated public official or 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, an investment adviser registered under the laws of this jurisdiction, a depository institution or an insurance company; (viii) a trust, if it has total assets in excess of \$2,500,000, its trustee is a depository institution, and its participants are exclusively plans of the types identified in the immediately preceding two clauses, regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (ix) an organization described in Section 501(c)(3) of the Internal Revenue Code (26 U.S.C. Section 501(c)(3)), corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of \$2,500,000; (x) a small business investment company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958 (15 U.S.C. Section 681(c)) with total assets in excess of \$2,500,000; (xi) a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-2(a)(22)) with total assets in excess of \$2,500,000; (xii) a federal covered investment adviser acting for its own account; (xiii) 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 (17 C.F.R. 230.144A); (xiv) a “major U.S. institutional investor”

as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934 (17 C.F.R. 240.15a-6); (xv) any other person, other than an individual, of institutional character with total assets in excess of \$2,500,000 not organized for the specific purpose of evading this act; or (xvi) or any other person specified by rule adopted or order issued under this jurisdiction.

- (22) Provided the offeror or seller (i) is registered as a broker dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction, if the only transactions effected by the broker-dealer in this jurisdiction are with the following: (1) the issuer of the securities involved in the transactions; (2) other broker-dealers registered or exempt under this jurisdiction; (3) institutions enumerated with respect to this jurisdiction in this Part; (4) accredited investors; (5) non-affiliated federal covered investment advisors with investments under management in excess of \$100,000,000 acting for the account of others pursuant to discretionary authority in a signed record; (6) bona fide pre-existing customers whose principal place of residence are not in this jurisdiction and the offeror or seller is registered as a broker-dealer under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which the customer maintains a principal place of residence; (7) bona fide pre-existing customers whose principal place of residence are in this jurisdiction but were not present in this jurisdiction when the customer relationship was established if certain other requirements are met; (8) not more than three customers in this jurisdiction during the previous twelve months, in addition to those specified in clauses (1) through (7) and in clause (9), if the offeror or seller is registered under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which such entity has its principal place of business; and (9) any other person exempted by rule adopted or order issued under the laws of this jurisdiction.
- (23) The Montana State Auditor and Commissioner of Securities has, in an interpretative opinion, added institutional investors qualified under Rule 144A of the Securities Exchange Commission to the list set forth in this Part.
- (24) The Nebraska Director of Banking and Finance has, in an interpretative opinion, provided that the following definitions shall apply to the list set forth in this Part: (a) "Bank" means a bank as defined in Section 3(a)(2) of the Securities Act of 1933, 15 U.S.C. §77c(a)(2); (b) "Insurance Company" means an insurance company as defined in Section 2(13) of the Securities Act of 1933, 15 U.S.C. §77b(13); (c) a "pension or profit-sharing trust" means an employee benefit plan, as defined in Title I of the Employee Retirement Income Security Act of 1974, 29 U.S.C. §1002(2) if: (i) the investment decisions are made by a "plan fiduciary", as defined in Section 3(21) of the Employee Retirement Income Security Act of 1974, 29 U.S.C. §1002(21), which is either a bank, insurance company or registered investment adviser; or (ii) the employee benefit plan has total assets in excess of \$5,000,000; (d) "Financial institution" means a bank, savings bank, building and loan association, savings and loan association, or credit union, whether chartered by the United States, the department, or a foreign state agency; any other similar organization which is covered by federal deposit insurance; or a trust company; (e) "Corporation" includes domestic corporations as defined by the Nebraska Model Business Corporation Act, Neb. Rev. Stat. §21-214(4), and foreign corporations as defined by Neb. Rev. Stat. §21-214(20); and (f) "Partnership" means a partnership as defined by Nebraska Uniform Partnership Act, Neb. Rev. Stat. §67-402(6).
- (25) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction, (ii) has no place of business in this jurisdiction and effects transactions in this jurisdiction exclusively with or through banks, savings institutions, credit unions, trust companies, insurance companies, investment companies as defined in the Investment Company Act of 1940, pension or profit sharing trusts, or other financial or institutional buyers, whether acting for themselves or as trustees, or (iii) has no place of business in this jurisdiction if during any period of twelve consecutive months, such person does not direct more than five offers to sell or to buy into this jurisdiction in any manner to persons other than those specified in clause (ii).
- (26) Provided the offeror or seller (i) is registered as a broker-dealer in Nevada, or (ii) is registered, or not required to be registered under the Securities Exchange Act of 1934 and has no place of business in Nevada and effects transactions exclusively with other broker-dealers licensed or exempt under the Nevada Revised Statutes, as amended or with institutions enumerated with respect to Nevada in this Part.
- (27) The term "financial or institutional investor" means: (i) a depository institution; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the Investment Company Act of 1940; (v) 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; and (vi) any other institutional buyer.

- (28) The term “institutional investor” means any of the following whether in acting for itself or for others in a fiduciary capacity: (i) a depository institution, trust company or international banking institution; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the Investment Company Act of 1940; (v) a broker-dealer registered under the Securities Exchange Act of 1934; (vi) 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 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, an investment adviser registered under the New Hampshire Uniform Securities Act, a depository institution, a trust company or an insurance company; (vii) 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 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, an investment adviser registered under the New Hampshire Uniform Securities Act, a depository institution, a trust company or an insurance company; (viii) a trust, if it has total assets in excess of \$10,000,000, its trustee is a depository institution or trust company and its participants are exclusively plans of the types identified in previous two clauses, regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (ix) an organization described in Section 501(c)(3) of the Internal Revenue Code, 26 United States Code, Section 501(c)(3), a corporation, a Massachusetts trust or similar business trust, a limited liability company or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of \$10,000,00; (ix) a small business investment company licensed by the United States Small Business Administration under Section 681(c) of the Small Business Investment Act of 1958, 15 United States Code, Section 681(c) with total assets in excess of \$10,000,000; (xi) a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940, 15 United State Code, Section 80b-2(a)(22) with total assets in excess of \$10,000,000; (xii) a federal covered investment advisor acting for its own account; (xiii) a qualified institutional buyer as defined in 17 Code of Federal Regulations, 230.144A(a)(1), except as defined in 17 Code of Federal Regulations 230.144A(a)(1)(i)(H); (xiv) a major U.S. Institutional investor as defined in 17 Code of Federal Regulations, 240.15a-6(b)(4)(i); (xv) any other person, other than an individual, of institutional character with total assets in excess of \$25,000,000 not organized for the specific purpose of evading the New Hampshire Uniform Securities Act; or (xv) any other person specified by rule adopted or order issued under the New Hampshire Uniform Securities Act.
- (29) Provided the offeror or seller (i) is registered as a broker dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction, if the only transactions effected by the broker-dealer in this jurisdiction are with the following: (1) the issuer of the securities involved in the transactions; (2) other broker-dealers licensed or exempt under this jurisdiction; (3) institutions enumerated with respect to this jurisdiction in this Part III; or (4) bona fide pre-existing customers whose principal place of residence are not in this jurisdiction and the offeror or seller is registered as a broker-dealer under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which the customer maintains a principal place of residence.
- (30) Provided the offeror or seller (i) is registered as a broker-dealer in New Jersey, or (ii) effects transactions in New Jersey exclusively with or through registered broker-dealers or with institutions enumerated with respect to New Jersey in this Part.
- (31) Provided the offeror or seller (i) is registered as a broker dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction, if the transactions effected by the broker-dealer in this jurisdiction are exclusively with the following: (1) the issuer of the securities involved in the transactions; (2) other broker-dealers licensed or exempt under this jurisdiction; (3) institutions enumerated with respect to this jurisdiction in this Part; (4) non-affiliated federal covered investment advisors with investments under management in excess of \$100,000,000 acting for the account of others pursuant to discretionary authority in a signed record; (5) bona fide pre-existing customers whose principal place of residence are not in this jurisdiction and the offeror or seller is registered as a broker-dealer under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which the customer maintains a principal place of residence; or (6) bona fide pre-existing customers whose principal place of residence are in this jurisdiction but were not present in this jurisdiction when the customer relationship was established if certain other requirements are met.
- (32) In addition, a broker-dealer registered in North Carolina may offer and sell to an entity which has a net worth in excess of \$1,000,000 as determined by generally accepted accounting principles.
- (33) Provided the offeror or seller (i) is registered or licensed as a broker dealer in Ohio or (ii) has no place of business in Ohio and is registered with the Securities and Exchange Commission and effects transactions in Ohio exclusively with the institutions enumerated with respect to Ohio in this Part.

- (34) The term “institutional investor” means any of the following, whether acting for itself or for others in a fiduciary capacity, (i) a bank or an international banking institution; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the Investment Company Act of 1940; (v) a broker-dealer registered under the securities exchange act of 1934 or licensed by this jurisdiction as a dealer; (vi) an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of ten million dollars (\$10,000,000) 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, an investment adviser registered under the laws of this jurisdiction, a bank, or an insurance company; (vii) 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 ten million dollars (\$10,000,000) or its investment decisions are made by a duly designated public official or 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, an investment adviser registered under the laws of this jurisdiction, a bank or an insurance company; (viii) a trust, if it has total assets in excess of ten million dollars (\$10,000,000), its trustee is a bank, and its participants are exclusively plans of the types identified in the immediately preceding two clauses, regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (ix) an organization described in Section 501(c)(3) of the Internal Revenue Code (26 U.S.C. Section 501(c)(3)), corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of ten million dollars (\$10,000,000); (x) a small business investment company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958 (15 U.S.C. Section 681(c)) with total assets in excess of ten million dollars (\$10,000,000); (xi) a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-2(a)(22)) with total assets in excess of ten million dollars (\$10,000,000); (xii) a federal covered investment adviser acting for its own account; (xiii) 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 (17 C.F.R. 230.144A); (xiv) a “major U.S. institutional investor” as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934 (17 C.F.R. 240.15a-6); (xv) any other person, other than an individual, of institutional character with total assets in excess of ten million dollars (\$10,000,000) not organized for the specific purpose of evading this act; or (xvi) or any other person specified by rule adopted or order issued under this jurisdiction.
- (35) The term “institutional investor” includes: (1) a corporation, partnership, trust, estate or other entity (excluding individuals), or a wholly owned subsidiary of the entity, which has been in existence for at least 18 months and which had a tangible net worth on a consolidated basis of \$25 million or more; (2) a college, university, or other public or private institution which has received exempt status under section 501(c)(3) of the Internal Revenue Code of 1986 (26 U.S.C.A. §501(c)(3)) and which has a total endowment or trust funds, including annuity and life income funds, of \$5 million or more according to its most recent audited financial statements; provided that the aggregate dollar amount of securities being sold to the person under the exemption contained in section 203(c) of the Pennsylvania Securities Act of 1972 (the “Act”) (70 P.S. §1 203(c)) and this title may not exceed 5% of the endowment or trust funds; (3) a wholly owned subsidiary of a bank as defined in section 102(d) of the Act (70 P.S. §1 102(d)); (4) a 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 to purchase, in non public offerings, securities of corporations or issuers engaged in research and development activities in conjunction with a corporation and which complies with one of the following: (i) has purchased \$5 million or more of the securities excluding both of the following: (A) a purchase of securities of a corporation in which the person directly or beneficially owns more than 50% of the corporation’s voting securities, unless the purchase occurred under a leveraged buy out financing in which the person does not intend to provide direct management to the issuer, and (B) a dollar amount of a purchase of securities of a corporation which investment represents more than 20% of the person’s net worth; (ii) is capitalized at \$2,500,000 or more and is controlled by a person which meets the criteria contained in subparagraph (i); (iii) is capitalized at \$10 million or more and has purchased \$500,000 or more of the securities, excluding a purchase of securities of a corporation in which the person directly or beneficially owns more than 50% of the corporation’s voting securities; (iv) is capitalized at \$250,000 or more and is a side by side fund; (5) a Small Business Investment Company as that term is defined in section 103 of the Small Business Investment Act of 1958, (15 U.S.C.A. § 662) which either: (i) has a total capital of \$1 million or more; or (ii) is controlled by institutional investors as defined in section 102(k) of the Act (70 P.S. §1 102(k)) or section 102.021 of the Pennsylvania Blue Sky Regulations; (6) a Seed Capital Fund, as defined in section 2 and authorized in section 6 of the Small Business Incubators Act (73 P.S. §§395.2 and 395.6); (7) a Business Development Credit Corporation, as authorized by the Business Development Credit Corporation Law (7 P.S. §§6040-1 6040-16); (8) a person whose securityholders consist solely of institutional investors or broker dealers; (9) a person as to which the issuer reasonably believed qualified as an institutional investor under this section at the time of the offer or sale of the securities on the basis of written representations made to the issuer by the purchaser; (10) a qualified institutional buyer as defined in 17 CFR 230.144A (relating to private resales of securities to institutions), or any successor rule; and (11) a qualified pension and profit sharing

and stock bonus plan under section 401 of the Internal Revenue Code of 1986 (26 U.S.C.A. §401) and all plans under section 408 of the Internal Revenue Code of 1986 (26 U.S.C.A. §408) if the plan has either of the following: (i) plan assets of \$5 million or more or (ii) investments of \$500,000 or more in securities and retained, on an on-going basis, the services of an investment advisor registered under section 301 of the Act (70 P.S. §1-301) or a Federally covered advisor to give professional investment management advice.

- (36) Provided the offeror or seller (i) is registered as a broker-dealer in Rhode Island or (ii) is a broker-dealer who is registered or not required to be registered under the Securities Exchange Act of 1934, has no place of business in Rhode Island and effects transactions in Rhode Island exclusively with or through other broker-dealers or with institutions enumerated with respect to Rhode Island in this Part.
- (37) Provided the offeror or seller (i) is registered or licensed as a broker-dealer in Tennessee, or (ii) has no place of business in Tennessee and is registered as a broker-dealer with the Securities and Exchange Commission or the Financial Industry Regulatory Authority and effects transactions in Tennessee exclusively with or through registered or licensed broker-dealers or with institutions enumerated with respect to Tennessee in this Part.
- (38) In addition, the Texas State Securities Board exempts from the securities registration requirements of the Securities Act the offer and sale of any securities to any of the following purchasers: (1)(i) any bank, as defined in Section 3(a)(2) of the Securities Act of 1933, as amended (the "1933 Act") or any savings and loan association or other institution as defined in Section 3(a) (5)(A) of the 1933 Act, whether acting in its individual or fiduciary capacity; any insurance company as defined in Section 2(13) of the 1933 Act; any investment company registered under the Investment Company Act of 1940; or a business development company as defined in Section 2(a)(48) of the Investment Company Act of 1940; 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, if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such Act, 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 accredited institutional investors; (ii) any private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940; (iii) 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 offered, with total assets in excess of \$5,000,000; (iv) any director, executive officer, or general partner of the issuer of the securities being offered and sold, or any director, executive officer, or general partner of a general partner of that issuer; (v) any trust with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a person who has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment within the meaning of Rule 506(b)(ii) promulgated under the 1933 Act; or (vi) any entity in which all of the equity owners are within categories (i)-(v) above; (2) any "qualified institutional buyer" (as that term is defined in Rule 144A(a)(1) of the 1933 Act as made effective in SEC Release 33-6862, and amended in Release Number 33-6963); and (3) a corporation, partnership, trust, estate or other entity (excluding individuals) having net worth of not less than \$5,000,000, or a wholly owned subsidiary of such entity, provided the entity was not formed for the purpose of acquiring the specific securities. For purposes of determining a purchaser's total assets or net worth, the issuer and the seller may rely upon the entity's most recent annual balance sheet or other financial statement which shall have been audited by an independent accountant or which shall have been verified by a principal of the purchaser.
- (39) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction and effects transactions in this jurisdiction exclusively with or through institutions enumerated with respect to this jurisdiction in this Part or during any period of twelve consecutive months the person does not direct more than 15 offers to sell or buy into this jurisdiction in any manner to persons other than those specified in this Part, whether or not the offeror or an offeree is then present in this jurisdiction.
- (40) The term "institutional buyer" includes a corporation, business trust, or partnership or 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 million as determined by the entity's most recent audited financial statements, such statements to be dated within 16 months of the transaction made in reliance upon this exemption; 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 million or more according to its most recent audited financial statements, such statements to be dated within 16 months of the transaction made in reliance upon this exemption; or any wholly owned subsidiary of a bank, savings institution, insurance company, or investment company as defined in the Investment Company Act of 1940.

- (41) The term “institutional buyer” includes a corporation, business trust, partnership, limited liability company, limited liability partnership or a wholly owned subsidiary of any of the aforementioned entities, which has been operating on a continuing basis for at least twelve (12) months and which has a net worth of at least five million (\$5,000,000) dollars, a substantial part of whose business activities consists of investing, purchasing, selling or trading in securities issued by others and whose investment decisions are made by persons who are reasonably believed by the seller to have such knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of investment, an entity which has been granted exempt status under Section 501(c)(3) of the Internal Revenue Code, as amended, which has been operating on a continuing basis for at least twelve (12) months and which has a net worth of at least five million (\$5,000,000) dollars, a substantial part of whose business activities consists of investing, purchasing, selling or trading in securities issued by others and whose investment decisions are made by persons who are reasonably believed by the seller to have such knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of investment, a Small Business Investment Company licensed by the United States Small Business Administration by the Small Business Investment Act of 1958, as amended, a private business development company as defined by the Investment Advisors Act of 1940, as amended, a Business Development Company as defined by the Investment Company Act of 1940, as amended, a wholly-owned subsidiary of a bank, savings institution, insurance company, or investment company as defined by the Investment Company Act of 1940, as amended, and a “Qualified Institutional Buyer” as defined in 17 CFR 230.144A(a).
- (42) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction or not required to be registered as a broker-dealer in Wisconsin, or (ii) effects transactions in this jurisdiction exclusively with broker-dealers registered or exempt under this jurisdiction, accredited investors as described in SEC Rule 501(a) (1), (2), (3), (7) or (8) or with institutions enumerated with respect to Wisconsin in this Part.
- (43) The term “institutional investor” means any of the following, whether acting for itself or for others in a fiduciary capacity, (i) a depository institution or an international banking institution; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the Investment Company Act of 1940; (v) a broker-dealer registered under the securities exchange act of 1934; (vi) an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of ten million dollars (\$10,000,000) 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, an investment adviser registered under the laws of this jurisdiction, a depository institution, or an insurance company; (vii) 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 ten million dollars (\$10,000,000) or its investment decisions are made by a duly designated public official or 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, an investment adviser registered under the laws of this jurisdiction, a depository institution or an insurance company; (viii) a trust, if it has total assets in excess of ten million dollars (\$10,000,000), its trustee is a depository institution, and its participants are exclusively plans of the types identified in the immediately preceding two clauses, regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (ix) an organization described in Section 501(c)(3) of the Internal Revenue Code (26 U.S.C. Section 501(c)(3)), corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of ten million dollars (\$10,000,000); (x) a small business investment company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958 (15 U.S.C. Section 681(c)) with total assets in excess of ten million dollars (\$10,000,000); (xi) a private business development company as defined in Section 202(a)(22) of the Investment Advisors Act of 1940 (15 U.S.C. Section 80b-2(a)(22)) with total assets in excess of ten million dollars (\$10,000,000); (xii) a federal covered investment adviser acting for its own account; (xiii) a “qualified institutional buyer” as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(i)(H), adopted under the Securities Act of 1933 (17 C.F.R. 230.144A); (xiv) a “major U.S. institutional investor” as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934 (17 C.F.R. 240.15a-6); (xv) any other person, other than an individual, of institutional character with total assets in excess of two million five hundred thousand dollars (\$2,500,000) not organized for the specific purpose of evading this act; or (xvi) or any other person specified by rule adopted or order issued under this jurisdiction.
- (44) Provided the offeror or seller (i) is registered as a broker dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction, if the only transactions effected by the broker-dealer in this jurisdiction are with the following: (1) the issuer of the securities involved in the transactions; (2) other broker-dealers registered or exempt under this jurisdiction; (3) institutions enumerated with respect to this jurisdiction in this Part; (4) non-affiliated federal covered investment advisors with investments under management in excess of \$100,000,000 acting for the account of others pursuant to discretionary authority in a signed record; (5) bona fide pre-existing customers whose principal place of residence are not in this jurisdiction and the offeror or seller is registered as a broker-dealer under the Securities Exchange Act of 1934 or not

required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which the customer maintains a principal place of residence; (6) bona fide pre-existing customers whose principal place of residence are in this jurisdiction but were not present in this jurisdiction when the customer relationship was established if certain other requirements are met; (7) not more than one customer in this jurisdiction during the previous twelve months, in addition to those specified in clauses (1) through (6) and in clause (8), if the offeror or seller is registered under the Securities Exchange Act of 1934 or not required to be registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which such entity has its principal place of business; and (8) any other person exempted by rule adopted or order issued under the laws of this jurisdiction.



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**\$68,840,000**  
**CITY OF MODESTO, CALIFORNIA**  
**WASTEWATER REVENUE**  
**REFUNDING BONDS,**  
**SERIES 2020A (Federally Taxable)**

**\$25,470,000**  
**CITY OF MODESTO, CALIFORNIA**  
**WASTEWATER REVENUE**  
**REFUNDING BONDS,**  
**SERIES 2020B**

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**FINAL BLUE SKY SURVEY**

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November 10, 2020

BofA Securities, Inc.,  
as Representative of the Underwriters  
San Francisco, California

Ladies and Gentlemen:

This memorandum confirms our Preliminary Blue Sky Survey, dated October 15, 2020, relating to the above-captioned bonds (the "Bonds").

Very truly yours,

NIXON PEABODY LLP

September 4, 2020

City of Modesto  
1010 10th Street  
Suite 5200  
Modesto, CA 95354  
Attention: Ms. DeAnna Christensen, Finance Director

Re: ***US\$102,310,000 Modesto, California, Taxable Wastewater Refunding Bonds, Series 2020, dated: Date of delivery, due: November 01, 2035***

Dear Ms. Christensen:

Pursuant to your request for an S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "AA" . S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

This letter constitutes S&P Global Ratings' permission for you to disseminate the above-assigned ratings to interested parties in accordance with applicable laws and regulations. However, permission for such dissemination (other than to professional advisors bound by appropriate confidentiality arrangements or to allow the Issuer to comply with its regulatory obligations) will become effective only after we have released the ratings on [standardandpoors.com](http://standardandpoors.com). Any dissemination on any Website by you or your agents shall include the full analysis for the rating, including any updates, where applicable. Any such dissemination shall not be done in a manner that would serve as a substitute for any products and services containing S&P Global Ratings' intellectual property for which a fee is charged.

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Please send hard copies to:  
S&P Global Ratings  
Public Finance Department  
55 Water Street  
New York, NY 10041-0003

The rating is subject to the Terms and Conditions, if any, attached to the Engagement Letter applicable to the rating. In the absence of such Engagement Letter and Terms and Conditions, the rating is subject to the attached Terms and Conditions. The applicable Terms and Conditions are incorporated herein by reference.

S&P Global Ratings is pleased to have the opportunity to provide its rating opinion. For more information please visit our website at [www.standardandpoors.com](http://www.standardandpoors.com). If you have any questions, please contact us. Thank you for choosing S&P Global Ratings.

Sincerely yours,

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a division of Standard & Poor's Financial Services LLC

bc  
enclosures

cc: *Ms. Grace Wang, Analyst*  
*Public Financial Management, Inc.*

**S&P Global Ratings**  
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Publication. S&P Global Ratings reserves the right to use, publish, disseminate, or license others to use, publish or disseminate a credit rating and any related analytical reports, including the rationale for the credit rating, unless the issuer specifically requests in connection with the initial credit rating that the credit rating be assigned and maintained on a confidential or private basis. If, however, a confidential or private credit rating or the existence of a confidential or private credit rating subsequently becomes public through disclosure other than by an act of S&P Global Ratings or its affiliates, S&P Global Ratings reserves the right to treat the credit rating as a public credit rating, including, without limitation, publishing the credit rating and any related analytical reports. Any analytical reports published by S&P Global Ratings are not issued by or on behalf of the issuer or at the issuer's request. S&P Global Ratings reserves the right to use, publish, disseminate or license others to use, publish or disseminate analytical reports with respect to public credit ratings that have been withdrawn, regardless of the reason for such withdrawal. S&P Global Ratings may publish explanations of S&P Global Ratings' credit ratings criteria from time to time and S&P Global Ratings may modify or refine its credit ratings criteria at any time as S&P Global Ratings deems appropriate.

Reliance on Information. S&P Global Ratings relies on issuers and their agents and advisors for the accuracy and completeness of the information submitted in connection with credit ratings and the surveillance of credit ratings including, without limitation, information on material changes to information previously provided by issuers, their agents or advisors. Credit ratings, and the maintenance of credit ratings, may be affected by S&P Global Ratings' opinion of the information received from issuers, their agents or advisors.

Confidential Information. S&P Global Ratings has established policies and procedures to maintain the confidentiality of certain non-public information received from issuers, their agents or advisors. For these purposes, "Confidential Information" shall mean verbal or written information that the issuer or its agents or advisors have provided to S&P Global Ratings and, in a specific and particularized manner, have marked or otherwise indicated in writing (either prior to or promptly following such disclosure) that such information is "Confidential."

S&P Global Ratings Not an Expert, Underwriter or Seller under Securities Laws. S&P Global Ratings has not consented to and will not consent to being named an "expert" or any similar designation under any applicable securities laws or other regulatory guidance, rules or recommendations, including without limitation, Section 7 of the U.S. Securities Act of 1933. S&P Global Ratings has not performed and will not perform the role or tasks associated with an "underwriter" or "seller" under the United States federal securities laws or other regulatory guidance, rules or recommendations in connection with a credit rating engagement.

Disclaimer of Liability. S&P Global Ratings does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a credit rating or the results obtained from the use of such information. S&P GLOBAL RATINGS GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS

FOR A PARTICULAR PURPOSE OR USE. S&P Global Ratings, its affiliates or third party providers, or any of their officers, directors, shareholders, employees or agents shall not be liable to any person for any inaccuracies, errors, or omissions, in each case regardless of cause, actions, damages (consequential, special, indirect, incidental, punitive, compensatory, exemplary or otherwise), claims, liabilities, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in any way arising out of or relating to a credit rating or the related analytic services even if advised of the possibility of such damages or other amounts.

No Third Party Beneficiaries. Nothing in any credit rating engagement, or a credit 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 a credit rating. No person is intended as a third party beneficiary of any credit rating engagement or of a credit rating when issued.

## DISCLOSURE DISSEMINATION AGENT AGREEMENT

This Disclosure Dissemination Agent Agreement (the “Disclosure Agreement”), dated as of November 10, 2020, is executed and delivered by the City of Modesto, California (the “Issuer”) and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the “Disclosure Dissemination Agent” or “DAC”) for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) and in order to assist the Issuer in processing certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”).

The services provided under this Disclosure Agreement solely relate to the execution of instructions received from the Issuer through use of the DAC system and do not constitute “advice” within the meaning of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”). DAC will not provide any advice or recommendation to the Issuer or anyone on the Issuer’s behalf regarding the “issuance of municipal securities” or any “municipal financial product” as defined in the Act and nothing in this Disclosure Agreement shall be interpreted to the contrary. DAC is not a “Municipal Advisor” as such term is defined in Section 15B of the Securities Exchange Act of 1934, as amended, and related rules.

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

“Annual Filing Date” means the date, set in Sections 2(a) and 2(f) hereof, by which the Annual Report is to be filed with the MSRB.

“Annual Financial Information” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

“Annual Report” means an Annual Report containing Annual Financial Information described in and consistent with Section 3 of this Disclosure Agreement.

“Audited Financial Statements” means the annual financial statements of the Issuer for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i)(B) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

“Bonds” means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure required to be submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Issuer and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“Disclosure Dissemination Agent” means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Issuer pursuant to Section 9 hereof.

“Disclosure Representative” means the Director of Finance or his or her designee, or such other person as the Issuer shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Failure to File Event” means the Issuer’s failure to file an Annual Report on or before the Annual Filing Date.

“Financial Obligation” as used in this Disclosure Agreement is defined in the Rule, as may be amended, as (i) a debt obligation; (ii) derivative instrument entered into in connection with, or pledged as a security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Force Majeure Event” means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent’s reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

“Holder” means any person (a) having 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) treated as the owner of any Bonds for federal income tax purposes.

“Information” means, collectively, the Annual Reports, the Audited Financial Statements, the Notice Event notices, the Failure to File Event notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

“MSRB” means the Municipal Securities Rulemaking Board, or any successor thereto, established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

“Notice Event” means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

“Obligated Person” means any person, including the Issuer, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities), as shown on Exhibit A.

“Official Statement” means that Official Statement prepared by the Issuer in connection with the Bonds, as listed in Exhibit A.

“Trustee” means the institution, if any, identified as such in the document under which the Bonds were issued.

“Voluntary Event Disclosure” means information of the category specified in any of subsections (e)(vi)(1) through (e)(vi)(10) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(a) of this Disclosure Agreement.

“Voluntary Financial Disclosure” means information of the category specified in any of subsections (e)(vii)(1) through (e)(vii)(9) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(b) of this Disclosure Agreement.

SECTION 2. Provision of Annual Reports.

(a) The Issuer shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the MSRB not later than the 25<sup>th</sup> day of February following the end of each fiscal year of the Issuer, commencing with the fiscal year ending June 30, 2019. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15<sup>th</sup>) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Issuer of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the Issuer irrevocably directs the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B without reference to the anticipated filing date for the Annual Report, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(d) If Audited Financial Statements of the Issuer are prepared but not available prior to the Annual Filing Date, the Issuer shall, when the Audited Financial Statements are available, provide at such time an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, together with a copy for the Trustee, if any, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

- (i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;
- (ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) hereof with the MSRB;
- (iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) hereof with the MSRB;
- (iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) hereof with the MSRB, identifying the Notice Event as instructed by the Issuer pursuant to Section 4(a) or 4(b)(ii) hereof (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Agreement:

1. "Principal and interest payment delinquencies;"
2. "Non-Payment related defaults, if material;"

3. “Unscheduled draws on debt service reserves reflecting financial difficulties;”
4. “Unscheduled draws on credit enhancements reflecting financial difficulties;”
5. “Substitution of credit or liquidity providers, or their failure to perform;”
6. “Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;”
7. “Modifications to rights of holders of the Bonds, if material;”
8. “Bond calls, if material, and tender offers;”
9. “Defeasances;”
10. “Release, substitution, or sale of property securing repayment of the securities, if material;”
11. “Rating changes;”
12. “Bankruptcy, insolvency, receivership or similar event of the obligated person;”<sup>1</sup>
13. “The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;”
14. “Appointment of a successor or additional trustee, or the change of name of a trustee, if material;”
15. “Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and
16. “Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.”

- (v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as “Failure to provide annual financial information as required” when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;

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<sup>1</sup> This event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

(vi) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 7(a) hereof with the MSRB, identifying the Voluntary Event Disclosure as instructed by the Issuer pursuant to Section 7(a) (being any of the categories set forth below) when filing pursuant to Section 7(a) of this Disclosure Agreement:

1. “amendment to continuing disclosure undertaking;”
2. “change in obligated person;”
3. “notice to investors pursuant to bond documents;”
4. “certain communications from the Internal Revenue Service; other than those communications included in the Rule;”
5. “secondary market purchases;”
6. “bid for auction rate or other securities;”
7. “capital or other financing plan;”
8. “litigation/enforcement action;”
9. “change of tender agent, remarketing agent, or other on-going party;”
10. “other event-based disclosures;”

(vii) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 7(b) hereof with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the Issuer pursuant to Section 7(b) (being any of the categories set forth below) when filing pursuant to Section 7(b) of this Disclosure Agreement:

1. “quarterly/monthly financial information;”
2. “change in fiscal year/timing of annual disclosure;”
3. “change in accounting standard;”
4. “interim/additional financial information/operating data;”
5. “budget;”
6. “investment/debt/financial policy;”
7. “information provided to rating agency, credit/liquidity provider or other third party;”
8. “consultant reports;” and
9. “other financial/operating data.”

(viii) provide the Issuer evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Issuer may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Anything in this Disclosure Agreement to the contrary notwithstanding, any Information received by the Disclosure Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

### SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the Issuer, including the information provided in the Official Statement with respect to the City in the most recent Fiscal Year in Tables 3-15 and Table 18; provided that, with respect to Tables 6 and 10, the City will provide such information on an “as available” basis.

(b) Audited Financial Statements as described in the Official Statement will be included in the Annual Report. If audited financial statements are not available, then unaudited financial statements, prepared in accordance with Generally Accepted Accounting Principles as described in the Official Statement will be included in the Annual Report. In such event, Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Issuer is an “obligated person” (as defined by the Rule), which have been previously filed with the Securities and Exchange Commission or available on the MSRB Internet Website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer will clearly identify each such document so incorporated by reference.

If the Annual Financial Information contains modified operating data or financial information different from the Annual Financial Information agreed to in the continuing disclosure undertaking related to the Bonds, the Issuer is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

### SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

7. Modifications to rights of Bond holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

**Note to subsection (a)(12) of this Section 4:** For the purposes of the event described in subsection (a)(12) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material; and
15. Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

The Issuer shall, in a timely manner not later than nine (9) business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the Issuer or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the Issuer determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that either (i) a Notice

Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with MSRB in accordance with Section 2 (e)(iv) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

SECTION 5. CUSIP Numbers. The Issuer will provide the Dissemination Agent with the CUSIP numbers for (i) new bonds at such time as they are issued or become subject to the Rule and (ii) any Bonds to which new CUSIP numbers are assigned in substitution for the CUSIP numbers previously assigned to such Bonds.

SECTION 6. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws. The Issuer acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Filing.

(a) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(e)(vi) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(a) to file a Voluntary Event Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Event Disclosure with the MSRB in accordance with Section 2(e)(vi) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(e)(vii) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(b) hereof to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(e)(vii) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-3.

(c) The parties hereto acknowledge that the Issuer is not obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 7(a) hereof or any Voluntary Financial Disclosure pursuant to Section 7(b) hereof.

(d) Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Audited Financial Statements, Notice

Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure, in addition to that required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure.

SECTION 8. Termination of Reporting Obligation. The obligations of the Issuer and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Issuer is no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of counsel expert in federal securities laws to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent. The Issuer has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Issuer may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Issuer or DAC, the Issuer agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Issuer shall remain liable to the Disclosure Dissemination Agent until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Issuer.

SECTION 10. Remedies in Event of Default. In the event of a failure of the Issuer or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Issuer has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Issuer and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Issuer's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Issuer has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon Certifications of the Issuer at all times.

The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Issuer.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Disclosure Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Issuer and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Issuer or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Issuer. No such amendment shall become effective if the Issuer shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Trustee, if any, for the Bonds, the Disclosure Dissemination Agent, the underwriters, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of Florida (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure 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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

The Disclosure Dissemination Agent and the Issuer have caused this Continuing Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

**DIGITAL ASSURANCE CERTIFICATION, L.L.C.**, as  
Disclosure Dissemination Agent

By: Sharon Stringfellow  
Name: Sharon Stringfellow  
Title: Assistant Vice President - Client Service Manager

**CITY OF MODESTO, CALIFORNIA**  
as Issuer

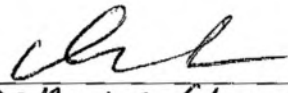
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

The Disclosure Dissemination Agent and the Issuer have caused this Continuing Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

**DIGITAL ASSURANCE CERTIFICATION, L.L.C.**, as  
Disclosure Dissemination Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**CITY OF MODESTO, CALIFORNIA**  
as Issuer

By:   
Name: DeAnna Christensen  
Title: Director of Finance

**EXHIBIT A**

**NAME AND CUSIP NUMBERS OF BONDS**

Name of Issuer	City of Modesto, California
Obligated Person(s)	City of Modesto, California
Name of Bond Issue:	Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) and Wastewater Revenue Refunding Bonds, Series 2020B
Date of Issuance:	November 10, 2020
Date of Official Statement	October 27, 2020

CUSIP Number:	607802BW4
CUSIP Number:	607802BX2
CUSIP Number:	607802BY0
CUSIP Number:	607802BZ7
CUSIP Number:	607802CA1
CUSIP Number:	607802CB9
CUSIP Number:	607802CC7
CUSIP Number:	607802CD5
CUSIP Number:	607802CE3
CUSIP Number:	607802CF0
CUSIP Number:	607802CG8
CUSIP Number:	607802BR5
CUSIP Number:	607802BS3
CUSIP Number:	607802BT1
CUSIP Number:	607802BU8
CUSIP Number:	607802BV6

**EXHIBIT B**

**NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT**

Issuer: City of Modesto, California

Obligated Person: City of Modesto, California

Name(s) of Bond Issue(s): Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) and Wastewater Revenue Refunding Bonds, Series 2020B

Date(s) of Issuance: November 10, 2020

Date(s) of Disclosure Agreement: November 10, 2020

CUSIP Number: \_\_\_\_\_

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Disclosure Agreement between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. [The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by \_\_\_\_\_].

Dated: \_\_\_\_\_

Digital Assurance Certification, L.L.C., as Disclosure  
Dissemination Agent, on behalf of the Issuer

\_\_\_\_\_

cc: Director Finance of the City of Modesto

**EXHIBIT C-1  
EVENT NOTICE COVER SHEET**

This cover sheet and accompanying "event notice" will be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name:

City of Modesto, California

Issuer's Six-Digit CUSIP Number:

\_\_\_\_\_

or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates:

\_\_\_\_\_

Number of pages attached: \_\_\_\_\_

\_\_\_\_ Description of Notice Events (Check One):

1. \_\_\_\_\_ "Principal and interest payment delinquencies;"
2. \_\_\_\_\_ "Non-Payment related defaults, if material;"
3. \_\_\_\_\_ "Unscheduled draws on debt service reserves reflecting financial difficulties;"
4. \_\_\_\_\_ "Unscheduled draws on credit enhancements reflecting financial difficulties;"
5. \_\_\_\_\_ "Substitution of credit or liquidity providers, or their failure to perform;"
6. \_\_\_\_\_ "Adverse tax opinions, IRS notices or events affecting the tax status of the security;"
7. \_\_\_\_\_ "Modifications to rights of securities holders, if material;"
8. \_\_\_\_\_ "Bond calls, if material;" Tender offers;
9. \_\_\_\_\_ "Defeasances;"
10. \_\_\_\_\_ "Release, substitution, or sale of property securing repayment of the securities, if material;"
11. \_\_\_\_\_ "Rating changes;"
12. \_\_\_\_\_ "Bankruptcy, insolvency, receivership or similar event of the obligated person;"
13. \_\_\_\_\_ "Merger, consolidation, or acquisition of the obligated person, if material;"
14. \_\_\_\_\_ "Appointment of a successor or additional trustee, or the change of name of a trustee, if material;"
15. \_\_\_\_\_ "Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material;" and
16. \_\_\_\_\_ "Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties."

\_\_\_\_ Failure to provide annual financial information as required.

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

\_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Digital Assurance Certification, L.L.C.  
315 E. Robinson Street  
Suite 300  
Orlando, FL 32801  
407-515-1100

Date: \_\_\_\_\_

**EXHIBIT C-2**  
**VOLUNTARY EVENT DISCLOSURE COVER SHEET**

This cover sheet and accompanying “voluntary event disclosure” will be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of November 10, 2020 between the Issuer and DAC.

Issuer’s and/or Other Obligated Person’s Name:

City of Modesto, California

Issuer’s Six-Digit CUSIP Number:

\_\_\_\_\_

\_\_\_\_\_

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

\_\_\_\_\_

Number of pages attached: \_\_\_\_\_

\_\_\_\_\_ Description of Voluntary Event Disclosure (Check One):

1. \_\_\_\_\_ “amendment to continuing disclosure undertaking;”
2. \_\_\_\_\_ “change in obligated person;”
3. \_\_\_\_\_ “notice to investors pursuant to bond documents;”
4. \_\_\_\_\_ “certain communications from the Internal Revenue Service;”
5. \_\_\_\_\_ “secondary market purchases;”
6. \_\_\_\_\_ “bid for auction rate or other securities;”
7. \_\_\_\_\_ “capital or other financing plan;”
8. \_\_\_\_\_ “litigation/enforcement action;”
9. \_\_\_\_\_ “change of tender agent, remarketing agent, or other on-going party;” and
10. \_\_\_\_\_ “other event-based disclosures.”

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

\_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Digital Assurance Certification, L.L.C.  
315 E. Robinson Street  
Suite 300  
Orlando, FL 32801  
407-515-1100

Date: \_\_\_\_\_

**EXHIBIT C-3  
VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET**

This cover sheet and accompanying "voluntary financial disclosure" will be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of November 10, 2020, between the Issuer and DAC.

Issuer's and/or Other Obligated Person's Name:

City of Modesto, California

Issuer's Six-Digit CUSIP Number:

\_\_\_\_\_

\_\_\_\_\_

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

\_\_\_\_\_

Number of pages attached: \_\_\_\_\_

\_\_\_\_\_ Description of Voluntary Financial Disclosure (Check One):

1. \_\_\_\_\_ "quarterly/monthly financial information;"
2. \_\_\_\_\_ "change in fiscal year/timing of annual disclosure;"
3. \_\_\_\_\_ "change in accounting standard;"
4. \_\_\_\_\_ "interim/additional financial information/operating data;"
5. \_\_\_\_\_ "budget;"
6. \_\_\_\_\_ "investment/debt/financial policy;"
7. \_\_\_\_\_ "information provided to rating agency, credit/liquidity provider or other third party;"
8. \_\_\_\_\_ "consultant reports;" and
9. \_\_\_\_\_ "other financial/operating data."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

\_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Digital Assurance Certification, L.L.C.  
315 E. Robinson Street  
Suite 300  
Orlando, FL 32801  
407-515-1100

Date: \_\_\_\_\_

\$68,840,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020A (Federally Taxable)

\$25,470,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020B

November 10, 2020

RECEIPT FOR PURCHASE PRICE

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as successor trustee (the "Trustee"), under that certain Wastewater Revenue Bond Indenture, dated as of April 1, 2005, as supplemented (as so supplemented, the "Indenture"), including as supplemented by the Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020, providing for the issuance of the City's \$68,840,000 Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the "Series 2020A Bonds") and \$25,470,000 Wastewater Revenue Refunding Bonds, Series 2020B (the "Series 2020B Bonds" and, collectively with the Series 2020A Bonds, the "Series 2020 Bonds"), each by and between the City and the Trustee, hereby certifies as follows:

(i) The Trustee on the date hereof, did receive \$68,748,503.43 from BofA Securities, Inc., as representative of the underwriters (the "Underwriters"), the net purchase price (the "Purchase Price") of the Series 2020A Bonds, dated the date hereof. The Purchase Price for the Series 2020A Bonds was represented by the City to be computed as follows:

Aggregate Principal Amount	\$68,840,000.00
Less Underwriters' Discount	- 91,496.57
TOTAL SERIES 2020A PURCHASE PRICE	<u>\$68,748,503.43</u>

(ii) The Trustee on the date hereof, did receive \$33,865,372.66 from BofA Securities, Inc., as representative of the underwriters (the "Underwriters"), the net purchase price (the "Purchase Price") of the Series 2020B Bonds, dated the date hereof. The Purchase Price for the Series 2020B Bonds was represented by the City to be computed as follows:

Aggregate Principal Amount	\$25,470,000.00
Plus Original Issue Premium	8,429,723.90
Less Underwriters' Discount	- 34,351.24
TOTAL SERIES 2020B PURCHASE PRICE	<u>\$33,865,372.66</u>


(iii) The Trustee has transferred or deposited such amounts, as well as \$7,125,881.18 received Trustee from the City, in accordance with the Written Request of the City delivered on the date hereof.

This receipt may be delivered by the delivery of signed signature pages by electronic means, facsimile transmission, or by e-mail with a PDF copy attached, and any printed or copied versions of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page. Signatures of this receipt made by electronic means shall be accompanied by an email, contemporaneous or otherwise, confirming the use of such means.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, the undersigned has executed this Receipt of the Trustee as of the date first written above.

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A.

By:   
Authorized Officer



**Blanket Issuer Letter of Representations**  
[To be Completed by Issuer]

City of Modesto

\_\_\_\_\_  
[Name of Issuer]

March 14, 1996  
[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,

City of Modesto

\_\_\_\_\_  
(Issuer)

By: Kevin Riper  
(Authorized Officer's Signature)

Kevin Riper  
Finance Director

\_\_\_\_\_  
(Typewrite Name & Title)

1012 "I" Street, 4th Floor

\_\_\_\_\_  
(Street Address)

Modesto, CA 95350

\_\_\_\_\_  
(City) (State) (Zip)

(209) 577-5370

\_\_\_\_\_  
(Phone Number)

Received and Accepted:

THE DEPOSITORY TRUST COMPANY

By: [Signature]

Unless this Series 2020A 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 Series 2020A 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.

No. 1

\$5,390,000

CITY OF MODESTO, CALIFORNIA  
 WASTEWATER REVENUE REFUNDING BONDS,  
 SERIES 2020A (Federally Taxable)

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 2021	0.379%	November 10, 2020	607802BW4

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: FIVE MILLION THREE HUNDRED NINETY THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the “City”), for value received, hereby promises to pay (but only out of the Net Revenues of the City’s wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the “Trustee”), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A Bonds (the "Series 2020A Bonds") dated as of November 10, 2020 (the "Dated Date") of the series and designation indicated on the face hereof. Said authorized issue of Series 2020A Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020A Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020A Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplement"), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the "Series 2020 Bonds") of which this Series 2020A Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020A Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Series 2020A Bond, and to all the provisions thereof the registered owner of this Series 2020A Bond, by its acceptance hereof, consents and agrees. Additional Series 2020A Bonds may be issued, and indebtedness may be incurred, on a parity with the Series 2020A Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020A Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020A Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020A Bonds are special, limited obligations of the City. The Series 2020A Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020A Bonds. The issuance of the Series 2020A Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020A Bonds maturing on or after November 1, 2031 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2030 at a Redemption Price equal to 100% of the principal amount of such Series 2020 Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2020A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

From the date of issuance, the Series 2020A Bonds will be subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part prior to the Par Call Date, on any date, at a Redemption Price equal to the greater of: (i) one hundred percent (100%) of the principal amount of such Series 2020A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the earlier of the Par Call Date or the maturity date of such Series 2020A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020A Bonds are to be redeemed, discounted to the date on which such Series 2020A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 30 basis points, plus, in each case, accrued interest on such Series 2020A Bonds to be redeemed to the redemption date.

This Series 2020A Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020A Bond. Upon such transfer or exchange a new fully registered Series 2020A Bond or Series 2020A Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020A Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020A Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020A Bond, and in the issuing of this Series 2020A Bond, do exist, have

happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020A Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020A Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020A Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020A Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020A Bond to be dated the Dated Date set forth above.

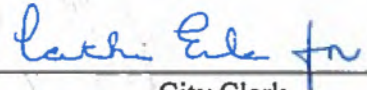
CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

By:   
City Manager

[Seal]

ATTEST:

By:   
*Stephanie Lopez* City Clerk

SPECIMEN

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Series 2020A Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By:



Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020A Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by: \_\_\_\_\_

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

SPECIMEN

Unless this Series 2020A 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 Series 2020A 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.

No. 2

\$5,415,000

CITY OF MODESTO, CALIFORNIA  
WASTEWATER REVENUE REFUNDING BONDS,  
SERIES 2020A (Federally Taxable)

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 2022	0.449%	November 10, 2020	607802BX2

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: FIVE MILLION FOUR HUNDRED FIFTEEN THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A Bonds (the "Series 2020A Bonds") dated as of November 10, 2020 (the "Dated Date") of the series and designation indicated on the face hereof. Said authorized issue of Series 2020A Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020A Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020A Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplement"), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the "Series 2020 Bonds") of which this Series 2020A Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020A Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Series 2020A Bond, and to all the provisions thereof the registered owner of this Series 2020A Bond, by its acceptance hereof, consents and agrees. Additional Series 2020A Bonds may be issued, and indebtedness may be incurred, on a parity with the Series 2020A Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020A Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020A Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020A Bonds are special, limited obligations of the City. The Series 2020A Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020A Bonds. The issuance of the Series 2020A Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020A Bonds maturing on or after November 1, 2031 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2030 at a Redemption Price equal to 100% of the principal amount of such Series 2020 Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2020A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

From the date of issuance, the Series 2020A Bonds will be subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part prior to the Par Call Date, on any date, at a Redemption Price equal to the greater of: (i) one hundred percent (100%) of the principal amount of such Series 2020A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the earlier of the Par Call Date or the maturity date of such Series 2020A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020A Bonds are to be redeemed, discounted to the date on which such Series 2020A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 30 basis points, plus, in each case, accrued interest on such Series 2020A Bonds to be redeemed to the redemption date.

This Series 2020A Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020A Bond. Upon such transfer or exchange a new fully registered Series 2020A Bond or Series 2020A Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020A Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020A Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020A Bond, and in the issuing of this Series 2020A Bond, do exist, have

happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020A Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020A Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020A Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020A Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020A Bond to be dated the Dated Date set forth above.

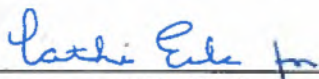
CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

By:   
City Manager

[Seal]

ATTEST:

By:   
*Stephanie Lopez* City Clerk

SPECIMEN

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Series 2020A Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By:



Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020A Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by: \_\_\_\_\_

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

SPECIMEN

Unless this Series 2020A 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 Series 2020A 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.

No. 3

\$5,440,000

CITY OF MODESTO, CALIFORNIA  
 WASTEWATER REVENUE REFUNDING BONDS,  
 SERIES 2020A (Federally Taxable)

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 2023	0.618%	November 10, 2020	607802BY0

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: FIVE MILLION FOUR HUNDRED FORTY THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the “City”), for value received, hereby promises to pay (but only out of the Net Revenues of the City’s wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the “Trustee”), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A Bonds (the "Series 2020A Bonds") dated as of November 10, 2020 (the "Dated Date") of the series and designation indicated on the face hereof. Said authorized issue of Series 2020A Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020A Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020A Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplement"), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the "Series 2020 Bonds") of which this Series 2020A Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020A Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Series 2020A Bond, and to all the provisions thereof the registered owner of this Series 2020A Bond, by its acceptance hereof, consents and agrees. Additional Series 2020A Bonds may be issued, and indebtedness may be incurred, on a parity with the Series 2020A Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020A Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020A Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020A Bonds are special, limited obligations of the City. The Series 2020A Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020A Bonds. The issuance of the Series 2020A Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020A Bonds maturing on or after November 1, 2031 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2030 at a Redemption Price equal to 100% of the principal amount of such Series 2020 Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2020A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

From the date of issuance, the Series 2020A Bonds will be subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part prior to the Par Call Date, on any date, at a Redemption Price equal to the greater of: (i) one hundred percent (100%) of the principal amount of such Series 2020A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the earlier of the Par Call Date or the maturity date of such Series 2020A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020A Bonds are to be redeemed, discounted to the date on which such Series 2020A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 30 basis points, plus, in each case, accrued interest on such Series 2020A Bonds to be redeemed to the redemption date.

This Series 2020A Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020A Bond. Upon such transfer or exchange a new fully registered Series 2020A Bond or Series 2020A Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020A Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020A Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020A Bond, and in the issuing of this Series 2020A Bond, do exist, have

happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020A Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020A Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020A Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020A Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020A Bond to be dated the Dated Date set forth above.

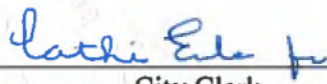
CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

By:   
City Manager

[Seal]

ATTEST:

By:   
*Stephanie Lopez* City Clerk

SPECIMEN

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Series 2020A Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By:



Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020A Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by: \_\_\_\_\_

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

SPECIMEN

Unless this Series 2020A 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 Series 2020A 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.

No. 4

\$5,480,000

CITY OF MODESTO, CALIFORNIA  
 WASTEWATER REVENUE REFUNDING BONDS,  
 SERIES 2020A (Federally Taxable)

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 2024	0.835%	November 10, 2020	607802BZ7

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: FIVE MILLION FOUR HUNDRED EIGHTY THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the “City”), for value received, hereby promises to pay (but only out of the Net Revenues of the City’s wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the “Trustee”), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A Bonds (the "Series 2020A Bonds") dated as of November 10, 2020 (the "Dated Date") of the series and designation indicated on the face hereof. Said authorized issue of Series 2020A Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020A Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020A Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplement"), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the "Series 2020 Bonds") of which this Series 2020A Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020A Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Series 2020A Bond, and to all the provisions thereof the registered owner of this Series 2020A Bond, by its acceptance hereof, consents and agrees. Additional Series 2020A Bonds may be issued, and indebtedness may be incurred, on a parity with the Series 2020A Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020A Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020A Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020A Bonds are special, limited obligations of the City. The Series 2020A Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020A Bonds. The issuance of the Series 2020A Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020A Bonds maturing on or after November 1, 2031 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2030 at a Redemption Price equal to 100% of the principal amount of such Series 2020 Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2020A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

From the date of issuance, the Series 2020A Bonds will be subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part prior to the Par Call Date, on any date, at a Redemption Price equal to the greater of: (i) one hundred percent (100%) of the principal amount of such Series 2020A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the earlier of the Par Call Date or the maturity date of such Series 2020A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020A Bonds are to be redeemed, discounted to the date on which such Series 2020A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 30 basis points, plus, in each case, accrued interest on such Series 2020A Bonds to be redeemed to the redemption date.

This Series 2020A Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020A Bond. Upon such transfer or exchange a new fully registered Series 2020A Bond or Series 2020A Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020A Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020A Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020A Bond, and in the issuing of this Series 2020A Bond, do exist, have

happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020A Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020A Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020A Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020A Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020A Bond to be dated the Dated Date set forth above.

CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

By:   
City Manager

[Seal]

ATTEST:

By:   
*Stephanie Lopez* City Clerk

SPECIMEN

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Series 2020A Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By:



Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020A Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

\_\_\_\_\_  
NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by: \_\_\_\_\_

\_\_\_\_\_  
NOTE : Signature must be guaranteed by an eligible guarantor institution.

SPECIMEN

Unless this Series 2020A 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 Series 2020A 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.

No. 5

\$5,530,000

CITY OF MODESTO, CALIFORNIA  
 WASTEWATER REVENUE REFUNDING BONDS,  
 SERIES 2020A (Federally Taxable)

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 2025	0.985%	November 10, 2020	607802CA1

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: FIVE MILLION FIVE HUNDRED THIRTY THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the “City”), for value received, hereby promises to pay (but only out of the Net Revenues of the City’s wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the “Trustee”), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A Bonds (the "Series 2020A Bonds") dated as of November 10, 2020 (the "Dated Date") of the series and designation indicated on the face hereof. Said authorized issue of Series 2020A Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020A Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020A Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplement"), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the "Series 2020 Bonds") of which this Series 2020A Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020A Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Series 2020A Bond, and to all the provisions thereof the registered owner of this Series 2020A Bond, by its acceptance hereof, consents and agrees. Additional Series 2020A Bonds may be issued, and indebtedness may be incurred, on a parity with the Series 2020A Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020A Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020A Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020A Bonds are special, limited obligations of the City. The Series 2020A Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020A Bonds. The issuance of the Series 2020A Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020A Bonds maturing on or after November 1, 2031 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2030 at a Redemption Price equal to 100% of the principal amount of such Series 2020 Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2020A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

From the date of issuance, the Series 2020A Bonds will be subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part prior to the Par Call Date, on any date, at a Redemption Price equal to the greater of: (i) one hundred percent (100%) of the principal amount of such Series 2020A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the earlier of the Par Call Date or the maturity date of such Series 2020A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020A Bonds are to be redeemed, discounted to the date on which such Series 2020A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 30 basis points, plus, in each case, accrued interest on such Series 2020A Bonds to be redeemed to the redemption date.

This Series 2020A Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020A Bond. Upon such transfer or exchange a new fully registered Series 2020A Bond or Series 2020A Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020A Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020A Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020A Bond, and in the issuing of this Series 2020A Bond, do exist, have

happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020A Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020A Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020A Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020A Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020A Bond to be dated the Dated Date set forth above.


CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

By:   
City Manager

[Seal]

ATTEST:

By:   
*Stephanie Lopez* City Clerk

SPECIMEN

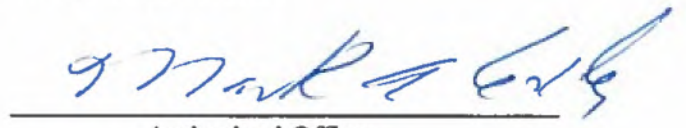
CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Series 2020A Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By:



Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020A Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by: \_\_\_\_\_

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

SPECIMEN

Unless this Series 2020A 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 Series 2020A 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.

No. 6

\$5,125,000

CITY OF MODESTO, CALIFORNIA  
 WASTEWATER REVENUE REFUNDING BONDS,  
 SERIES 2020A (Federally Taxable)

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 2026	1.202%	November 10, 2020	607802CB9

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: FIVE MILLION ONE HUNDRED TWENTY-FIVE THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the “City”), for value received, hereby promises to pay (but only out of the Net Revenues of the City’s wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the “Trustee”), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A Bonds (the "Series 2020A Bonds") dated as of November 10, 2020 (the "Dated Date") of the series and designation indicated on the face hereof. Said authorized issue of Series 2020A Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020A Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020A Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplement"), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the "Series 2020 Bonds") of which this Series 2020A Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020A Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Series 2020A Bond, and to all the provisions thereof the registered owner of this Series 2020A Bond, by its acceptance hereof, consents and agrees. Additional Series 2020A Bonds may be issued, and indebtedness may be incurred, on a parity with the Series 2020A Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020A Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020A Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020A Bonds are special, limited obligations of the City. The Series 2020A Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020A Bonds. The issuance of the Series 2020A Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020A Bonds maturing on or after November 1, 2031 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2030 at a Redemption Price equal to 100% of the principal amount of such Series 2020 Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2020A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

From the date of issuance, the Series 2020A Bonds will be subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part prior to the Par Call Date, on any date, at a Redemption Price equal to the greater of: (i) one hundred percent (100%) of the principal amount of such Series 2020A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the earlier of the Par Call Date or the maturity date of such Series 2020A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020A Bonds are to be redeemed, discounted to the date on which such Series 2020A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 30 basis points, plus, in each case, accrued interest on such Series 2020A Bonds to be redeemed to the redemption date.

This Series 2020A Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020A Bond. Upon such transfer or exchange a new fully registered Series 2020A Bond or Series 2020A Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020A Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020A Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020A Bond, and in the issuing of this Series 2020A Bond, do exist, have

happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020A Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020A Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020A Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020A Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020A Bond to be dated the Dated Date set forth above.

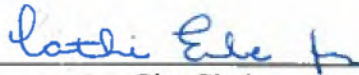
CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

By:   
City Manager

[Seal]

ATTEST:

By:   
Stephanie Lopez City Clerk

SPECIMEN


CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Series 2020A Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By:



Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020A Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by: \_\_\_\_\_

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

SPECIMEN

Unless this Series 2020A 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 Series 2020A 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.

No. 7

\$6,965,000

CITY OF MODESTO, CALIFORNIA  
 WASTEWATER REVENUE REFUNDING BONDS,  
 SERIES 2020A (Federally Taxable)

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 2031	2.079%	November 10, 2020	607802CC7

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: SIX MILLION NINE HUNDRED SIXTY-FIVE THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A Bonds (the "Series 2020A Bonds") dated as of November 10, 2020 (the "Dated Date") of the series and designation indicated on the face hereof. Said authorized issue of Series 2020A Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020A Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020A Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplement"), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the "Series 2020 Bonds") of which this Series 2020A Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020A Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Series 2020A Bond, and to all the provisions thereof the registered owner of this Series 2020A Bond, by its acceptance hereof, consents and agrees. Additional Series 2020A Bonds may be issued, and indebtedness may be incurred, on a parity with the Series 2020A Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020A Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020A Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020A Bonds are special, limited obligations of the City. The Series 2020A Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020A Bonds. The issuance of the Series 2020A Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020A Bonds maturing on or after November 1, 2031 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2030 at a Redemption Price equal to 100% of the principal amount of such Series 2020 Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2020A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

From the date of issuance, the Series 2020A Bonds will be subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part prior to the Par Call Date, on any date, at a Redemption Price equal to the greater of: (i) one hundred percent (100%) of the principal amount of such Series 2020A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the earlier of the Par Call Date or the maturity date of such Series 2020A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020A Bonds are to be redeemed, discounted to the date on which such Series 2020A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 30 basis points, plus, in each case, accrued interest on such Series 2020A Bonds to be redeemed to the redemption date.

This Series 2020A Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020A Bond. Upon such transfer or exchange a new fully registered Series 2020A Bond or Series 2020A Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020A Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020A Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020A Bond, and in the issuing of this Series 2020A Bond, do exist, have

happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020A Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020A Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020A Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020A Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020A Bond to be dated the Dated Date set forth above.

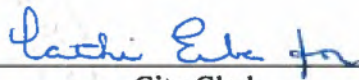
CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

By:   
City Manager

[Seal]

ATTEST:

By:   
City Clerk

Stephen: e Lopez

SPECIMEN

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Series 2020A Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By:



Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020A Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by: \_\_\_\_\_

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

SPECIMEN

Unless this Series 2020A 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 Series 2020A 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.

No. 8

\$7,120,000

CITY OF MODESTO, CALIFORNIA  
 WASTEWATER REVENUE REFUNDING BONDS,  
 SERIES 2020A (Federally Taxable)

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 2032	2.229%	November 10, 2020	607802CD5

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: SEVEN MILLION ONE HUNDRED TWENTY THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A Bonds (the "Series 2020A Bonds") dated as of November 10, 2020 (the "Dated Date") of the series and designation indicated on the face hereof. Said authorized issue of Series 2020A Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020A Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020A Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplement"), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the "Series 2020 Bonds") of which this Series 2020A Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020A Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Series 2020A Bond, and to all the provisions thereof the registered owner of this Series 2020A Bond, by its acceptance hereof, consents and agrees. Additional Series 2020A Bonds may be issued, and indebtedness may be incurred, on a parity with the Series 2020A Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020A Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020A Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020A Bonds are special, limited obligations of the City. The Series 2020A Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020A Bonds. The issuance of the Series 2020A Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020A Bonds maturing on or after November 1, 2031 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2030 at a Redemption Price equal to 100% of the principal amount of such Series 2020 Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2020A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

From the date of issuance, the Series 2020A Bonds will be subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part prior to the Par Call Date, on any date, at a Redemption Price equal to the greater of: (i) one hundred percent (100%) of the principal amount of such Series 2020A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the earlier of the Par Call Date or the maturity date of such Series 2020A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020A Bonds are to be redeemed, discounted to the date on which such Series 2020A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 30 basis points, plus, in each case, accrued interest on such Series 2020A Bonds to be redeemed to the redemption date.

This Series 2020A Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020A Bond. Upon such transfer or exchange a new fully registered Series 2020A Bond or Series 2020A Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020A Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020A Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020A Bond, and in the issuing of this Series 2020A Bond, do exist, have

happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020A Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020A Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020A Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020A Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020A Bond to be dated the Dated Date set forth above.

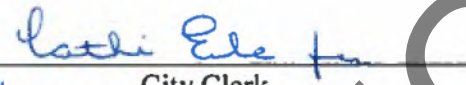
CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

By:   
City Manager

[Seal]

ATTEST:

By:   
City Clerk  
*Stephanic Lopez*

SPECIMEN

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Series 2020A Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By:



Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020A Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by: \_\_\_\_\_

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

SPECIMEN

Unless this Series 2020A 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 Series 2020A 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.

No. 9

\$7,280,000

CITY OF MODESTO, CALIFORNIA  
WASTEWATER REVENUE REFUNDING BONDS,  
SERIES 2020A (Federally Taxable)

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 2033	2.329%	November 10, 2020	607802CE3

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: SEVEN MILLION TWO HUNDRED EIGHTY THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A Bonds (the "Series 2020A Bonds") dated as of November 10, 2020 (the "Dated Date") of the series and designation indicated on the face hereof. Said authorized issue of Series 2020A Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020A Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020A Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplement"), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the "Series 2020 Bonds") of which this Series 2020A Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020A Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Series 2020A Bond, and to all the provisions thereof the registered owner of this Series 2020A Bond, by its acceptance hereof, consents and agrees. Additional Series 2020A Bonds may be issued, and indebtedness may be incurred, on a parity with the Series 2020A Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020A Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020A Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020A Bonds are special, limited obligations of the City. The Series 2020A Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020A Bonds. The issuance of the Series 2020A Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020A Bonds maturing on or after November 1, 2031 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2030 at a Redemption Price equal to 100% of the principal amount of such Series 2020 Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2020A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

From the date of issuance, the Series 2020A Bonds will be subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part prior to the Par Call Date, on any date, at a Redemption Price equal to the greater of: (i) one hundred percent (100%) of the principal amount of such Series 2020A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the earlier of the Par Call Date or the maturity date of such Series 2020A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020A Bonds are to be redeemed, discounted to the date on which such Series 2020A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 30 basis points, plus, in each case, accrued interest on such Series 2020A Bonds to be redeemed to the redemption date.

This Series 2020A Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020A Bond. Upon such transfer or exchange a new fully registered Series 2020A Bond or Series 2020A Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020A Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020A Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020A Bond, and in the issuing of this Series 2020A Bond, do exist, have

happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020A Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020A Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020A Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020A Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020A Bond to be dated the Dated Date set forth above.

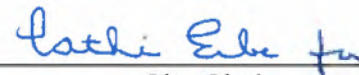
CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

By:   
City Manager

[Seal]

ATTEST:

By:   
Stephanie Lopez City Clerk

SPECIMEN

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Series 2020A Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By: \_\_\_\_\_



Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020A Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by: \_\_\_\_\_

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

SPECIMEN

Unless this Series 2020A 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 Series 2020A 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.

No. 10

\$7,455,000

CITY OF MODESTO, CALIFORNIA  
 WASTEWATER REVENUE REFUNDING BONDS,  
 SERIES 2020A (Federally Taxable)

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 2034	2.429%	November 10, 2020	607802CF0

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: SEVEN MILLION FOUR HUNDRED FIFTY-FIVE MILLION DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A Bonds (the "Series 2020A Bonds") dated as of November 10, 2020 (the "Dated Date") of the series and designation indicated on the face hereof. Said authorized issue of Series 2020A Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020A Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020A Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplement"), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the "Series 2020 Bonds") of which this Series 2020A Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020A Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Series 2020A Bond, and to all the provisions thereof the registered owner of this Series 2020A Bond, by its acceptance hereof, consents and agrees. Additional Series 2020A Bonds may be issued, and indebtedness may be incurred, on a parity with the Series 2020A Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020A Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020A Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020A Bonds are special, limited obligations of the City. The Series 2020A Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020A Bonds. The issuance of the Series 2020A Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020A Bonds maturing on or after November 1, 2031 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2030 at a Redemption Price equal to 100% of the principal amount of such Series 2020 Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2020A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

From the date of issuance, the Series 2020A Bonds will be subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part prior to the Par Call Date, on any date, at a Redemption Price equal to the greater of: (i) one hundred percent (100%) of the principal amount of such Series 2020A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the earlier of the Par Call Date or the maturity date of such Series 2020A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020A Bonds are to be redeemed, discounted to the date on which such Series 2020A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 30 basis points, plus, in each case, accrued interest on such Series 2020A Bonds to be redeemed to the redemption date.

This Series 2020A Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020A Bond. Upon such transfer or exchange a new fully registered Series 2020A Bond or Series 2020A Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020A Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020A Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020A Bond, and in the issuing of this Series 2020A Bond, do exist, have

happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020A Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020A Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020A Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.


Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020A Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020A Bond to be dated the Dated Date set forth above.

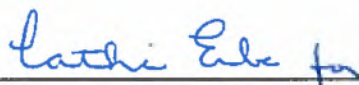
CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

By:   
City Manager

[Seal]

ATTEST:

By:   
Stephanie Lopez City Clerk

SPECIMEN

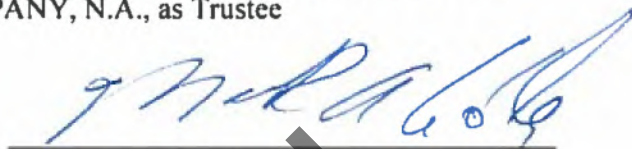
CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Series 2020A Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By:



Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020A Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by: \_\_\_\_\_

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

SPECIMEN

Unless this Series 2020A 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 Series 2020A 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.

No. 11

\$7,640,000

CITY OF MODESTO, CALIFORNIA  
 WASTEWATER REVENUE REFUNDING BONDS,  
 SERIES 2020A (Federally Taxable)

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 2035	2.479%	November 10, 2020	607802CG8

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: SEVEN MILLION SIX HUNDRED FORTY THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A Bonds (the "Series 2020A Bonds") dated as of November 10, 2020 (the "Dated Date") of the series and designation indicated on the face hereof. Said authorized issue of Series 2020A Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020A Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020A Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplement"), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the "Series 2020 Bonds") of which this Series 2020A Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020A Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Series 2020A Bond, and to all the provisions thereof the registered owner of this Series 2020A Bond, by its acceptance hereof, consents and agrees. Additional Series 2020A Bonds may be issued, and indebtedness may be incurred, on a parity with the Series 2020A Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020A Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020A Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020A Bonds are special, limited obligations of the City. The Series 2020A Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020A Bonds. The issuance of the Series 2020A Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020A Bonds maturing on or after November 1, 2031 shall be subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on or after November 1, 2030 at a Redemption Price equal to 100% of the principal amount of such Series 2020 Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Series 2020A Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020A Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

From the date of issuance, the Series 2020A Bonds will be subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part prior to the Par Call Date, on any date, at a Redemption Price equal to the greater of: (i) one hundred percent (100%) of the principal amount of such Series 2020A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the earlier of the Par Call Date or the maturity date of such Series 2020A Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020A Bonds are to be redeemed, discounted to the date on which such Series 2020A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 30 basis points, plus, in each case, accrued interest on such Series 2020A Bonds to be redeemed to the redemption date.

This Series 2020A Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020A Bond. Upon such transfer or exchange a new fully registered Series 2020A Bond or Series 2020A Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020A Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020A Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020A Bond, and in the issuing of this Series 2020A Bond, do exist, have

happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020A Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020A Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020A Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

SPECIMEN

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020A Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020A Bond to be dated the Dated Date set forth above.

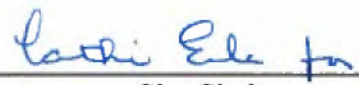
CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

By:   
City Manager

[Seal]

ATTEST:

By:   
*Stephanie Lopez* City Clerk

SPECIMEN

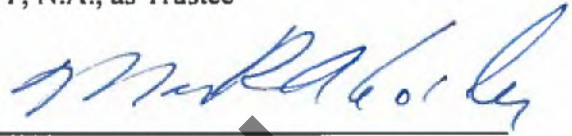
CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Series 2020A Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By:



Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020A Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by: \_\_\_\_\_

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

SPECIMEN

Unless this Series 2020B 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 Series 2020B 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.

No. 1

\$475,000

**CITY OF MODESTO, CALIFORNIA  
WASTEWATER REVENUE REFUNDING BONDS,  
SERIES 2020B**

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 2026	5.000%	November 10, 2020	607802BR5

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: FOUR HUNDRED SEVENTY-FIVE THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the “City”), for value received, hereby promises to pay (but only out of the Net Revenues of the City’s wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the “Trustee”), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020B (the "Series 2020B Bonds") dated as of November 10, 2020 (the "Dated Date") of the series and designation indicated on the face hereof. Said authorized issue of Series 2020B Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020B Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020B Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplement"), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the "Series 2020 Bonds") of which this Series 2020B Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Series 2020B Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020B Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020B Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020B Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020B Bonds are special, limited obligations of the City. The Series 2020B Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020B Bonds. The issuance of the Series 2020B Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020B Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020B Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Series 2020B Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020B Bond. Upon such transfer or exchange a new fully registered Series 2020B Bond or Series 2020B Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020B Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020B Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020B Bond, and in the issuing of this Series 2020B Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020B Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020B Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020B Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020B Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020B Bond to be dated the Dated Date set forth above.

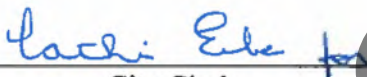
CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

By:   
City Manager

[Seal]

ATTEST:

By:   
Stephanie Lopez City Clerk

SPECIMEN

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Series 2020B Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By:



Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020B Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by:

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

SPECIMEN

Unless this Series 2020B 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 Series 2020B 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.

No. 2

\$5,790,000

CITY OF MODESTO, CALIFORNIA  
WASTEWATER REVENUE REFUNDING BONDS,  
SERIES 2020B

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 2027	5.000%	November 10, 2020	607802BS3

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: FIVE MILLION SEVEN HUNDRED NINETY THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020B (the "Series 2020B Bonds") dated as of November 10, 2020 (the "Dated Date") of the series and designation indicated on the face hereof. Said authorized issue of Series 2020B Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020B Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020B Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplement"), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the "Series 2020 Bonds") of which this Series 2020B Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Series 2020B Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020B Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020B Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020B Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020B Bonds are special, limited obligations of the City. The Series 2020B Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020B Bonds. The issuance of the Series 2020B Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020B Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020B Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Series 2020B Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020B Bond. Upon such transfer or exchange a new fully registered Series 2020B Bond or Series 2020B Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020B Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020B Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020B Bond, and in the issuing of this Series 2020B Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020B Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020B Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020B Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020B Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020B Bond to be dated the Dated Date set forth above.


CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

By:   
City Manager

[Seal]

ATTEST:

By:   
Stephanie Lopez City Clerk

SPECIMEN

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Series 2020B Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By:



Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020B Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by: \_\_\_\_\_

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

SPECIMEN

Unless this Series 2020B 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 Series 2020B 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.

No. 3

\$6,085,000

CITY OF MODESTO, CALIFORNIA  
 WASTEWATER REVENUE REFUNDING BONDS,  
 SERIES 2020B

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 2028	5.000%	November 10, 2020	607802BT1

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: SIX MILLION EIGHTY-FIVE THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the “City”), for value received, hereby promises to pay (but only out of the Net Revenues of the City’s wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the “Trustee”), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020B (the "Series 2020B Bonds") dated as of November 10, 2020 (the "Dated Date") of the series and designation indicated on the face hereof. Said authorized issue of Series 2020B Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020B Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020B Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplement"), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the "Series 2020 Bonds") of which this Series 2020B Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Series 2020B Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020B Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020B Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020B Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020B Bonds are special, limited obligations of the City. The Series 2020B Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020B Bonds. The issuance of the Series 2020B Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020B Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020B Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Series 2020B Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020B Bond. Upon such transfer or exchange a new fully registered Series 2020B Bond or Series 2020B Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020B Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020B Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020B Bond, and in the issuing of this Series 2020B Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020B Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020B Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020B Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020B Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020B Bond to be dated the Dated Date set forth above.

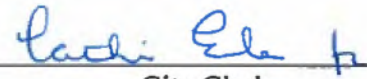
CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

By:   
City Manager

[Seal]

ATTEST:

By:   
*Stephanie Lopez* City Clerk

SPECIMEN

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Series 2020B Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By: \_\_\_\_\_



Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020B Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by: \_\_\_\_\_

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

SPECIMEN

Unless this Series 2020B 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 Series 2020B 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.

No. 4

\$6,395,000

CITY OF MODESTO, CALIFORNIA  
WASTEWATER REVENUE REFUNDING BONDS,  
SERIES 2020B

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 2029	5.000%	November 10, 2020	607802BU8

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: SIX MILLION THREE HUNDRED NINETY-FIVE THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020B (the "Series 2020B Bonds") dated as of November 10, 2020 (the "Dated Date") of the series and designation indicated on the face hereof. Said authorized issue of Series 2020B Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020B Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020B Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplement"), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the "Series 2020 Bonds") of which this Series 2020B Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Series 2020B Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020B Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020B Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020B Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020B Bonds are special, limited obligations of the City. The Series 2020B Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020B Bonds. The issuance of the Series 2020B Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020B Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020B Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Series 2020B Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020B Bond. Upon such transfer or exchange a new fully registered Series 2020B Bond or Series 2020B Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020B Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020B Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020B Bond, and in the issuing of this Series 2020B Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020B Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020B Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020B Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020B Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020B Bond to be dated the Dated Date set forth above.


CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

By:   
City Manager

[Seal]

ATTEST:

By:   
Stephanie Lopez City Clerk

SPECIMEN

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Series 2020B Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By: \_\_\_\_\_



Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020B Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by: \_\_\_\_\_

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

SPECIMEN

Unless this Series 2020B 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 Series 2020B 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.

No. 5

\$6,725,000

CITY OF MODESTO, CALIFORNIA  
 WASTEWATER REVENUE REFUNDING BONDS,  
 SERIES 2020B

<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>Dated Date</u>	<u>CUSIP</u>
November 1, 2030	5.000%	November 10, 2020	607802BV6

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: SIX MILLION SEVEN HUNDRED TWENTY-FIVE THOUSAND DOLLARS

The CITY OF MODESTO, CALIFORNIA a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues of the City's wastewater Enterprise and other funds hereinafter referred to) to the registered owner named above or registered assigns, on the maturity date specified above (subject to any right of prior redemption or payment as provided in the hereinafter mentioned Indenture), the principal sum specified above together with interest thereon from the dated date specified above until the principal hereof shall have been paid, at the interest rate per annum specified above, payable on May 1, 2021, and semiannually thereafter on November 1 and May 1 in each year. Interest hereon is payable in lawful money of the United States of America by (except as otherwise provided in the hereinafter mentioned Indenture) check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the 15th day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, hereon are payable when due upon presentation hereof at the Corporate Trust Office (as defined in the Indenture) of The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor as trustee under said Indenture, the "Trustee"), in lawful money of the United States of America.

This bond is one of a duly authorized issue of City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020B (the "Series 2020B Bonds") dated as of November 10, 2020 (the "Dated Date") of the series and designation indicated on the face hereof. Said authorized issue of Series 2020B Bonds is not limited in aggregate principal amount, except as otherwise provided in said Indenture, and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in said Indenture provided, all issued and to be issued pursuant to the provisions of Section 200 of the Charter of the City and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code. This Series 2020B Bond is issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and the Trustee, providing for the issuance of the Series 2020B Bonds, and a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplement"), by and between the City and the Trustee, authorizing the issuance of two series of bonds (the "Series 2020 Bonds") of which this Series 2020B Bond is one (said indenture as amended and supplemented, including as supplemented by the Fifth Supplement collectively, the "Indenture"). Reference is hereby made to the Indenture for a description of the terms under which the Series 2020B Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Revenues of the Enterprise (as those terms are defined in the Indenture), and the rights of the registered owners of the Series 2020B Bonds; and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the City and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued, and indebtedness may be incurred, on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Indenture.

The Series 2020B Bonds and the Parity Debt (as defined in the Indenture) are payable from, and are secured by a pledge of and lien on, the Net Revenues of the City's wastewater Enterprise and all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions provided in the Indenture.

The Series 2020B Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues of the City's wastewater Enterprise and certain other funds pledged under the Indenture. The Series 2020B Bonds are special, limited obligations of the City. The Series 2020B Bonds shall not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but shall be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Series 2020B Bonds. The issuance of the Series 2020B Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

The Series 2020B Bonds shall be subject to redemption as a whole or in part on any date, among such maturities as designated by the City and by lot within a maturity, to the extent of hazard insurance proceeds not used to repair or rebuild the Enterprise or condemnation proceeds received with respect to the Enterprise to be used for such purpose pursuant to the Indenture, at a redemption price equal to the principal amount of the Series 2020B Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

This Series 2020B Bond is transferable or exchangeable for other authorized denominations by the registered owner hereof, in person or by its duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2020B Bond. Upon such transfer or exchange a new fully registered Series 2020B Bond or Series 2020B Bonds, of authorized denomination or denominations, of the same series, tenor, maturity and interest rate for the same aggregate principal amount will be issued to the registered owner in exchange herefor.

The City, the Trustee and any paying agent may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the City, the Trustee and any paying agent shall not be affected by any notice to the contrary.

The rights and obligations of the City and of the registered owners of the Series 2020B Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of the Series 2020B Bonds.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Series 2020B Bond, and in the issuing of this Series 2020B Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California, and that this Series 2020B Bond, together with all other indebtedness of the City pertaining to the Net Revenues, is within every debt and other limit prescribed by the Constitution and the statutes of the State of California, and is not in excess of the amount of Series 2020B Bonds permitted to be issued under the Indenture or otherwise.

This Series 2020B Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Indenture.

IN WITNESS WHEREOF, THE CITY OF MODESTO, CALIFORNIA has caused this Series 2020B Bond to be executed in its name and on its behalf by the Director of Finance and the City Manager and countersigned by the City Clerk by their manual or facsimile signatures and the seal of the City to be reproduced hereon, and this Series 2020B Bond to be dated the Dated Date set forth above.


CITY OF MODESTO, CALIFORNIA

By:   
Director of Finance

By:   
City Manager

[Seal]

ATTEST:

By:   
Stephanie Lopez City Clerk

SPECIMEN

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Series 2020B Bonds described in the within mentioned Indenture and registered on the date set forth below.

Dated: November 10, 2020

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

By: \_\_\_\_\_



Authorized Officer

SPECIMEN

[FORM OF ASSIGNMENT]

For value received \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ the within Series 2020B Bond and hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer the same on the books of the City at the office of the Trustee, with full power of substitution in the premises .

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by: \_\_\_\_\_

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

SPECIMEN

**DIRECTION TO TRUSTEE REGARDING PREPAYMENT OF 2011 STATE LOAN**

To: The Bank of New York Mellon Trust Company, N.A., as successor Trustee  
400 South Hope Street, 4<sup>th</sup> Floor  
Los Angeles, California 90071

The City of Modesto (the “City”) hereby directs you to prepay on November 10, 2020, (the “Prepayment Date”) all of the City’s outstanding revolving fund loan from the State of California issued in 2011 in the initial principal amount of \$127,157,943.06 (the “2011 State Loan”) currently outstanding in the principal amount of \$106,812,879.98. Attached hereto as Exhibit A are the payoff amount (including accrued interest) and payment instructions for the prepayment of the 2011 State Loan. You are hereby directed to use \$109,428,015.33 on deposit in the Series 2020 State Loan Prepayment Fund to prepay the 2011 State Loan on the Prepayment Date.

All capitalized terms not defined herein shall have the meanings specified in the Indenture.

This direction may be delivered by the delivery of signed signature pages by electronic means, facsimile transmission, or by e-mail with a PDF copy attached, and any printed or copied versions of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page. Signatures of this requisition made by electronic means shall be accompanied by an email, contemporaneous or otherwise, confirming the use of such means.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned has executed this Direction to the Trustee as of the date first written above.

CITY OF MODESTO, CALIFORNIA


By:   
\_\_\_\_\_  
DeAnna Christensen  
Director of Finance

Exhibit A

[Insert Payoff Instructions from the State]



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## State Water Resources Control Board

October 27, 2020

Joseph Lopez  
City Manager  
City of Modesto  
1010 Tenth Street  
Modesto, CA 95354

PAYOFF REQUEST, CLEAN WATER STATE REVOLVING FUND (CWSRF)  
FINANCING AGREEMENT, CITY OF MODESTO PROJECT NUMBER 5175-210,  
CONTRACT NUMBER 11-825

Dear Mr. Lopez:

We received your request on October 23, 2020 for a payoff amount valid through November 10, 2020 for the above referenced financing agreement.

The payoff amount of **\$109,428,015.33** is valid through **November 10, 2020**. Additional interest may be due if the payoff proceeds are received after the date indicated. Attached is a copy of the payoff calculation and amortization schedule.

Please make your check in the amount of **\$109,428,015.33**, payable to the **State Water Resources Control Board**. When making the final payment, please reference **contract number 11-825** to ensure proper credit to your account. Failure to include the contract number may cause delays in posting.

This statement reflects the status of the account as of the date it was prepared. Payoff amounts may change, subject to subsequent activity including payment transactions. If this obligation is not paid in full by the date stated on the payoff statement or subsequent payment transactions have occurred as of the date the payoff statement was prepared, an updated payoff amount should be requested.

To submit your payment online, please see the following link for instructions:

[http://www.waterboards.ca.gov/make\\_a\\_payment/](http://www.waterboards.ca.gov/make_a_payment/)

To send your check OVERNIGHT MAIL please send to the following address:

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E. JOAQUIN ESQUIVEL, CHAIR | EILEEN SOBECK, EXECUTIVE DIRECTOR

SRF Accounting Office  
SRF Program  
1001 I Street, 18th Floor  
Sacramento, CA. 95814

If you have any questions, please contact me at 916-319-9035 or via email at [stephanie.white@waterboards.ca.gov](mailto:stephanie.white@waterboards.ca.gov).

Sincerely,

A handwritten signature in black ink, appearing to read 'Stephanie White', with a stylized flourish at the end.

Stephanie White  
Program Analyst  
Division of Financial Assistance

**5175-210 Modesto, City of**  
**Payoff Date - 11/10/2020**

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<b>Principal Outstanding</b>	<b>106,812,879.98</b>
Combined Interest and Fee Rate	2.600
Date of Last Payment	12/1/2019
Date of Payoff	11/10/2020
Day Count to Payoff	339
Total Interest and Fee Due	2,615,135.35
Penalties Due	0.00
<b>Total Payoff Amount Due 11/10/2020</b>	<b>109,428,015.33</b>

**State of California - State Water Resources Control Board  
Clean Water State Revolving Fund Payment Schedule**

**Recipient:** Modesto, City of  
**Project No.:** C-06-5175-210  
**Agreement No.:** 11825-550-0

**Date:** 10/27/2020  
**Amount:** 124,829,278  
**Interest rate:** 1.600%  
**Service charge rate:** 1%  
**Term:** 20 Years

Date	Disbursement/ Payment	No.	Beginning Balance	Draw Amount	Construction Period Interest (CPI)		Annual Interest Accrued	Principal Paid/Due	Interest Paid/Due	Service Charge Paid/Due	Total Payment	Ending Balance
					Amount Accrued	Amt. Trans. to Principal						
23-Feb-2012	Disbursement	1	0.00	4,564,741.00	0.00						0.00	4,564,741.00
15-Jun-2012	Disbursement	2	4,564,741.00	685,218.00	36,923.68						0.00	5,249,959.00
30-Jun-2012	End FY		5,249,959.00		5,687.46						0.00	5,249,959.00
6-Aug-2012	Disbursement	3	5,249,959.00	134,376.00	13,649.89						0.00	5,384,335.00
26-Oct-2012	Disbursement	4	5,384,335.00	2,897,993.00	31,109.49						0.00	8,282,328.00
29-Jan-2013	Disbursement	5	8,282,328.00	8,221,020.00	55,629.64						0.00	16,503,348.00
27-Feb-2013	Disbursement	6	16,503,348.00	3,211,792.00	33,373.44						0.00	19,715,140.00
28-Mar-2013	Disbursement	7	19,715,140.00	1,439,187.00	44,140.01						0.00	21,154,327.00
3-Jun-2013	Disbursement	8	21,154,327.00	4,230,054.00	99,307.81						0.00	25,384,381.00
25-Jun-2013	Disbursement	9	25,384,381.00	2,437,812.00	40,332.96						0.00	27,822,193.00
30-Jun-2013	End FY		27,822,193.00		10,046.90						0.00	27,822,193.00
29-Jul-2013	Disbursement	10	27,822,193.00	3,272,614.00	58,272.04						0.00	31,094,807.00
6-Sep-2013	Disbursement	11	31,094,807.00	6,895,280.00	83,092.23						0.00	37,990,087.00
10-Dec-2013	Disbursement	12	37,990,087.00	11,455,586.00	257,910.48						0.00	49,445,673.00
14-Feb-2014	Disbursement	13	49,445,673.00	5,885,396.00	228,548.89						0.00	55,331,069.00
25-Mar-2014	Disbursement	14	55,331,069.00	3,866,218.00	163,841.44						0.00	59,197,287.00
6-May-2014	Disbursement	15	59,197,287.00	9,817,308.00	175,289.74						0.00	69,014,595.00
30-Jun-2014	End FY		69,014,595.00		269,156.92						0.00	69,014,595.00
15-Jul-2014	Disbursement	16	69,014,595.00	5,049,337.00	74,765.81						0.00	74,063,932.00
31-Jul-2014	Disbursement	17	74,063,932.00	10,594,253.00	80,235.93						0.00	84,658,185.00
31-Oct-2014	Disbursement	18	84,658,185.00	13,395,939.00	550,278.20						0.00	98,054,124.00
22-Dec-2014	Disbursement	19	98,054,124.00	3,264,378.00	368,247.71						0.00	101,318,502.00
23-Feb-2015	Disbursement	20	101,318,502.00	4,337,827.00	446,364.29						0.00	105,656,329.00
22-Apr-2015	Disbursement	21	105,656,329.00	1,326,017.00	450,213.36						0.00	106,982,346.00
9-Jun-2015	Disbursement	22	106,982,346.00	3,721,778.00	363,145.63						0.00	110,704,124.00
30-Jun-2015	End FY		110,704,124.00		167,901.25						0.00	110,704,124.00
9-Oct-2015	Disbursement	23	110,704,124.00	3,409,553.00	791,534.49						0.00	114,113,677.00
6-Nov-2015	Disbursement	24	114,113,677.00	612,061.00	222,521.67						0.00	114,725,738.00
1-Dec-2015	Const. Compl.		114,725,738.00		207,143.69	5,328,665.06					0.00	120,054,403.06
15-Jan-2016	Disbursement	25	120,054,403.06	788,116.00			381,506.21				0.00	120,842,519.06
11-Mar-2016	Disbursement	26	120,842,519.06	630,544.00			488,740.85				0.00	121,473,063.06
10-May-2016	Disbursement	27	121,473,063.06	164,787.00			517,610.22				0.00	121,637,850.06

**State of California - State Water Resources Control Board  
Clean Water State Revolving Fund Payment Schedule**

**Recipient:** Modesto, City of  
**Project No.:** C-06-5175-210  
**Agreement No.:** 11825-550-0

**Date:** 10/27/2020  
**Amount:** 124,829,278  
**Interest rate:** 1.600%  
**Service charge rate:** 1%  
**Term:** 20 Years

Date	Disbursement/ Payment	No.	Beginning Balance	Draw Amount	Construction Period Interest (CPI)		Annual Interest Accrued	Principal Paid/Due	Interest Paid/Due	Service Charge Paid/Due	Total Payment	Ending Balance
					Amount Accrued	Amt. Trans. to Principal						
30-Jun-2016	End FY		121,637,850.06				439,247.79				0.00	121,637,850.06
7-Sep-2016	Disbursement	28	121,637,850.06	241,919.00			588,592.04				0.00	121,879,769.06
1-Dec-2016	Payment	1	121,879,769.06				739,403.93	4,736,309.47	3,155,101.05	0.00	7,891,410.52	117,143,459.59
6-Jan-2017	Disbursement	29	117,143,459.59	754,440.00			296,112.63				0.00	117,897,899.59
1-Feb-2017	Disbursement	30	117,897,899.59	2,720,607.00			212,871.21				0.00	120,618,506.59
1-Feb-2017	Disbursement	31	120,618,506.59	1,803,127.00			0.00				0.00	122,421,633.59
30-Jun-2017	End FY		122,421,633.59				1,317,392.80				0.00	122,421,633.59
1-Dec-2017	Payment	2	122,421,633.59				1,335,075.93	5,084,111.70	3,161,452.57	0.00	8,245,564.27	117,337,521.89
1-Dec-2018	Payment	3	117,337,521.89				3,050,775.57	5,194,788.70	3,050,775.57	0.00	8,245,564.27	112,142,733.19
1-Dec-2019	Payment	4	112,142,733.19				1,794,283.73	5,329,853.21	1,794,283.73	1,121,427.33	8,245,564.27	106,812,879.98
1-Dec-2020	Payment	5	106,812,879.98				1,709,006.08	5,468,429.39	1,709,006.08	1,068,128.80	8,245,564.27	101,344,450.59
1-Dec-2021	Payment	6	101,344,450.59				1,621,511.21	5,610,608.55	1,621,511.21	1,013,444.51	8,245,564.27	95,733,842.04
1-Dec-2022	Payment	7	95,733,842.04				1,531,741.47	5,756,484.38	1,531,741.47	957,338.42	8,245,564.27	89,977,357.66
1-Dec-2023	Payment	8	89,977,357.66				1,439,637.72	5,906,152.97	1,439,637.72	899,773.58	8,245,564.27	84,071,204.69
1-Dec-2024	Payment	9	84,071,204.69				1,345,139.28	6,059,712.94	1,345,139.28	840,712.05	8,245,564.27	78,011,491.75
1-Dec-2025	Payment	10	78,011,491.75				1,248,183.87	6,217,265.48	1,248,183.87	780,114.92	8,245,564.27	71,794,226.27
1-Dec-2026	Payment	11	71,794,226.27				1,148,707.62	6,378,914.39	1,148,707.62	717,942.26	8,245,564.27	65,415,311.88
1-Dec-2027	Payment	12	65,415,311.88				1,046,644.99	6,544,766.16	1,046,644.99	654,153.12	8,245,564.27	58,870,545.72
1-Dec-2028	Payment	13	58,870,545.72				941,928.73	6,714,930.08	941,928.73	588,705.46	8,245,564.27	52,155,615.64
1-Dec-2029	Payment	14	52,155,615.64				834,489.85	6,889,518.26	834,489.85	521,556.16	8,245,564.27	45,266,097.38
1-Dec-2030	Payment	15	45,266,097.38				724,257.56	7,068,645.74	724,257.56	452,660.97	8,245,564.27	38,197,451.64
1-Dec-2031	Payment	16	38,197,451.64				611,159.23	7,252,430.52	611,159.23	381,974.52	8,245,564.27	30,945,021.12
1-Dec-2032	Payment	17	30,945,021.12				495,120.34	7,440,993.72	495,120.34	309,450.21	8,245,564.27	23,504,027.40
1-Dec-2033	Payment	18	23,504,027.40				376,064.44	7,634,459.56	376,064.44	235,040.27	8,245,564.27	15,869,567.84
1-Dec-2034	Payment	19	15,869,567.84				253,913.09	7,832,955.50	253,913.09	158,695.68	8,245,564.27	8,036,612.34
1-Dec-2035	Payment	20	8,036,612.34				128,585.80	8,036,612.34	128,585.80	80,366.12	8,245,564.26	0.00
							Calculation Adjustment	0.01				
				<b>121,829,278.00</b>	<b>5,328,665.05</b>	<b>5,328,665.06</b>	<b>26,617,704.20</b>	<b>127,157,943.06</b>	<b>26,617,704.20</b>	<b>10,781,484.38</b>	<b>164,557,131.64</b>	
<b>Outstanding Disbursement Balance:</b>				<b>0.00</b>								

Financial Institution Information  
For  
Electronic/ Wire Payments

**Name of Bank:**

Bank of America NT&SA- Automate Payment Ctr. # 1282  
P.O. Box 37025  
San Francisco, CA 94317

**Nine-Digit Routing Transit Number:**

1 2 1 0 0 0 3 5 8

**Depositor Account Number:**

0 1 4 8 2 - 8 0 0 0 5

**Name of the Account:**

STATE OF CALIFORNIA- Demand Account

**Account Type:**

Checking

**Name of Agency:**

State Water Resources Control Board

**Taxpayer ID No:**

68-0281986

**Additional Requirements:**

Please include reference/additional information with the transfer such as; invoice #, Project # or other program information for the purpose of identification.

The company or individual **MUST CONTACT** the SWRCB Accounting Office as soon as the EFT is completed so that the funds can be claimed. Please email [WB-DAS-Receipts\\_Unit@waterboards.ca.gov](mailto:WB-DAS-Receipts_Unit@waterboards.ca.gov) or call (916) 341-5024.

\$68,840,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020A (Federally Taxable)

\$25,470,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020B

November 10, 2020

WRITTEN REQUEST OF THE CITY TO THE TRUSTEE

To THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as successor trustee (the "Trustee"), under that certain Wastewater Revenue Bond Indenture, dated as of April 1, 2005, as supplemented (as so supplemented, the "Indenture"), including as supplemented by the Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the "Fifth Supplemental Indenture"), providing for the issuance of the City's \$68,840,000 Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the "Series 2020A Bonds") and \$25,470,000 Wastewater Revenue Refunding Bonds, Series 2020B (the "Series 2020B Bonds" and, collectively with the Series 2020A Bonds, the "Series 2020 Bonds"), by and between the City and the Trustee:

Pursuant to the Indenture, the City has executed and delivered to you, as Trustee, the Series 2020A Bonds in the aggregate principal amount of \$68,840,000 and the Series 2020B Bonds in the aggregate principal amount of \$25,470,000.

You, as Trustee, are hereby authorized and directed to authenticate Series 2020A Bonds in the aggregate principal amount of \$68,840,000 and Series 2020B Bonds in the aggregate principal amount of \$25,470,000 by signing the respective certificates of authentication appearing thereon, and on November 10, 2020, to deliver the Series 2020 Bonds in the F.A.S.T. delivery book-entry system of The Depository Trust Company, New York, New York ("DTC") for the account of BofA Securities, Inc., as representative (the "Representative") of Citigroup Global Markets, Inc. and J.P. Morgan Securities LLC (collectively, the "Underwriters") as underwriters of the Series 2020 Bonds, upon payment to you, as Trustee, for the account of the City, of the purchase price of the Series 2020 Bonds, computed as follows:

Series 2020A Bonds

Aggregate Principal Amount	\$68,840,000.00
Less Underwriters' Discount	- 91,496.57
TOTAL SERIES 2020A PURCHASE PRICE	<u>\$68,748,503.43</u>

Series 2020B Bonds

Aggregate Principal Amount	\$25,470,000.00
Plus Original Issue Premium	8,429,723.90
Less Underwriters' Discount	- 34,351.24
TOTAL SERIES 2020B PURCHASE PRICE	<u>\$33,865,372.66</u>

In accordance with Sections 16.11 and 16.12(a) of the Fifth Supplemental Indenture, you are hereby directed to deposit \$109,428,015.33 in the Series 2020 State Loan Prepayment Fund consisting of \$68,542,429.88 from the proceeds of the Series 2020A Bonds, \$33,759,704.27 from the proceeds of the Series 2020B Bonds and \$7,125,881.18 received from the City. Funds deposited in the Series 2020 State Loan Prepayment Fund shall be transferred to the State Water Resources Control Board to prepay all of the outstanding 2011 State Loan on the Prepayment Date pursuant to written direction from the City dated the date hereof.

In accordance with Sections 16.11 and 16.12(b) of the Fifth Supplemental Indenture, you are also hereby directed to deposit in the Series 2020 Costs of Issuance Fund \$311,741.94, consisting of \$206,073.55 from the proceeds of the Series 2020A Bonds and \$105,668.39 from the proceeds of the Series 2020B Bonds which will be applied, to pay costs of issuance with respect to the Series 2020 Bonds.

This request may be delivered by the delivery of signed signature pages by electronic means, facsimile transmission, or by e-mail with a PDF copy attached, and any printed or copied versions of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page. Signatures of this request made by electronic means shall be accompanied by an email, contemporaneous or otherwise, confirming the use of such means.

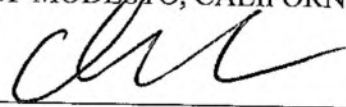
Capitalized terms used and not defined herein have the meanings ascribed to them in the Indenture.

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IN WITNESS WHEREOF, the undersigned has executed this Written Request of the City to the Trustee the date first written above.

CITY OF MODESTO, CALIFORNIA

By: \_\_\_\_\_



DeAnna Christensen  
Director of Finance

## TAX CERTIFICATE

In connection with the issuance by the City of Modesto, California (the “City”), of its \$25,470,000 Wastewater Revenue Refunding Bonds, Series 2020B (the “Bonds”), and in furtherance of the covenants of the City contained in Section 6.12 of the Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City and The Bank of New York Mellon Trust Company, N.A. (the “Original Indenture”), as amended and supplemented (the “Indenture”), including as supplemented by the Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the “Fifth Supplemental Indenture”), the City hereby executes this Tax Certificate (the “Tax Certificate”).

### 1. DEFINITIONS.

Capitalized terms used and not otherwise defined herein shall have the meanings set forth in Appendix I.

### 2. GENERAL REPRESENTATIONS.

(a) **Purpose of Obligations.** the City is issuing the Bonds on the date hereof (the “Issue Date”) to prepay, on the date hereof, that certain Clean Water State Revolving Fund Loan, Agreement Number 11-125-550 (Project Number C-06-5175-210) (the “2011 State Loan”), made by the State Water Resources Control Board (the “State Water Board”) to the City in periodic advances. The proceeds of the 2011 State Loan were used to finance various capital costs of the City’s wastewater system. Such capital costs are referred to herein as the “Project.”

(b) **Single Issue.** Other than as stated below, the City has not sold any other Bonds: (1) less than 15 days before or after October 27, 2020, the first day on which there was a binding contract in writing for the sale or exchange of the Bonds; (2) pursuant to the same plan of financing with the Bonds; and (3) reasonably expected to be paid from substantially the same source of funds as will be used to pay the Bonds. Concurrently with the sale and issuance of the Bonds, the City sold and issued its \$68,840,000 principal amount of Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the “Taxable Bonds”), pursuant to the same plan of financing. Norton Rose Fulbright US LLP (“Bond Counsel”) has advised the City that the Bonds and the Taxable Bonds are to be treated as separate issues of obligations pursuant to Section 1.150-1(c)(3) of the Treasury Regulations.

(c) **No Replacement; Average Life of Assets.** No portion of the amounts received from the sale of the Bonds will be used as a substitute for other funds that otherwise were to be used as a source for repaying the 2011 State Loan. The weighted average maturity of the Bonds does not exceed 120 percent of the average reasonably expected economic life of the Project.

(d) **Responsible Person.** The undersigned officer of the City is responsible, with others, for the issuance of the Bonds, and has made due inquiry with respect to and is fully informed as to the matters set forth herein.

(e) **Representations and Certifications.** The representations and certifications set forth in this Tax Certificate are made to the best of the knowledge and belief of the undersigned officer of the City, and the City’s expectations are reasonable.

**3. REASONABLE EXPECTATIONS OF THE CITY AS TO AMOUNT, INVESTMENT AND EXPENDITURE OF GROSS PROCEEDS.**

The City represents and certifies as follows with respect to the amount, investment and expenditure of the Gross Proceeds of the Bonds:

**(a) Application of Sale Proceeds and Investment Proceeds; No Overissuance.** The amount of Sale Proceeds received by the City from the sale of the Bonds (the “**Sale Proceeds**”) is \$33,899,723.90 (principal amount of \$25,470,000.00, plus original issue premium of \$8,429,723.90). The Sale Proceeds, together with the Investment Proceeds expected to be earned thereon, will not exceed the amount necessary for the purposes set forth in Section 2(a) hereof. The Sale Proceeds and Investment Proceeds will be applied as follows:

**(1) Refunding of 2011 State Loan.** Sale Proceeds in the amount of \$33,759,704.27, together with \$68,542,429.88 of Sale Proceeds of the Taxable Bonds and \$7,125,881.18 of amounts on deposit in the City’s Wastewater Fund (the “**Wastewater Fund**”), or a total of \$109,428,015.33, will be applied on the date hereof to prepay in full the 2011 State Loan.

**(2) Underwriters Compensation/Discount.** Sale Proceeds in the amount of \$34,351.24 will be netted out of the Sale Proceeds on the date hereof to compensate BofA Securities, Inc., on behalf of itself and as representative (the “**Representative**”) of Citigroup Global Markets, Inc. and J.P. Morgan Securities LLC (collectively, the “**Underwriters**”) for underwriting the Bonds.

**(3) Costs of Issuance.** Sale Proceeds in the amount of \$105,668.39 will be deposited on the date hereof in the 2020 Costs of Issuance Fund and used, together with any Investment Proceeds earned thereon, to pay costs of issuing the Bonds (“**Costs of Issuance**”) within one year of the date hereof or, to the extent not needed for such purpose, to pay interest on the Bonds within one year of the date hereof.

**(b) Funds and Accounts.** The following funds and accounts have been established in connection with the issuance of the Bonds:

**(1)** the **Interest Fund** and the **Principal Fund** established pursuant to Section 5.01(B) of the Original Indenture for the purpose of paying debt service on bonds issued under the Indenture, including the Bonds;

**(2)** the **Parity Reserve Fund** established by Section 5.05 of the Original Indenture for the purpose of securing certain bonds issued under the Indenture; the Bonds are not secured by the Parity Reserve Fund;

**(3)** the **Rebate Fund** established by Section 6.11 of the Original Indenture for the purpose of complying with the Rebate Requirement (defined below in Section 4) with respect to bonds issued under the Indenture, including the Bonds; and

(4) the **Series 2020 Costs of Issuance Fund** established pursuant to Section 16.12 of the Fifth Supplemental Indenture for the purpose of paying Costs of Issuance.

(c) **Funds on Hand.**

(1) **Wastewater Fund.** On the date hereof, the City will apply a total of \$7,129,881.18 of amounts on deposit in the Wastewater Fund to the prepayment of the 2011 State Loan, as described in Section 3(a)(1) above.

(2) **No Other Funds on Hand.** There are no proceeds of the 2011 State Loan that remain unspent, and there are no amounts that absent the issuance of the Bonds, were specifically designated by the City to be used to pay debt service on the 2011 State Loan.

(d) **No Hedge Bonds.** Upon the issuance of the 2011 State Loan, the City reasonably expected to spend at least 85 percent of the Net Sale Proceeds of the 2011 State Loan within three years of its date of issuance, and none of the proceeds of the 2011 State Loan were invested in investments having substantially guaranteed yields for four years or more.

(e) **Debt Service Fund.** The portion of the Interest Fund and the portion of the Principal Fund used to pay debt service on the Bonds are herein collectively referred to as the “**Debt Service Fund.**” Except for the Debt Service Fund, the City has not created or established, and does not expect to create or establish, any fund or account that is reasonably expected to be used to pay debt service on the Bonds. The Debt Service Fund will be used primarily to achieve a proper matching of revenues with principal and interest payments on the Bonds within each Bond Year and will be depleted at least once each year except for a reasonable carryover amount not exceeding the greater of (1) the earnings on amounts in such funds for the immediately preceding Bond Year or (2) 1/12 of the principal and interest payments on the Bonds for the immediately preceding Bond Year. Amounts deposited in the Debt Service Fund will be used to pay debt service on the Bonds within a thirteen month period beginning on the date of deposit therein.

(f) **Rebate Fund.** Moneys in the Rebate Fund are neither pledged to nor expected to be used to pay debt service on bonds issued under the Indenture, including the Bonds. Proceeds derived from the sale of bonds issued under the Indenture, including the Bonds, and investment earnings thereon are not expected to be held in the Rebate Fund.

(g) **Expectations Regarding Hedging Transactions.** The City has not entered into, and does not plan to enter into, any hedging transaction (such as an interest rate swap, cap or collar) with respect to the Bonds.

(h) **Yield.**

(1) **Bond Yield.** The yield on the Bonds (the “**Bond Yield**”) is 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 on the Bonds, if any, and amounts reasonably expected to be paid as fees for qualified guarantees on the Bonds, if any, produces an amount equal to the present value, using the same discount rate, of the aggregate issue price of the Bonds as of the Issue Date. Based

on representations of the Underwriters, in the certificate attached hereto as **Exhibit A**, the aggregate issue price of the Bonds is equal to \$33,899,723.90 (principal amount of \$25,470,000.00, plus original issue premium of \$8,429,723.90). The issue price of the Bonds has been determined based on the “10% actual sales” rule in Section 1.148-1(f)(2)(i) of the Treasury Regulations. The Bond Yield computed in this manner, and based on calculations provided by the Underwriters, is not less than 0.933089%.

**(2) Yield Limitations.** The City will comply with the following yield limitations with respect to the investment of Proceeds of the Bonds:

<b><u>Fund or Account</u></b>	<b><u>Temporary Period of Unrestricted Investment</u></b>	<b><u>Restriction After Temporary Period</u></b>	<b><u>Excepted From Rebate (Yes)/(No)</u></b>
Proceeds Used to Refund 2011 State Loan	90 days	Bond Yield	Yes
Debt Service Fund	13 months	Bond Yield	Yes
Rebate Fund	Unlimited	N/A	Yes
Series 2020 Costs of Issuance Fund	13 months	Bond Yield	Yes if Spent Within 6 Months of Issue Date

**(3) Avoidance of Advance Refunding Characterization.** As stated in subsection (a)(1) above, Sale Proceeds of the Bonds are being used on the date hereof, together with proceeds of the Taxable Bonds and amounts on deposit in the Wastewater Fund, to prepay in full the 2011 State Loan. The SRF was funded by the State Water Resources Control Board (“**State Water Board**”) from several different sources of funds, including the proceeds of tax-exempt bonds issued by or on behalf of the State of California or divisions thereof (“**State Tax-Exempt Bonds**”) and including certain “federal capitalization grants” made by the U.S. Environmental Protection Agency to the State Water Board (“**Federal Grant Funds**”). Under applicable Treasury Regulations, amounts received by the State Water Board from the redemption (including a prepayment) of a loan that was funded, directly or indirectly, with the proceeds of State Tax-Exempt Bonds would need to be used, or reasonably expected to be used within six months of receipt of such amounts, to retire an allocable portion of State Tax-Exempt Bonds. Such requirement is inapplicable to Federal Grant Funds. In a letter from the State Water Board to the Bond Counsel, dated October 19, 2020 (the “**State Water Board Letter**”), the State has represented to Bond Counsel, for the benefit of the City, that, in terms of percentages, an amount in excess of 33% of the funding of the 2011 State Loan was derived from Federal Grant Funds. Accordingly, of the Sale Proceeds being used on the date hereof to prepay the 2011 State Loan, 33% of the Sale Proceeds, or \$33,759,704.27, set forth in subsection (a)(1) above, is Sale Proceeds of the Bonds, and 67% of the Sale Proceeds, or

\$68,542,429.88, set forth in subsection (a)(1) above, is Sale Proceeds from the Taxable Bonds. A copy of the State Water Board Letter is attached hereto as **Exhibit C**.

#### **4. REBATE REQUIREMENT, CALCULATIONS AND PAYMENT.**

The City will comply with the rebate requirement of Section 148(f) of the Code (the “**Rebate Requirement**”) with respect to the Bonds. Certain of the regulations promulgated under Section 148(f) are summarized in Appendix II. The City will maintain until a date not earlier than three years following the final retirement of the Bonds (and any bonds that refund any portion of the Bonds) books and records setting forth: (a) the date of each expenditure of Gross Proceeds of the Bonds; and (b) with respect to each investment made with Gross Proceeds of the Bonds, (1) the purchase date, (2) the purchase price, (3) the face amount, (4) the coupon rate, (5) the periodicity of interest payments, (6) the date of sale or maturity, (7) the amount received at sale or maturity, and (8) the date and amount of any investment income realized. The City will seek such additional guidance as it believes necessary to comply with its covenants contained in this Section 4.

#### **5. ALLOCATION AND ACCOUNTING.**

The City will account for the Gross Proceeds of the Bonds separately and apart from all other funds of the City. The City will account for the investment and expenditure of the Gross Proceeds of the Bonds using a reasonable, consistently applied accounting method.

#### **6. PROHIBITED INVESTMENTS AND DISPOSITIONS.**

The City will not purchase an investment with Gross Proceeds of the Bonds for a price greater than, or sell an investment acquired with Gross Proceeds of the Bonds for an amount less than, its fair market value (determined in accordance with Section 1.148-5(d) of the Treasury Regulations).

#### **7. NO FEDERAL GUARANTEE.**

The City will not permit the payment of any principal of or interest on the Bonds to be guaranteed, directly or indirectly, by the federal government.

#### **8. USE OF PROCEEDS.**

The City makes the representations below with respect to the use of proceeds of the Bonds:

**(a) In General.** No more than the lesser of 10% of the proceeds of the Bonds or the Project (based on the cost of the components of the Project or, with respect to a unitary structure, based on the relative fair rental value of such components) or \$15,000,000 has been, since the issue date of the 2011 State Loan, or will be used in the aggregate for any activities that constitute a “**Private Use**” (as such term is defined below in subsection (d)). No more than the lesser of 10% of the principal of or interest on the Bonds or \$15,000,000, under the terms thereof or any underlying arrangement, will be secured by any interest in property (whether or not the Project) used or to be used for a Private Use or in payments in respect of property used or to be used for a

Private Use, or will be derived from payments in respect of property used or to be used for a Private Use.

**(b) No Private Loan Financing.** No more than the lesser of 5% of the proceeds of the Bonds or \$5,000,000 will be used to make or finance 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 that are used to acquire or carry Nonpurpose Investments).

**(c) No Disproportionate or Unrelated Use.** No more than the lesser of 5% of the proceeds of the Bonds or the Project (based on the cost of the components of the Project or, with respect to a unitary structure, based on the relative fair rental value of such components) or \$15,000,000 has been, since the issue date of the 2011 State Loan, or will be used 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 Bonds (an “**Unrelated or Disproportionate Use**”). No more than the lesser of 5% of the principal of or interest on the Bonds or \$15,000,000, under the terms thereof or any underlying arrangement, will be secured by any interest in property (whether or not the Project) used or to be used for a Private Use that is an Unrelated or Disproportionate Use or in payments in respect of property used or to be used for a Private Use, or will be derived from payments in respect of property used or to be used for a Private Use that is an Unrelated or Disproportionate Use.

**(d) 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 City obtains an opinion of Bond Counsel to the contrary. Use of property financed 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.

**(e) Management or Service Contracts.** With respect to management and service contracts, the determination of whether a particular use constitutes a Private Use under this Tax Certificate will be determined on the basis of applying, at the option of the City, (i) Revenue Procedure 2017-13, 2017-6 I.R.B 787, or (ii) in the case of a contract that was entered into before August 18, 2017, and that has not been materially modified or extended on or after August 18, 2017 (other than pursuant to a provision under which either party had a legally enforceable right to renew the contract), Revenue Procedure 97-13, 1997-1 C.B. 632, as modified by Revenue Procedure 2001-39, 2001-2 C.B. 38, and Notice 2014-67, 2014-46 I.R.B. 822.

**(f) Compliance Monitoring.** The City will monitor the use of the Project and will notify and seek guidance from Bond Counsel prior to permitting any portion of the proceeds of the Bonds or the Project to be used in a manner that is inconsistent with the expectations set forth in this Section 8.

## 9. INFORMATION REPORTING.

The City has reviewed the Internal Revenue Service Form 8038-G to be filed in connection with the issuance of the Bonds, a copy of which is attached hereto as **Exhibit B**, and all of the information contained therein is, to the best of the City's knowledge, true and complete.

## 10. RECORD RETENTION.

The City will maintain until at least three years after the final retirement of the Bonds (and any bonds that refund any portion of the Bonds) books and records sufficient to substantiate compliance with the City's representations, certifications and covenants contained in this Tax Certificate, including the following books and records:

- (a) **Bond Transcript.** The transcript of proceedings for the Bonds;
- (b) **Expenditure of Proceeds.** Documentation showing the expenditure of Proceeds of the Bonds;
- (c) **Use of Project.** Documentation showing the use of the Project by the City, the general public or any third parties (including, for example, any use under a management or output contract);
- (d) **Sources of Payment and Security.** Documentation showing the sources of payment and security for the Bonds;
- (e) **Investments.** Documentation relating to the investment of Gross Proceeds of the Bonds, including the purchase and sale of securities, SLGS subscriptions, guaranteed investment contracts, investment income received, yield calculations, and rebate calculations;
- (f) **Returns.** All returns filed with the IRS for the Bonds (including IRS Form 8038-G), together with sufficient records to show that those returns are correct; and
- (g) **Other Relevant Documentation.** Any other documentation that is material to the exclusion of interest on the Bonds from gross income for federal income tax purposes.

## 11. COVENANTS REGARDING TAX EXEMPTION; AMENDMENTS.

The City hereby covenants with the owners of the Bonds that the City will (1) take all actions on its part necessary to cause interest on the Bonds not to be includable in the gross income of the owners thereof for federal income tax purposes and (2) refrain from taking any action that would cause interest on the Bonds to be includable in the gross income of the owners thereof for federal income tax purposes. Notwithstanding any other provision of this Tax Certificate to the contrary, the covenants contained in this Section 11 shall survive the payment or defeasance of the Bonds and the interest thereon for as long as necessary to maintain the exclusion of interest on the Bonds from gross income for purposes of federal income taxation. This Tax Certificate sets forth the information, representations, and procedures necessary for Bond Counsel to render its opinion regarding such exclusion of interest and may be amended or supplemented from time to time to maintain such exclusion only with the approval of Bond Counsel.

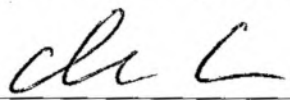
Notwithstanding any other provision herein, the covenants and Bonds contained herein may be and shall be deemed modified to the extent the City secures an opinion of Bond Counsel that any action required hereunder is no longer required or that some further action is required in order to maintain the exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

*[Signature page follows]*

**12. SUPPLEMENTATION OF TAX CERTIFICATE.** At any time that the Issuer believes it may be necessary or appropriate, the Issuer will supplement or amend this Tax Certificate in a manner such that Bond Counsel may continue to be of the opinion that interest on the Obligations is excluded from gross income for federal income tax purposes.

Dated: November 1, 2020

**CITY OF MODESTO, CALIFORNIA**

By   
Name: *DeAnna Christensen*  
Title: *Director of Finance*

## **APPENDIX I**

### **DEFINITIONS**

- A. **BOND COUNSEL** shall mean Norton Rose Fulbright US LLP, or any other law firm or law firms appointed by the City, having a national reputation in the field of municipal finance whose opinions are generally accepted by purchasers of municipal bonds.
- B. **BOND YEAR** shall mean each one year period that ends on the day selected by the City. If no day is selected by the City before the date that is five years after the Issue Date, each Bond Year ends on the anniversary of the Issue Date and on the final maturity date.
- C. **CODE** shall mean the Internal Revenue Code of 1986.
- D. **COMPUTATION DATE** shall mean each date on which the rebate amount for an issue is computed.
- E. **COMPUTATION PERIOD** shall mean the period between Computation Dates. The first Computation Period begins on the date hereof and ends on the first Computation Date. Each succeeding Computation Period begins on the date immediately following the Computation Date and ends on the next Computation Date.
- F. **GROSS PROCEEDS** shall mean any Proceeds or Replacement Proceeds of an issue.
- G. **INVESTMENT PROCEEDS** shall mean any amounts actually or constructively received from investing Proceeds of an issue.
- H. **INVESTMENT PROPERTY** shall mean any security or bond within the meaning of section 148(b)(2) of the Code, any annuity contract, any interest in any residential rental property for family units that is not located within the jurisdiction of the City, any “specified private activity bond” within the meaning of section 57(a)(5)(C) of the Code, and any other Investment-Type Property.
- I. **INVESTMENT-TYPE PROPERTY** includes any property that is held principally as a passive vehicle for the production of income. A prepayment for property or services by the City is Investment-Type Property if a principal purpose for prepaying is to receive an investment return from the time the prepayment is made until the time payment otherwise would be made. A prepayment is not Investment-Type Property if (i) prepayments on substantially the same terms are made by a substantial percentage of persons who are similarly situated to the City but who are not beneficiaries of tax-exempt financing; or (ii) the prepayment is made within 90 days of the reasonably expected date of issue to the City of all of the property or services for which the prepayment is made.
- J. **NET SALE PROCEEDS** shall mean Sale Proceeds, less the portion of those Sale Proceeds invested in a reasonably required reserve or replacement fund.

- K. **NONPURPOSE INVESTMENT** shall mean any Investment Property that is not a Purpose Investment.
- L. **PRE-ISSUANCE ACCRUED INTEREST** shall mean amounts representing interest that has accrued on an bond for a period of not greater than one year before its issue date but only if those amounts are paid within one year after the Issue Date.
- M. **PROCEEDS** shall mean any Sale Proceeds, Investment Proceeds and Transferred Proceeds of an issue.
- N. **PURPOSE INVESTMENT** shall mean an investment that is acquired to carry out the governmental purpose of an issue.
- O. **REPLACEMENT PROCEEDS** shall mean amounts that have a sufficiently direct nexus to an issue to conclude that the amounts would have been used for that governmental purpose if the Proceeds of the issue were not used or to be used for that governmental purpose. For this purpose, governmental purposes include the expected use of amounts for the payment of debt service on a particular date. The mere availability or preliminary earmarking of amounts for a governmental purpose, however, does not in itself establish a sufficient nexus to cause those amounts to be Replacement Proceeds. Replacement Proceeds include, but are not limited to, amounts held in a sinking fund or a pledged fund. For these purposes, an amount is pledged to pay principal of or interest on an issue if there is reasonable assurance that the amount will be available for such purposes in the event that the City encounters financial difficulties. Replacement Proceeds also include, but are not limited to, amounts held in any fund or account with respect to which the City or any other person substantially interested in the issue has covenanted to maintain at least a minimum balance other than (i) a fund the balance in which need be evaluated no more frequently than twice each year, or (ii) a fund in respect of the monies in which the owner may grant a security interest senior to the direct and indirect interests of the bondholders.
- P. **SALE PROCEEDS** shall mean any amounts actually or constructively received by the City from the sale of an issue, including amounts used to pay underwriters' discount or compensation and interest other than Pre-Issuance Accrued Interest.
- Q. **TRANSFERRED PROCEEDS** shall have the same meaning as set forth in Section 1.148-1 of the Treasury Regulations.
- R. **TREASURY REGULATIONS** shall mean the Treasury Regulations applicable under Sections 103 and 141-150 of the Code.
- S. **VALUE (OF A BOND)** shall mean with respect to a bond issued with not more than two percent original issue discount or original issue premium, the outstanding principal amount, plus accrued unpaid interest; for any other bond, its present value.

## APPENDIX II

### REBATE REQUIREMENT

- A. **GENERALLY.** Section 148(f) of the Code requires that certain earnings on Nonpurpose Investments allocable to the Gross Proceeds of an issue be paid to the United States to prevent the bonds of the issue from being arbitrage bonds. The arbitrage that must be rebated is based on the difference between the amount actually earned on Nonpurpose Investments and the amount that would have been earned if those investments had a yield equal to the yield on the issue. As of any date, the rebate amount for an issue is the excess of the future value, as of that date, of all receipts on Nonpurpose Investments over the future value, as of that date, of all payments on Nonpurpose Investments. The future value of a payment or receipt at the end of any period is determined using the economic accrual method and equals the value of that payment or receipt when it is paid or received (or treated as paid or received), plus interest assumed to be earned and compounded over the period at a rate equal to the yield on the issue, using the same compounding interval and financial conventions used to compute that yield.
- B. **COMPUTATION DATES (OTHER THAN THE FINAL COMPUTATION DATE).** For a fixed yield issue, the City may treat any date as a Computation Date provided the first such date is within five years of the Issue Date. For a variable yield issue, the City may treat the last day of any Bond Year that is not later than five years from the Issue Date as a Computation Date and may not change that treatment after the first rebate payment, if any, is due. After the first rebate payment, if any, is due, the City must consistently treat either the end of each Bond Year or the end of each fifth Bond Year as Computation Dates and may not change these Computation Dates after the first rebate payment, if any, is due.
- C. **FINAL COMPUTATION DATE.** The date that the final bond of an issue is actually retired (as distinguished from defeased) is the Final Computation Date. For an issue finally retired within three years of its Issue Date, however, the Final Computation Date need not occur before the end of 8 months after the Issue Date or during the period in which the City reasonably expects that any of the spending exceptions to the rebate requirement will apply to the issue.
- D. **AMOUNT OF REQUIRED REBATE.** For Computation Dates other than the Final Computation Date, the City must rebate an amount that when added to the future value, as of that Computation Date, of previous rebate payments made for the issue, equals at least 90 percent of the rebate amount as of that date. For the Final Computation Date, a final rebate payment must be paid in an amount that, when added to the future value of previous rebate payments made for the issue, equals 100 percent of the rebate amount as of that date.
- E. **TIME AND MANNER OF PAYMENT.** Each rebate payment must be paid no later than 60 days after the Computation Date to which the payment relates. Any rebate payment paid within this 60-day period may be treated as paid on the Computation Date to which it relates. Unless otherwise provided in subsequent guidance of the Internal Revenue Service,

rebate payments shall be filed with the Internal Revenue Service Center, Ogden, UT 84201, and shall be accompanied by a properly completed and executed Form 8038-T.

F. **SPENDING EXCEPTIONS FROM REBATE.** Notwithstanding the foregoing, the Code and Treasury Regulations provide certain exceptions that, if complied with, will result in the City being treated as having satisfied the bond to pay rebate with respect to some or all of the Gross Proceeds of an issue. These exceptions are complex, and satisfaction of any of the exceptions must be confirmed by an independent accountant or other professional expert in the application of the arbitrage rebate provisions of section 148(f) of the Code. The following is a brief summary of each of these exceptions:

i) **SIX MONTH EXCEPTION.** If the gross proceeds of the bonds (other than gross proceeds held in a bona fide debt service fund, amounts in a reasonably required reserve or replacement fund, amounts that were not anticipated to be gross proceeds but that become so after the end of the 6-month spending period, sale or investment proceeds derived from repayments of purpose investments of the bonds, or repayments of grants financed by the bonds (the “*Excepted Gross Proceeds*”)) are expended within the 6-month period commencing on the date of issuance of the bonds, and if the rebate requirement is satisfied with respect to all amounts described in the preceding parenthetical (other than with respect to earnings on the bona fide debt service fund), then the rebate requirement shall be treated as satisfied;

ii) **18-MONTH EXCEPTION.** If the gross proceeds of the issue (exclusive of the Excepted Gross Proceeds) are allocated to expenditures in accordance with the following schedule measured from the issue date, and the rebate requirements are satisfied with respect to all Excepted Gross Proceeds (other than with respect to earnings on the *bona fide* debt service fund), and all of the sale proceeds and investment proceeds of the bonds qualified for the 3-year temporary period for capital projects (established under section 1.148-3(e)(2) of the Treasury Regulations), then the rebate requirement shall be treated as satisfied:

(1) At least 15 percent within 6 months;

(2) At least 60 percent within 12 months; and

(3) 100 percent within 18 months (provided that reasonable retainage (described in section 1.148-7(h) of the Treasury Regulations) may be allocated to expenditures within 30-months of the date of issuance).

iii) **2-YEAR EXCEPTION.** If the bonds constitute a “construction issue” (within the meaning of section 1.148-7(f) of the Treasury Regulations, which requires, inter alia, that at least 75% of the “available construction proceeds” (as defined in section 148(f)(4)(C)(vi) of the Code) are to be allocated to construction expenditures for property to be owned by a state or local governmental unit or a 501(c)(3) organization), and the available construction proceeds of the bonds are allocated to expenditures in

accordance with the following schedule measured from the issue date, then the rebate requirements are satisfied with respect to all available construction proceeds:

- (1) At least 10 percent within 6 months;
- (2) At least 45 percent within 1 year;
- (3) At least 75 percent within 18 months; and
- (4) 100 percent within 24 months (provided that reasonable retainage (described in section 1.148-7(h) of the Treasury Regulations) may be allocated to expenditures within 36-months of the date of issuance).

Under the Code and Treasury Regulations, if an issue comprises a construction purpose and also another purpose or purposes (e.g., acquisition or refunding), the City under certain circumstances may bifurcate the issue for purposes of applying the rebate requirements, and may qualify the construction portion of the issue under the foregoing exception.

**EXHIBIT A**  
**CERTIFICATE OF THE UNDERWRITER**

(See attached)

\$25,470,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020B

**CERTIFICATE OF THE UNDERWRITER**

This Certificate is furnished by BofA Securities, Inc., (“**BofA Securities**”) on behalf of itself and as representative of Citigroup Global Markets, Inc. and J.P. Morgan Securities LLC, in connection with the issuance by the City of Modesto, California (the “**City**”) on November 10, 2020 (the “**Issue Date**”), of the \$25,470,000 City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020B, (the “**Bonds**”).

The undersigned, as authorized representative, based on available records and information which the undersigned believes to be correct, does hereby certify as follows:

A. Issue Price.

1. As of October 27, 2020 (the “**Sale Date**”), the first price at which at least 10% of each Maturity of the Bonds was sold to the Public was the respective price shown in the Official Statement for the Bonds (each an “**Initial Offering Price**”).

For purposes of this certificate the following definitions apply:

“**Maturity**” shall refer to Bonds with the same maturity date, interest rate and credit terms.

“**Public**” means any person (including an individual, trust, estate, partnership, association, company or corporation) other than an Underwriter or a Related Party, as defined below.

“**Underwriter**” means (i) BofA Securities, Citigroup Global Markets, Inc. and J.P. Morgan Securities LLC, (ii) any person that agrees pursuant to a written contract to participate in the initial sale of the Bonds to the Public, and (iii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (ii) of this definition to participate in the initial sale of the Bonds to the Public, including but not limited to a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public.

“**Related Party**” means any entity if an Underwriter and such entity are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profit interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

B. Bond Yield.

We have been asked to calculate the yield on the Bonds for arbitrage purposes. Norton Rose Fulbright US LLP (“**Bond Counsel**”) has advised us that the yield on the Bonds is to be computed under the economic accrual method using an assumed 30-day month/360-day year and semiannual compounding and is the discount rate that, when used in computing the present value as of the date hereof of all unconditionally payable payments of principal of and interest on the Bonds, produces an amount equal to the aggregate of the Initial Offering Prices. Based on this methodology, we have calculated the yield on the Bonds for arbitrage purposes to be 0.933089%.

C. Weighted Average Maturity.

We have been asked to calculate the weighted average maturity in the following manner: divide (a) the sum of the products determined by taking the issue price of each Maturity of the Bonds multiplied by the number of years from the date hereof to the date of such Maturity (treating the dates on which there are mandatory sinking fund redemptions of Bonds as Maturities for this purpose), by (b) the aggregate of the Initial Offering Prices. Based on this calculation, the weighted average maturity of the Bonds is 8.5153 years.

The undersigned understands that the foregoing information will be relied upon by the City with respect to certain of the representations set forth in the Tax Certificate with respect to the Bonds and with respect to compliance with the federal income tax rules affecting the Bonds, and by Bond Counsel in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G executed by the City and filed with the Internal Revenue Service, and other federal income tax advice that Bond Counsel may give to the City from time to time relating to the Bonds. Except as expressly set forth above, the certifications set forth herein may not be relied upon or used by any third party or for any other purpose. All terms not defined herein have the meanings ascribed to those terms in the attached Tax Certificate.

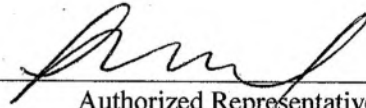
Notwithstanding the foregoing, we remind you that we are not accountants or actuaries, nor are we engaged in the practice of law. Accordingly, while we believe the calculations described above to be correct, we do not warrant them to be so, and BofA Securities makes no representations as to the legal sufficiency of the factual matters set forth herein.

The undersigned is authorized to execute this certificate on behalf of BofA Securities and the certifications set forth above are not necessarily based on personal knowledge, but may instead be based on either inquiry deemed adequate by the undersigned or institutional knowledge (or both) regarding the matters set forth herein. This certificate may be delivered by the delivery of signed signature pages by electronic means, facsimile transmission, or by e-mail with a PDF copy attached, and any printed or copied versions of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page.

Dated: November 10, 2020

**BOFA SECURITIES, INC.**

By: \_\_\_\_\_

A handwritten signature in black ink, appearing to be "A. M. L.", written over a horizontal line.

Authorized Representative

**EXHIBIT B**

**FORM 8038-G**

(See Transcript Item #19)

**EXHIBIT C**

**[LETTER FROM STATE WATER BOARD]**

(See Transcript Item #31)

\$68,840,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020A (Federally Taxable)

\$25,470,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020B

November 10, 2020

CITY INCUMBENCY AND SIGNATURE CERTIFICATE



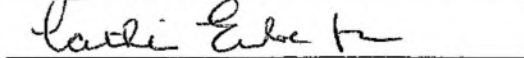
The undersigned hereby state and certify that:

(i) we are, respectively the City Manager, Director of Finance and the City Clerk of the City of Modesto, California (the "City"), a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California, and, as such, we are familiar with the facts herein certified and are authorized to certify the same;

(ii) the following persons are the current members of the City Council:

<u>Office</u>	<u>Name</u>
Mayor	Ted Brandvold
Vice Mayor	Kristi Ah You
Councilmember	Tony Madrigal
Councilmember	Mani Grewal
Councilmember	Bill Zoslocki
Councilmember	Jenny Kenoyer
Councilmember	Douglas Ridenour

(iii) each of the undersigned by his or her signature confirms that the other signatures (including the signature of the City Clerk) set forth below are true and correct specimens of their genuine signatures:

<u>Name</u>	<u>Signature</u>
Joseph Lopez, City Manager	
DeAnna Christensen, Director of Finance	
Stephanie Lopez, City Clerk	

(iv) the following documents and instruments relating to the \$68,840,000 City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the “Series 2020A Bonds”) and \$25,470,000 City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020B (the “Series 2020B Bonds” and, collectively with the Series 2020A Bonds, the “Series 2020 Bonds”) bear the signatures of certain officers of the City named herein:

(a) the Series 2020A Bonds and the Series 2020B Bonds;

(b) the Fifth Supplemental Indenture, dated as of November 1, 2020 (the “Fifth Supplemental Indenture, by and between the City and the Trustee;

(c) the Bond Purchase Agreement, dated as of October 27, 2020 (the “Bond Purchase Agreement”), by and between the City and BofA Securities, Inc., on behalf of itself and as representative (the “Representative”) of Citigroup Global Markets, Inc. and J.P. Morgan Securities LLC (collectively, the “Underwriters”);

(d) the Official Statement relating to the Bonds, dated October 27, 2020 (the “Official Statement”);

(e) the Disclosure Dissemination Agent Agreement, dated as of November 10, 2020 (the “Continuing Disclosure Agreement”), by and between the City and Digital Assurance Certification, L.L.C.;

(f) the Tax Certificate and Agreement, dated November 10, 2020 (the “Tax Certificate”); and

(g) certain other ancillary and closing documents in connection with the foregoing.

(v) The City Council has taken, by official action by Resolution No. 2020-360, adopted on September 1, 2020, all action necessary to be taken by the City Council for the execution and delivery of and due performance by the City of the obligations on its part contained in the Bond Purchase Agreement, the Continuing Disclosure Agreement, the Fifth Supplemental Indenture and the Official Statement and the taking of any and all such action as may be required on the part of the City to carry out, give effect to and consummate the transactions contemplated thereby;

(vi) Except as described in the Official Statement, no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the City that has not been obtained is or will be required for the issuance of the Series 2020 Bonds or the consummation by the City of the other transactions contemplated by the Continuing Disclosure Agreement, the Fifth Supplemental Indenture, the Bond Purchase Agreement and the Official Statement, except as such may be required for the state securities or blue sky laws;

(vii) The execution and delivery by the City of the Continuing Disclosure Agreement, the Indenture and the Bond Purchase Agreement, and compliance with the

terms thereof, will not and do not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, lease, indenture, bond, note, resolution or instrument to which the City is a party or is otherwise subject, nor will any such execution, delivery 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, lease, indenture, bond, note, resolution, agreement or other instrument;

(viii) Except as described in the Official Statement, to the best of our knowledge, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body is pending or, to the best of our knowledge after reasonable investigation, threatened (a) in any way questioning the corporate existence of the City or the titles of the officers of the City to their respective offices; (b) seeking to restrain or enjoin the issuance, sale or delivery of any of the Series 2020 Bonds, or the collection of the revenues pledged or to be pledged to pay any of the Series 2020 Bonds; (c) in any way contesting or affecting the validity of the Indenture, the Continuing Disclosure Agreement, the Bond Purchase Agreement, the Series 2020 Bonds or the tax-exempt status of the Series 2020 Bonds or the collection of the revenues pledged to the payment of the Series 2020 Bonds or the pledge of said revenues, or contesting the powers of the City or any official of the City in connection with the adoption of the Resolution, the issuance, sale or the delivery of the Series 2020 Bonds or the execution and delivery of the Series 2020 Bonds, the Indenture, the Continuing Disclosure Agreement or the Bond Purchase Agreement and the performance of its obligations contained therein; (d) which reasonably may be expected to result in any material adverse change in the business, properties, assets or the financial condition of the City, the Wastewater System or which reasonably may be expected to have a material adverse effect on the ability of the City to meet its obligations under the Indenture, the Continuing Disclosure Agreement, the Series 2020 Bonds or the Bond Purchase Agreement; or (e) asserting that the Preliminary Official Statement, dated October 15, 2020, or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.


All capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to them in the Official Statement and in the Bond Purchase Agreement.


This certificate may be delivered by the delivery of signed signature pages by electronic means, facsimile transmission, or by e-mail with a PDF copy attached, and any printed or copied versions of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page.

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IN WITNESS WHEREOF, the undersigned has executed this City Incumbency and Signature Certificate as of the date first written above.

CITY OF MODESTO, CALIFORNIA

By:   
Joseph Lopez  
City Manager

By:   
DeAnna Christensen  
Director of Finance

\$68,840,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020A (Federally Taxable)

\$25,470,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020B

November 10, 2020

CLOSING CERTIFICATE OF THE CITY

I, DeAnna Christensen, hereby certify that I am the Director of Finance of the City of Modesto, California, a municipal corporation and chartered city duly organized and existing under the Constitution and the laws of the State of California (the “City”), and that, as such, I am familiar with the facts herein certified and am authorized to execute this document on behalf of the City.

Capitalized terms used and not defined herein shall have the meanings ascribed to them in the Bond Purchase Agreement, dated as of October 27, 2020 (the “Bond Purchase Agreement”), by and between the City and BofA Securities, Inc., on behalf of itself and as representative (the “Representative”) of Citigroup Global Markets, Inc. and J.P. Morgan Securities LLC (collectively, the “Underwriters”).

I hereby certify:

1. The representation and warranties of the City contained in the Bond Purchase Agreement are true and correct in all material respects on and as of the Closing Date as if made on the Closing Date and the City has complied with all of the terms and conditions of the Bond Purchase Agreement required to be complied with by the City at or prior to the Closing Date; and

2. No event affecting the City has occurred or information become known since the date of the Preliminary Official Statement relating to the Series 2020 Bonds, dated October 15, 2020 (the “Preliminary Official Statement”) and the Official Statement relating to the Series 2020 Bonds, dated October 27, 2020 (the “Official Statement”), which either makes untrue or incorrect in any material respect as of the date hereof any statement or information contained in the Preliminary Official Statement and the Official Statement relating to the City or is not reflected in the Preliminary Official Statement but should be disclosed therein in order to make the statements and information therein relating to the city, in the light of the circumstances under which they were made, not misleading.

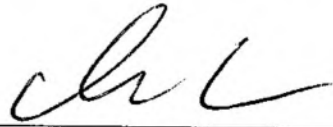
3. As shown in Exhibit A hereto, Maximum Annual Debt Service (as defined in the Indenture) on the Series 2020 Bonds does not exceed 1.10 times the Maximum Annual Debt Service with respect to the 2011 State Loan being refunded with the proceeds of the Series 2020 Bonds.

This certificate may be delivered by the delivery of signed signature pages by electronic means, facsimile transmission, or by e-mail with a PDF copy attached, and any printed or copied versions of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page.

IN WITNESS WHEREOF, the undersigned has executed this Closing Certificate of the City as of the date first written above.

CITY OF MODESTO, CALIFORNIA

By: \_\_\_\_\_



DeAnna Christensen  
Director of Finance

EXHIBIT A  
MAXIMUM ANNUAL DEBT SERVICE

**SAVINGS**

City of Modesto  
Wastewater Revenue Refunding Bonds  
Final Pricing Numbers

Date	Prior Debt Service	Prior Receipts	Prior Net Cash Flow	Refunding Debt Service	Savings	Present Value to 11/10/2020 @ 0.9330895%
06/30/2021	8,245,564.27	-7,125,881.18	1,119,683.09	1,119,683.09	-	4,332.30
06/30/2022	8,245,564.27	-	8,245,564.27	7,737,013.51	508,550.76	502,996.19
06/30/2023	8,245,564.27	-	8,245,564.27	7,739,642.78	505,921.49	495,698.64
06/30/2024	8,245,564.27	-	8,245,564.27	7,735,676.50	509,887.77	494,887.51
06/30/2025	8,245,564.27	-	8,245,564.27	7,735,987.90	509,576.37	489,899.41
06/30/2026	8,245,564.27	-	8,245,564.27	7,735,873.65	509,690.62	485,348.33
06/30/2027	8,245,564.27	-	8,245,564.27	7,735,962.15	509,602.12	480,579.92
06/30/2028	8,245,564.27	-	8,245,564.27	7,738,535.90	507,028.37	473,085.00
06/30/2029	8,245,564.27	-	8,245,564.27	7,736,660.90	508,903.37	469,786.34
06/30/2030	8,245,564.26	-	8,245,564.26	7,734,660.90	510,903.36	466,590.07
06/30/2031	8,245,564.28	-	8,245,564.28	7,736,660.90	508,903.38	459,732.52
06/30/2032	8,245,564.27	-	8,245,564.27	7,736,134.73	509,429.54	455,644.13
06/30/2033	8,245,564.27	-	8,245,564.27	7,739,381.16	506,183.11	448,188.54
06/30/2034	8,245,564.28	-	8,245,564.28	7,735,253.16	510,311.12	447,345.08
06/30/2035	8,245,564.27	-	8,245,564.27	7,734,936.58	510,627.69	443,108.77
06/30/2036	8,245,564.26	-	8,245,564.26	7,734,697.80	510,866.46	438,828.09
	131,929,028.32	-7,125,881.18	124,803,147.14	117,166,761.61	7,636,385.53	7,056,050.83

Savings Summary

Dated Date	11/10/2020
Delivery Date	11/10/2020
PV of savings from cash flow	7,056,050.83
Net PV Savings	7,056,050.83

BOFA SECURITIES, INC.

RECEIPT OF BONDS BY UNDERWRITERS

Relating to

\$68,840,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020A (Federally Taxable)

\$25,470,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020B

November 10, 2020

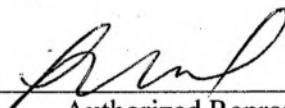
The undersigned, an authorized-representative of BofA Securities, Inc., on behalf of itself and as representative (the "Representative") of Citigroup Global Markets, Inc. and J.P. Morgan Securities LLC (collectively, the "Underwriters"), hereby acknowledges receipt from the City of Modesto, California (the "City") of the above-captioned bonds in the total aggregate principal amount of \$94,310,000 (the "Series 2020 Bonds") consisting of \$68,840,000 City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the "Series 2020A Bonds") and \$25,470,000 City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020B, and the receipt of all documents and opinions required to be delivered to the Underwriters, and the satisfaction of all other conditions to the Underwriters of the Series 2020 Bonds pursuant to the Bond Purchase Agreement, dated as of October 27, 2020, by and between the City and the Underwriters.

The undersigned hereby further acknowledges the receipt of, or waives the requirement for, each opinion, document and certificate required by the Bond Purchase Agreement, dated October 27, 2020, between the City and the Underwriters, and agrees that the Underwriters have received each such opinion, document and certificate and that each is satisfactory to the Underwriters as to form and substance or have waived the requirements therefor.

This receipt may be delivered by the delivery of signed signature pages by electronic means, facsimile transmission, or by e-mail with a PDF copy attached, and any printed or copied versions of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page. Signatures of this receipt made by electronic means shall be accompanied by an email, contemporaneous or otherwise, confirming the use of such means.

BOFA SECURITIES, INC.  
as Representative of the Underwriters

By: \_\_\_\_\_



Authorized Representative

\$68,840,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020A (Federally Taxable)

\$25,470,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020B

November 10, 2020

CERTIFICATE OF THE TRUSTEE

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as successor trustee (the “Trustee”), under that certain Wastewater Revenue Bond Indenture, dated as of April 1, 2005, as supplemented (as so supplemented, the “Indenture”), including as supplemented by the Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020, providing for the issuance of the City’s \$68,840,000 Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the “Series 2020A Bonds”) and \$25,470,000 Wastewater Revenue Refunding Bonds, Series 2020B (the “Series 2020B Bonds” and, collectively with the Series 2020A Bonds, the “Series 2020 Bonds”), each by and between the City and the Trustee, hereby certifies as follows:

(i) The Trustee is duly organized and existing as a national banking association in good standing under and by virtue of the laws of the United States of America, having the full power and authority and being qualified to enter into and perform its duties under the Indenture;

(ii) The Trustee is duly authorized to enter into and has duly and validly executed the Indenture, and the Indenture constitutes the legal, valid and binding agreement of the Trustee, enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and to the exercise of judicial discretion in appropriate cases;

(iii) The execution and delivery of the Indenture and compliance with the provisions on the Trustee’s part contained therein, will not 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 Trustee is a party or is otherwise subject (except that no representation, warranty or agreement is made with respect to any federal or state securities or Blue Sky laws or regulations), 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 held by the Trustee pursuant to the lien created by the Indenture under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument except as provided by the Indenture;

(iv) To the knowledge of the Trustee after due inquiry, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or governmental agency, public board or body served on the Trustee or threatened against the Trustee which in the reasonable judgment of the Trustee would affect the existence of the Trustee, or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the collection of the funds to be applied to pay the principal, premium, if any, and interest with respect to the Series 2020 Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Indenture or contesting the powers of the Trustee or its authority to enter into, adopt or perform its obligations under any of the foregoing, wherein an unfavorable decision, ruling, or find would materially adversely affect the validity or enforceability of the Indenture;

(v) Subject to the provisions of the Indenture and applicable law, the Trustee will apply the proceeds from the Series 2020 Bonds to the purposes specified in the Indenture; and

(vi) The Series 2020 Bonds have been validly authenticated by the Trustee.

This certificate may be delivered by the delivery of signed signature pages by electronic means, facsimile transmission, or by e-mail with a PDF copy attached, and any printed or copied versions of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page.


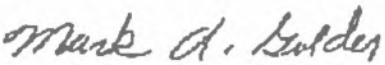

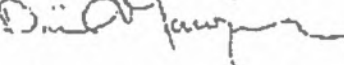

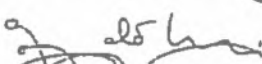
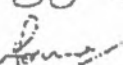
IN WITNESS WHEREOF, the undersigned has executed this Certificate of the Trustee as of the date first written above.

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A.

By:   
Authorized Officer

THE BANK OF NEW YORK MELLON TRUST COMPANY,  
NATIONAL ASSOCIATION

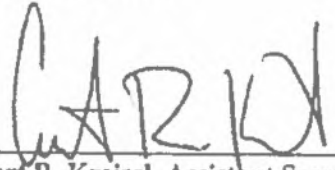
I, the undersigned, Curt R. Kreisel, Assistant Secretary of The Bank of New York Mellon Trust Company, National Association, a national banking association organized under the laws of the United States (the "Association") and located in the State of California, DO HEREBY CERTIFY that the following individuals are duly appointed and qualified Officers of the Association and that the signature appearing next to each officer listed is a true copy of the signature of such officer:

<u>Officer Name and Title</u>	<u>Signing Authority</u>	<u>Signature</u>
<u>Los Angeles, California (400 South Hope Street)</u>		
Fanny Chen Vice President	A, J, N	
Mark A. Golder Vice President	A, J, N	
Lisa Infusino Vice President	A, J, N	
Daniel Marroquin Vice President	A, J, N	
Gloria Ramirez Vice President	A, J, N	
Gonzalo Urey Vice President	A, J, N	
Deborah D. Young Vice President	A, J, N	

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, as amended through January 18, 2018, and the signing authority resolution, which has not been amended or revised since October 15, 2009, both of which 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 Mellon Trust Company, National Association this 16<sup>th</sup> day of July 2018.

  
Curt R. Kreisel, Assistant Secretary

**Extracts from By-Laws**  
of  
**The Bank of New York Mellon Trust Company, N.A.**  
**As Amended through January 18, 2018**

**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  
Adopted October 15, 2009

**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 \$500,000,000 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 \$500,000,000\*.

(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 \$500,000,000.

(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 in excess of \$100,000,000 but not to exceed \$500,000,000\*.

(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 \$100,000,000.

(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 \$10,000,000.

(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 \$5,000,000.

(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 \$1,000,000.

(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 \$250,000.

(C10) 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.

(C11) 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.

(P1) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in excess of \$10,000,000.

(P2) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to \$10,000,000.

(P3) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to \$5,000,000.

(P4) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to \$1,000,000.

(P5) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to \$250,000.

(P6) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to \$100,000.

(P7) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to \$50,000.

(P8) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to \$25,000.

(P9) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to \$10,000.

(P10) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to \$5,000.

(P11) Authority to approve the payment of valid expenses as incurred to meet the obligations of the Association, excluding salary and other employee directed benefit payments; in each case, in an amount up to \$3,000.

**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.

\$68,840,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020A (Federally Taxable)

\$25,470,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020B

November 10, 2020

CERTIFICATE OF THE MUNICIPAL ADVISOR

Resolution No. 2020-360, adopted by the City Council on September 1, 2020 (the “Resolution”), in connection with the above-captioned bonds (the “Series 2020 Bonds”) requires that the net present value savings resulting from the issuance of the Series 2020 Bonds are no less than 3% of the principal amount of the 2011 State Loan (as defined in the official statement with respect to the Series 2020 Bonds) being prepaid. As shown in Exhibit A hereto, the Series 2020 Bonds satisfy the foregoing Resolution requirement.

This certificate may be delivered by the delivery of signed signature pages by electronic means, facsimile transmission, or by e-mail with a PDF copy attached, and any printed or copied versions of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page. Signatures of this certificate made by electronic means shall be accompanied by an email, contemporaneous or otherwise, confirming the use of such means.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned has executed this Certificate of the Municipal Advisor as of the date first written above.

PFM FINANCIAL ADVISORS LLC

By:   
Authorized Representative

EXHIBIT A  
NET PRESENT VALUE SAVINGS

**SUMMARY OF REFUNDING RESULTS**

City of Modesto  
Wastewater Revenue Refunding Bonds  
Final Pricing Numbers

	Series 2020A (Federally Taxable)	Series 2020B (Tax-Exempt)	Total
Dated Date	11/10/2020	11/10/2020	11/10/2020
Delivery Date	11/10/2020	11/10/2020	11/10/2020
Arbitrage Yield	2.030451%	0.933089%	0.933089%
Escrow Yield	-	-	-
Value of Negative Arbitrage	-	-	-
Bond Par Amount	68,840,000.00	25,470,000.00	94,310,000.00
True Interest Cost	2.047822%	0.947112%	1.710501%
Net Interest Cost	2.068296%	1.117356%	1.812242%
All-In TIC	2.087071%	0.990351%	1.750761%
Average Coupon	2.052704%	5.000000%	2.846307%
Average Life	8.524	8.490	8.515
Weighted Average Maturity	8.524	8.515	8.515
Par amount of refunded bonds	71,564,629.58	35,248,250.40	106,812,879.98
Average coupon of refunded bonds	-	2.600000%	-
Average life of refunded bonds	-	8.102	-
Remaining weighted average maturity of refunded bonds	8.102	8.102	8.102
PV of prior debt	82,462,623.73	40,615,919.16	123,078,542.88
Net PV Savings	2,690,119.73	4,365,931.09	7,056,050.82
Percentage savings of refunded bonds	3.759007%	12.386235%	6.605992%
Percentage savings of refunding bonds	3.907786%	17.141465%	7.481763%



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November 10, 2020

City of Modesto  
Modesto, California

The Bank of New York Mellon Trust Company, N.A.  
San Francisco, California

\$68,840,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020A (Federally Taxable) and

\$25,470,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020B

Ladies and Gentlemen:

We have acted as bond counsel to the City of Modesto, California, (the “City”), a charter city and municipal corporation existing under the laws of the State of California (the “City”), in connection with the issuance by the City of its Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable), in the aggregate principal amount of \$68,840,000 (the “Series 2020A Bonds”), and its Wastewater Revenue Refunding Bonds, Series 2020B, in the aggregate principal amount of \$25,470,000 (the “Series 2020B Bonds” and together with the Series 2020A Bonds, the “Series 2020 Bonds”). The Series 2020 Bonds are being issued under and pursuant to (i) Section 200 of the Charter of the City of Modesto and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the “Bond Law”), and (ii) the Wastewater Revenue Bond Indenture, dated as of April 1, 2005, between the City and The Bank of New York Mellon Trust Company, N.A., successor trustee (the “Trustee”) to U.S. Bank National Association, as amended and supplemented (the “Indenture”), including as amended and supplemented by a Fifth Supplemental Indenture, dated as of November

1, 2020 (the “Fifth Supplemental Indenture”). The Series 2020 Bonds are being issued to provide funds to prepay the City’s outstanding revolving fund loan from the State of California Water Resources Control Board (“State Water Board”) issued in 2011 in the initial principal amount of \$127,157,943.06 (the “2011 State Loan”), of which \$106,812,879.98 is currently outstanding. Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Indenture.

In our capacity as bond counsel, we have reviewed the Charter of the City, the Bond Law, the Indenture, certifications of the City, the Trustee and others, opinions of the City Attorney and counsel to the Trustee, the Tax Certificate executed and delivered by the City in connection with the issuance of the Series 2020 Bonds (the “Tax Certificate”), a letter from the State Water Board addressed to the City, dated October 19, 2020 (the “State Letter”), and such other documents, certificates, opinions and matters of law as we have deemed necessary to enable us to render the opinions expressed herein. We have assumed, but have not verified, that the signatures on all documents, certificates and opinions that we have reviewed are genuine. In our examination, we have assumed, but have not verified, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies or by facsimile or other means of electronic transmission or which we obtained from sites on the internet, and the authenticity of the originals of such latter documents. As to facts and certain other matters and the consequences thereof relevant to the opinions expressed herein and the other statements made herein, we have relied without investigation or verification upon, and have assumed the accuracy, completeness and reasonableness of, certificates and letters (including opinion letters and the State Letter), and upon oral and written statements and representations of public officials, officers and other representatives of the City, the City Attorney and others. As to questions of fact material to the opinions in this letter, we have relied upon such certificates and documents without undertaking to verify the same by independent investigation.

Our services as bond counsel were limited to such examination and to rendering the opinions set forth below. Furthermore, we have assumed compliance with all covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Series 2020A Bonds to be included in gross income for federal tax purposes. With respect to the opinions expressed herein, we call attention to the fact that the enforceability of the rights and obligations under the Series 2020 Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against charter cities in the State of California. In addition, the imposition of certain fees and charges by the City relating to the Enterprise is subject to the provisions of Articles XIII C and XIII D of the California Constitution.

Based upon the foregoing and subject to the limitations and qualifications herein specified, as of the date hereof, we are of the opinion that, under existing law:

1. The Series 2020 Bonds constitute the valid and binding special limited obligations of the City.

2. The Series 2020 Bonds are payable exclusively from and are secured by a pledge of Net Revenues of the Enterprise and certain amounts pledged under the Indenture. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on the Series 2020 Bonds.

3. The Indenture has been duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the City. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Series 2020 Bonds, of the Net Revenues of the Enterprise, and certain other amounts held by the Trustee under the Indenture, as and to the extent set forth in the Indenture and subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

4. Additional bonds and other Parity Debt of the City have been, and may from time to time hereafter be, issued under the Indenture which are payable from Net Revenues on a parity basis with the Series 2020 Bonds.

5. Assuming compliance by the City with certain covenants in the Indenture, the Tax Certificate and other documents pertaining to the Series 2020A Bonds and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of proceeds of the Series 2020A Bonds and the timely payment of certain investment earnings to the United States, interest on the Series 2020A Bonds is not included in the gross income of the owners of the Series 2020A Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Series 2020A Bonds to be included in gross income retroactive to the date of issuance of the Series 2020A Bonds.

6. Interest on the Series 2020A Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax.

7. Interest on the Series 2020 Bonds is exempt from personal income taxes imposed by the State of California.

Other than as described herein, we have not addressed, and are not opining on, the tax consequences to any person of the investment in, or of the receipt or accrual of interest on, the Series 2020 Bonds. Further, certain requirements and procedures contained or referred to in the Indenture or in other documents pertaining to the Series 2020 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 effect of any change to any document pertaining to the Series 2020 Bonds or of any action taken or not taken where such

City of Modesto  
The Bank of New York Mellon Trust Company, N.A.  
November 10, 2020  
Page 4

change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the exclusion from gross income of the interest on the Series 2020A Bonds for federal income tax purposes.

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 the opinions in this letter in light of any such actions or events.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2020 Bonds.

The opinions in this letter are 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 may not be relied upon in any manner for any purposes by any other person.

Respectfully submitted,

*Norton Rose Fulbright US LLP*



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November 10, 2020

BofA Securities, Inc.  
as Representative of the Underwriters  
San Francisco, California

Re: \$68,840,000 City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) and \$25,470,000 City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020B

Ladies and Gentlemen:

We have acted as bond counsel to the City of Modesto (the “City”) in connection with the issuance, sale and delivery by the City of its \$68,840,000 aggregate principal amount of the City of Modesto, Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the “Series 2020A Bonds”) and its \$25,470,000 aggregate principal amount of the City of Modesto, Wastewater Revenue Refunding Bonds, Series 2020B (the “Series 2020B Bonds” and together with the Series 2020A Bonds the “Series 2020 Bonds”) issued pursuant to Section 200 of the City Charter and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the “Bond Law”) and a Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the “Master Indenture”), as previously supplemented and amended, and as supplemented and amended by the Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020, providing for the issuance of the Series 2020 Bonds, each by and between the City and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the “Trustee”). The Master Indenture as so supplemented is hereinafter referred to as the “Indenture.”

The Bonds are being sold on the date hereof by the City to BofA Securities, Inc., on behalf of itself and as representative (the “Representative”) of Citigroup Global Markets, Inc. and J.P. Morgan Securities LLC (collectively, the “Underwriters”), pursuant to a Bond Purchase Agreement dated October 27, 2020 (the “Bond Purchase Agreement”), between the City and the Underwriter. All capitalized terms used herein and not otherwise defined shall have the meaning ascribed to such terms in the Bond Purchase Agreement.

In our capacity as bond counsel, we have examined a certified copy of the record of proceedings relating to the execution and delivery of the Series 2020 Bonds and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation, and we have assumed, but did not independently verify, that the signatures on all documents and certificates that we reviewed are genuine.

Based upon the foregoing, we are of the opinion that:

(1) The statements contained in the Official Statement, dated October 27, 2020 (the “Official Statement”), with respect to the Series 2020 Bonds under the captions “THE SERIES 2020 BONDS,” “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS,” “TAX MATTERS (TAXABLE BONDS - SERIES 2020A),” “TAX MATTERS (TAX-EXEMPT BONDS – SERIES 2020B),” APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE,” APPENDIX D – “PROPOSED FORM OF OPINION OF BOND COUNSEL,” and APPENDIX E – “FORM OF CONTINUING DISCLOSURE AGREEMENT” taken together, to the extent they expressly purport to summarize certain provisions of the Indenture, the Series 2020 Bonds, the Continuing Disclosure Agreement and our final approving opinion concerning certain tax matters relating to the Series 2020 Bonds, fairly and accurately summarize the information presented therein in all material respects; provided that we are not expressing any opinion with respect to any financial, statistical or numerical information presented in the Official Statement.

(2) The Bond Purchase Agreement has been duly authorized, executed and delivered by the City, and assuming due authorization, execution and delivery by the Underwriter, constitutes the legal, valid and binding agreement of the City enforceable in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, fraudulent conveyance or other laws affecting the enforcement of creditors’ rights generally and equitable remedies if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and limitations on legal remedies against public agencies in the State of California, and except as the enforceability of the indemnification or waiver provisions may be limited by applicable securities laws or public policy.

(3) The Series 2020 Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, the Series 2020 Bonds are municipal securities within the meaning of the Securities Exchange Act of 1934, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

We have this day released to the City our final approving opinion concerning certain tax matters relating to the Series 2020 Bonds. The foregoing opinion may be relied upon by you to the same extent as if such opinion were addressed to you.

This letter is delivered to you as Underwriters of the Series 2020 Bonds and is solely for your benefit 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 Series 2020 Bonds.

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,

*Norton Rose Fulbright US LLP*



Norton Rose Fulbright US LLP  
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November 10, 2020

The Bank of New York Mellon Trust Company, N.A.  
San Francisco, California

City of Modesto  
Modesto, California

Re: \$68,840,000 City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) and \$25,470,000 City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020B

Ladies and Gentlemen:

We have acted as bond counsel to the City of Modesto, California, a charter city and municipal corporation existing under the laws of the State of California (the “City”), in connection with the issuance by the City of its Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable), in the aggregate principal amount of \$68,840,000 (the “Series 2018A Bonds”) and its Wastewater Revenue Refunding Bonds, Series 2020B in the aggregate principal amount of \$25,470,000 (the “Series 2020B Bonds” and together with the Series 2020A Bonds the “Series 2020 Bonds”). The Series 2020 Bonds are being issued under and pursuant to Section 200 of the City Charter and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the “Bond Law”) and a Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the “Master Indenture”), as previously supplemented and amended, and as supplemented and amended by the Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020, providing for the issuance of the Series 2020 Bonds, each by and between the City and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the “Trustee”). The Master Indenture as so supplemented is hereinafter referred to as the “Indenture.” The Series 2020 Bonds are being issued to provide funds to prepay the City’s outstanding revolving fund loan (the “2011 State Loan”) of which \$106,812,879.98 is currently outstanding from the State of California Water Resources Control Board (“State Water Board”) which was entered into pursuant to a Project Finance Agreement (the “Project Finance Agreement”) originally executed on October 4, 2011, as amended. The City has provided written direction (the “Written Direction”) to the Trustee to prepay the 2011 State Loan on the date hereof. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In our capacity as bond counsel, we have examined a certified copy of the proceedings relating to the issuance of the Series 2020 Bonds and such other documents and instruments as we

deemed necessary to render the opinions set forth herein, including the Indenture, the Project Finance Agreement, data and computations prepared by BofA Securities, Inc., as representative of the underwriters of the Series 2020 Bonds (the “Representative”) and the closing certificates executed by the City and the Trustee. We have not verified the accuracy of the data and computations prepared by the Representative.

This opinion is being rendered pursuant to Section 6(d)(5) of the Bond Purchase Agreement between the Underwriter and the City, dated October 27, 2020, and the requirements of the Indenture.

We have assumed, but have not verified, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies or by facsimile or other means of electronic transmission or which we obtained from sites on the internet, and the authenticity of the originals of such latter documents.

As to facts and certain other matters and the consequences thereof relevant to the opinions expressed herein and the other statements made herein, we have relied without investigation or verification upon, and assumed the accuracy and completeness of, certificates, letters (including opinion letters), and oral and written statements and representations of public officials, officers and other representatives of the City, the City Attorney and others.

Based on and subject to the foregoing, we are of the opinion that:

- (1) The prepayment of the 2011 State Loan is authorized by and complies with the conditions and terms of the Project Finance Agreement;
- (2) The deposit of moneys with the Trustee to prepay the 2011 State Loan is authorized by and complies with the conditions and terms of the Indenture; and
- (3) Upon prepayment in full, the 2011 State Loan shall no longer be outstanding Parity Debt for purposes of the Indenture.

We have assumed that all other sums payable by the City under the Project Finance Agreement have been paid and that all other obligations of the City under the Project Finance Agreement have been met. We have also assumed that the 2011 State Loan will be prepaid by the Trustee in accordance with the Written Direction of the City.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

The Bank of New York Mellon Trust Company, N.A.  
City of Modesto  
November 10, 2020  
Page 3

 NORTON ROSE FULBRIGHT

This letter is furnished by us as bond counsel to the City. No attorney-client relationship has existed or exists between our firm and you (other than the City) in connection with the Series 2020 Bonds or by virtue of this letter. This letter is being delivered to you solely for your benefit and may not be used, circulated, quoted, or otherwise referred to for any other purpose, or relied upon by anyone else without our prior written consent.

Respectfully submitted,

*Norton Rose Fulbright US LLP*



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November 10, 2020

City of Modesto,  
Modesto, California

BofA Securities, Inc.  
as Representative of the Underwriters  
San Francisco, California

Re: \$68,840,000 City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) and \$25,470,000 City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020B

Ladies and Gentlemen:

We have acted as disclosure counsel to the City of Modesto (the “City”) in connection with the issuance, sale and delivery by the City of its \$68,840,000 aggregate principal amount of the City of Modesto, Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the “Series 2020A Bonds”) and its \$25,470,000 aggregate principal amount of the City of Modesto, Wastewater Revenue Refunding Bonds, Series 2020B (the “Series 2020B Bonds” and together with the Series 2020A Bonds the “Series 2020 Bonds”) issued pursuant to Section 200 of the City Charter and the City of Modesto Wastewater Treatment Facilities Revenue Bond Law, constituting Chapter 6 of Title VIII of the Modesto Municipal Code (the “Bond Law”) and a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, as previously supplemented and amended, and as supplemented and amended by the Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (such indenture, as so supplemented and amended, the “Indenture”), providing for the issuance of the Series 2020 Bonds, each by and between the City and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the “Trustee”).

The Series 2020 Bonds are being sold on the date hereof by the City to BofA Securities, Inc., on behalf of itself and as representative (the “Representative”) of Citigroup Global Markets, Inc. and J.P. Morgan Securities LLC (collectively, the “Underwriters”), pursuant to a Bond Purchase Agreement dated October 27, 2020 (the “Bond Purchase Agreement”), between the City and the Underwriters. This opinion is being rendered pursuant to Section 6(d)(7) of the Bond Purchase Agreement. All capitalized terms used herein and not otherwise defined shall have the meaning ascribed to such terms in the Bond Purchase Agreement, or if not defined therein, in the Indenture.

We have reviewed, among other documents, the Preliminary Official Statement dated October 15, 2020 relating to the Series 2020 Bonds (the “Preliminary Official Statement”), the Official Statement dated October 27, 2020 relating to the Series 2020 Bonds (the “Official Statement”), certificates of the City, the Trustee and others, the opinions referred to in the Bond

Purchase Agreement and such other records, opinions and documents, and we have made such investigations of law and fact, as we have deemed appropriate as a basis for the conclusions hereinafter expressed.

In arriving at the conclusions hereinafter expressed, we are not expressing any opinion or view on, and with your permission are assuming and relying on, the validity, accuracy and sufficiency of the records, documents, certificates and opinions referenced above (including the accuracy of all factual matters represented and legal conclusions contained therein). We have assumed that all records, documents, certificates and opinions that we have reviewed, and the signatures thereto, are genuine.

The conclusions expressed herein are limited to matters governed by the federal securities law of the United States, and we assume no responsibility with respect to the applicability or effect of the laws of any other jurisdiction.

In our capacity as Disclosure Counsel, we have rendered certain legal advice and assistance to the City in connection with the preparation of the Preliminary Official Statement and the Official Statement. Rendering such legal advice and assistance involved, among other things, discussions and inquiries concerning various legal matters, review of certain records, documents and proceedings, and participation in meetings and telephonic conferences with, among others, representatives of the City, the City Attorney, PFM Financial Advisors LLC as municipal advisor, the Underwriter, and Nixon Peabody LLP, as counsel to the Underwriters, at which meetings and during which telephonic conferences the contents of the Preliminary Official Statement and the Official Statement and related matters were discussed. On the basis of the information made available to us in the course of the foregoing (but without having undertaken to determine or verify independently, or assuming any responsibility for, the accuracy, completeness or fairness of any of the statements contained in the Preliminary Official Statement or the Official Statement), no facts have come to the attention of the personnel in our firm directly involved in rendering legal advice and assistance to the City in connection with the preparation of the Preliminary Official Statement and the Official Statement which cause us to believe that (a) the Preliminary Official Statement as of its date or as of October 27, 2020 (excluding therefrom financial, demographic and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; statements relating to DTC, Cede & Co. and the operation of the book-entry system; and the statements contained in Appendices B and F to the Preliminary Official Statement; as to all of which we express no view) contained any untrue statement of a material fact or omitted 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, except for such information as is permitted to be excluded from the Preliminary Official Statement pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934, as amended, including but not limited to information as to pricing, yields, interest rates, maturities, amortization, redemption provisions, ratings, debt service requirements, Underwriters' discount and CUSIP numbers, or (b) the Official Statement as of its date or as of the date hereof (excluding therefrom financial, demographic and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; statements relating to

DTC, Cede & Co. and the operation of the book-entry system; and the statements contained in Appendices B and F to the Official Statement; as to all of which we express no view) 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.

During the period from the date of the Official Statement to the date of this opinion, except for our review of the certificates and opinions regarding the Preliminary Official Statement and the Official Statement delivered on the date hereof, we have not undertaken any procedures or taken any actions which were intended or likely to elicit information concerning the accuracy, completeness or fairness of any of the statements contained in the Preliminary Official Statement or the Official Statement.

We are furnishing this letter to the City and the Underwriters as Disclosure Counsel to the City, and not as counsel to the Underwriters. The provision of this opinion to the Underwriters shall not create any attorney-client relationship between our firm and the Underwriters. This letter is delivered in connection with the transaction described herein and may not be relied upon by you for any other purpose. This letter shall not extend to, and may not be used, circulated, quoted or otherwise referred to or relied upon by, any other person, firm, corporation or other entity, or filed with any governmental or other administrative agency for any purpose, without our prior written consent. Our engagement with respect to this matter terminates upon the delivery of this letter to you at the time of the closing relating to the Series 2020 Bonds, and we have no obligation to update this letter.

Respectfully submitted,

*Norton Rose Fulbright US LLP*



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Jose M. Sanchez  
Attorney at Law  
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November 10, 2020

City Council of the City of Modesto  
Modesto, California

BofA Securities, Inc.  
San Francisco, California

**Re:** \$68,840,000 City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) and \$25,470,000 City of Modesto, California Wastewater Revenue Refunding Bonds, Series 2020B

Ladies and Gentlemen:

I am the City Attorney for the City of Modesto, California (the “City”). This opinion is rendered relating to the sale of \$68,840,000 aggregate principal amount of the City of Modesto, Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the “Series 2020A Bonds”) and of \$25,470,000 aggregate principal amount of the City of Modesto, Wastewater Revenue Refunding Bonds, Series 2020B (the “Series 2020B Bonds”) and together with the Series 2020A Bonds the “Series 2020 Bonds”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Official Statement, dated October 27, 2020 relating to the Series 2020 Bonds (the “Official Statement”) or the Bond Purchase Agreement, dated October 27, 2020 (the “Bond Purchase Agreement”), by and between the City and BofA Securities, Inc., on behalf of itself and as representative (the “Representative”) of Citigroup Global Markets, Inc. and J.P. Morgan Securities LLC (collectively, the “Underwriters”).

In rendering this opinion, I have examined the following documents: (i) Resolution No. 2020-360, adopted by the City Council of the City on September 1, 2020 (the “Resolution”); (ii) (a) the Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the “Master Indenture”), as supplemented by (b) the First Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the “First Supplement”), (c) the Second Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2005 (the “Second Supplement”), (d) the Third Supplemental Wastewater Revenue Bond Indenture, dated as of December 1, 2006 (the “Third Supplement”), (e) the Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of April 1, 2018 (the “Fourth Supplement”), and (f) the

Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the “Fifth Supplement”) and, together with the Master Indenture, the First Supplement, the Second Supplement, the Third Supplement and the Fourth Supplement, the “Indenture”), providing for the issuance of the Series 2020 Bonds, each by and between the City and The Bank of New York Mellon Trust Company, N.A., as successor trustee; (iii) the Disclosure Dissemination Agent Agreement, dated as of November 10, 2020 (the “Disclosure Agreement”), by and between the City and Digital Assurance Certification, L.L.C., as dissemination agent; (iv) the Bond Purchase Agreement; (v) the Official Statement and (vi) such other documents and instruments, including certificates of public officials, and have made such investigations of law and of fact as I have deemed necessary or appropriate for the purpose of rendering the opinions set forth herein.

Based on the foregoing, I am of the opinion that:

(1) The City is a charter city and municipal corporation, duly organized and validly existing under the Constitution and the laws of the State of California (the “State”);

(2) The Resolution approving and authorizing the execution and delivery of the Series 2020 Bonds, the Bond Purchase Agreement and the Indenture (collectively, the “City Documents”) and approving the Official Statement, was duly adopted at a meeting of the City Council 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 Resolution is in full force and effect and has not been modified, amended or rescinded;

(3) The City Documents have been duly authorized, executed and delivered by the City and constitute the legal, valid and binding agreements of the City enforceable against the City in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization moratorium or similar laws or equitable principles relating to or limiting creditors’ rights generally, the application of equitable principles if equitable remedies are sought, the exercise of judicial discretion in appropriate cases, and the limitations on legal remedies against cities in the State;

(4) To the best of my knowledge, the execution and delivery by the City of the City Documents, and compliance by the City with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute a breach of or default under any law, administrative regulation, court decree, resolution, or agreement to which the City is subject to or by which it is bound;

(5) To the best of my knowledge, the Preliminary Official Statement and the Official Statement (excluding therefrom financial statements and other statistical data included in the Preliminary Official Statement and the Official Statement, and any information provided by the Underwriters or with respect to DTC and the book-entry only system, as to which no view 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 therein, in the light of the circumstances under which they were made, not misleading;

(6) The rates, fees and charges for the services provided by the City with respect to the Enterprise have been established in a manner that complies in all material respects with the applicable requirements of Articles XIII C and XIII D of the California Constitution and other applicable laws of the State;

(7) except as otherwise disclosed in the Preliminary Official Statement and the Official Statement, to the best knowledge of such counsel after reasonable investigation, there is no litigation, proceeding, action, suit, or investigation at law or in equity before or by any court, governmental agency or body, pending or, to the best knowledge of such counsel after due investigation, threatened against the City, challenging the creation, organization or existence of the City, or the validity of the City Documents or seeking to restrain or enjoin the City's obligations under the City Documents or in any way contesting or affecting the validity of the City Documents or any of the transactions referred to therein or contemplated thereby or contesting the authority of the City to enter into or perform its obligations under any of the City Documents, or under which a determination adverse to the City would have a material adverse effect upon the financial condition or the revenues of the City, or which, in any manner, questions or affects the right or ability of the City to enter into the City Documents or affects in any manner the right or ability of the City to pay debt service on the Series 2020 Bonds; and

(8) 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, and delivery by the City of the City Documents.

This opinion is based on such examination of the laws of the State of California as I have deemed relevant for the purposes of this opinion. I have not considered the effect, if any, of the laws of any other jurisdiction upon matters covered by this opinion. I have assumed the genuineness of all documents and signatures, presented to me. I have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in such documents. I express no opinion as to the status of the Series 2020 Bonds, the interest thereon or the City Documents under any federal securities laws or any state securities or "Blue Sky" law or any federal, state or local tax law. Without limiting any of the foregoing, I express no opinion as to any matter other than as expressly set forth above.

I am furnishing this opinion as City Attorney to the City. Except for the City, no attorney-client relationship has existed or exists between me and the addressees hereof in connection with the Bonds or by virtue of this opinion. I disclaim any obligation to update this opinion. This opinion is furnished to you solely in connection with the Series 2020 Bonds for your benefit and we are 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,

A handwritten signature in blue ink, appearing to read 'J. Sanchez', with a long horizontal flourish extending to the right.

Jose M. Sanchez  
Attorney at Law

3625369.2

LAW OFFICES OF  
**SAMUEL D. WALDMAN**

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November 10, 2020

City of Modesto  
Modesto, California

BofA Securities, Inc.  
On behalf of itself and as representative of  
Citigroup Global Markets, Inc.  
J.P. Morgan Securities LLC  
San Francisco, California

Re: \$68,840,000 City of Modesto, California Wastewater Revenue Refunding Bonds,  
Series 2020A (Federally Taxable)

\$25,470,000 City of Modesto, California Wastewater Revenue Refunding Bonds,  
Series 2020B

Ladies and Gentlemen:

I have acted as special counsel to The Bank of New York Mellon Trust Company, N.A. (“BNY”) acting as successor trustee under that certain Wastewater Revenue Bond Indenture, dated as of April 1, 2005, by and between the City of Modesto (the “City”) and BNY, as amended and supplemented from time to time, including as amended and supplemented by a Fifth Supplemental Wastewater Revenue Bond Indenture (the “Fifth Supplemental Indenture”), dated as of November 1, 2020, by and between the City and BNY (as so amended and supplemented, the “Indenture”), with regard to the above-referenced bonds (the “Bonds”). Except as set forth herein, capitalized terms used in this opinion letter are defined as set forth in the Indenture.

In my capacity as counsel to BNY, I have examined originals or copies identified to my satisfaction of: (i) the Articles of Association and By-Laws of BNY, (ii) the Indenture, and (iii) such other records, certificates and documents as I have considered necessary or appropriate for

City of Modesto  
BofA Securities, Inc.  
On behalf of itself and as representative of  
Citigroup Global Markets, Inc.  
J.P. Morgan Securities LLC  
November 10, 2020  
Page 2

the purpose of the opinion hereinafter rendered.

In rendering this opinion, I have relied upon the facts and information obtained from the records of BNY, officers of BNY, and other sources believed by me to be reliable, and have not undertaken to independently verify the accuracy of the factual matters represented, warranted, or certified in such documents. I have assumed the genuineness of all signatures other than the BNY's, the authenticity of documents, certificates and records submitted to me as originals, the conformity to the originals of all documents, certificates and records submitted to me as copies, the legal capacity of all natural persons executing documents other than BNY, and the completeness and accuracy as of the date of this opinion letter of the factual matters in such documents, certificates and records, which assumptions I have not independently verified. The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions.

Based upon and subject to the foregoing and subject to the qualifications set forth below, I am of the opinion that:

- (i) BNY is a national banking association, duly organized and validly existing under the laws of the United States of America, having full power to enter into, accept and administer the trusts created under the Indenture;
- (ii) the Fifth Supplemental Indenture has been duly authorized, executed and delivered by BNY, and assuming due authorization, execution and delivery by the City, the Indenture constitutes the legal, valid and binding obligation of BNY, enforceable in accordance with its terms, except as such enforcement thereof may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance, and other similar laws affecting the rights and remedies of creditors generally, and by the effect of general principles of equity, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, whether considered in a proceeding at law or in equity;
- (iii) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over BNY that has not been obtained is or will be required for the execution and delivery of the Fifth Supplemental

City of Modesto  
BofA Securities, Inc.  
On behalf of itself and as representative of  
Citigroup Global Markets, Inc.  
J.P. Morgan Securities LLC  
November 10, 2020  
Page 3

Indenture, or the consummation of the transactions contemplated by the Indenture; and

- (iv) the above-referenced Bonds have been duly authenticated by BNY and delivered in accordance with the Indenture and are entitled to the benefits of the Indenture.

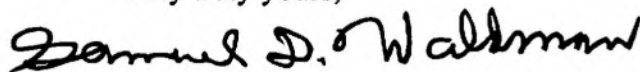
I express no opinion as to any matter other than as expressly set forth above, and, in conjunction therewith, I specifically express no opinion as to the status of the Bonds or the interest thereon under any federal securities laws, including but not limited to the Securities Act of 1933, as amended, and the Trust Indenture Act of 1939, as amended, or any state securities or "Blue Sky" law, or any federal, state or local tax law.

This opinion is as of the date hereof, and I have undertaken no, and hereby disclaim any, obligation to advise you of any change in any matter set forth herein even though the changes may affect a legal analysis or conclusion in this opinion letter. Further, this opinion neither implies, nor should it be viewed to imply, an approval or recommendation of any investment in any Bond.

I express no opinion as to the effect of any law other than the law of California and the federal laws of the United States of America on the matters referred to herein, in each case as they exist on the date hereof. I express no opinion with respect to the laws, regulations, or ordinances of any county, municipal or other local governmental agency.

This opinion is furnished by me solely for your benefit. This opinion letter may be relied upon by you only in connection with the transaction described in the initial paragraph of this opinion letter and may not be used or relied upon by you for any other purpose or by any other person for any purpose whatsoever without, in each instance, my prior written consent.

Very truly yours,



Samuel D. Waldman



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ATTORNEYS AT LAW

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November 10, 2020

BofA Securities, Inc.,  
as Representative of the Underwriters  
San Francisco, California

*Re: \$283,470,000 City of Modesto, California Water Revenue Refunding Bonds,  
Series 2020A (Green Bonds) (Federally Taxable)*

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Ladies and Gentlemen:

We have acted as counsel to you in connection with the execution and delivery of a Bond Purchase Agreement, dated October 27, 2020 (the “Bond Purchase Agreement”), by and between the City of Modesto, California (the “City”) and BofA Securities, Inc., on behalf of itself and as representative (the “Representative”) of Loop Capital Markets LLC and Samuel A. Ramirez & Co., Inc., the underwriters (collectively, the “Underwriters”), relating to the purchase and sale of \$283,470,000 City of Modesto, California Water Revenue Refunding Bonds, Series 2020A (Green Bonds) (Federally Taxable) (the “Bonds”). The Bonds have been authorized pursuant to a resolution adopted by the City Council of the City on September 1, 2020 (the “Resolution”). The Bonds are being issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2005, as amended and supplemented, by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), including by a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the “Fifth Supplemental Indenture”), by and between the City and the Trustee. Capitalized terms not otherwise defined herein have the meanings ascribed thereto in the Bond Purchase Agreement.

In connection with such representation, we have reviewed such records, opinions, certificates and documents of the City, among others, including the Fifth Supplemental Indenture and a Continuing Disclosure Agreement, dated as of November 10, 2020 (the “Continuing Disclosure Agreement”), as well as a Preliminary Official Statement, dated October 15, 2020 (the “Preliminary Official Statement”), and an Official Statement, dated October 27, 2020 (the “Official Statement”), pursuant to which the Bonds were offered, and we have made such investigations of law as we have deemed appropriate for the conclusions hereinafter expressed.

On the basis of the foregoing and in reliance thereon, we are of the opinion that the Bonds are exempt from registration under the Securities Act of 1933, as amended, and the Fifth Supplemental Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended.

In addition, based on the foregoing, we are of the opinion that the undertaking by the City pursuant to the Continuing Disclosure Agreement satisfies the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission (“Rule 15c2-12”).

We are not passing on and have not undertaken to determine independently or assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Preliminary Official Statement and the Official Statement, and we make no representation to you concerning the accuracy, completeness or fairness of such statements. However, on the basis of our conferences and discussions with representatives of the City, the City’s municipal advisor, Bond Counsel, Disclosure Counsel and yourselves, during which the contents of the Preliminary Official Statement and the Official Statement and related matters were discussed, and on the basis of our examination of the documents and matters referred to above, nothing has come to the attention of the attorneys in our firm rendering legal services in connection with the issuance of the Bonds that caused us to believe that the Preliminary Official Statement, as of its date and as of the date of sale of the Bonds, or the Official Statement, as of its date and as of the date hereof (except, in the case of the Preliminary Official Statement, the omissions therefrom permitted under Rule 15c2-12, and, in the case of each of the Preliminary Official Statement and the Official Statement, for any CUSIP data, financial, statistical, engineering, economic or demographic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinions, maps or any information about book-entry or DTC, the information contained in all of the Appendices, the information under the captions “TAX MATTERS (TAXABLE BONDS - SERIES 2020A,” “TAX MATTERS (TAX-EXEMPT BONDS - SERIES 2020B) and “UNDERWRITING,” or the information relating to the pricing of the Bonds set forth on the inside cover thereof, as to which, with your permission, we express no opinion or view), 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 therein, in the light of the circumstances under which they were made, not misleading.

In this connection, however, we must advise you that the limitations inherent in the examination made by us and the knowledge available to us are such that we are unable to assume, and do not assume, any responsibility for, nor have we independently verified, the accuracy, completeness or fairness of the statements contained in the Preliminary Official Statement and the Official Statement. We further advise you that during the period from the date of the Official Statement to the date of this opinion, except for our review of the certificates and opinions regarding the Preliminary Official Statement and the Official Statement delivered on the date hereof, we have not undertaken any procedures or taken any actions which were intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in the Preliminary Official Statement and the Official Statement.

BofA Securities, Inc.,  
as Representative of the Underwriters  
November 10, 2020  
Page 3

NIXON PEABODY LLP  
ATTORNEYS AT LAW

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In rendering our opinion, we are expressing no opinion on the validity of the Bonds or the exemption of interest on the Bonds from State of California personal income taxes. We understand you are relying on the opinion of Bond Counsel in that regard.

This opinion letter is rendered pursuant to the Bond Purchase Agreement solely to and for the benefit of the persons to whom it is addressed in connection with the matter described above; accordingly, it may not be quoted or otherwise delivered to or relied upon by any other person (including, without limitation, any person who acquires the Bonds from the persons to whom this letter is addressed) or used for any other purpose without our prior written consent. Our engagement with respect to this matter does not extend beyond the date hereof, and we disclaim any obligation to update this letter.

Very truly yours,

Nixon Peabody LLP

**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

Submitted: Monday, July 27, 2020

5:22:26PM

Your completion and submittal of this on-line form assures 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.

**ISSUER NAME:** City of Modesto, California

**ISSUE NAME:** Wastewater Revenue Refunding Bonds, Series 2020

**PROJECT NAME:** Wastewater Revenue Refunding Bonds, Series 2020

**PROPOSED SALE DATE:** 9/14/2020

**PRINCIPAL TO BE SOLD:** \$110,000,000.00

WILL A VALIDATION ACTION BE PURSUED:  No  Yes  Unknown

IS DEBT REPAYABLE IN NON-US CURRENCY:  No  Yes  Unknown

**Issuance Authorization #1**

Original Amount: \$110,000,000.00

Authorization Date: 9/1/2020

Name: Resolution No. XX

Reduced: \$110,000,000.00

Replenished \$0.00 Net (\$110,000,000.00)

**Issuance Authorization #2**

Original Amount: \$0.00

Authorization Date:

Name:

Reduced: \$0.00

Replenished \$0.00 Net: \$0.00

Statutory Code Under which this debt will be issued (1): Other City Charter

Statutory Code Under which this debt will be issued (2):

**IS ANY PORTION OF THE DEBT TO REFUND?**

No  Yes --- Amount proposed for refunding \$109,127,159.00

**IS ANY PORTION OF THE DEBT TO REDEEM, PAYDOWN, OR REFINANCE OUTSTANDING DEBT?**

No  Yes --- Amount proposed for redemption, paydown, or refinancing \$109,127,159.00

**Issuer Contact**

Name: DeAnna Christensen

E-Mail: dachristensen@modestogov.com

Title: Acting Director of Finance

Address: 1010 10th Street P.O. Box 642

City: Modesto, CA 95353

Phone: 209 5575369

ISSUER LOCATED IN Stanislaus COUNTY

**Filing Contact**

Name of Individual representing Bond Counsel

who completed this form and maybe contacted for information:

Name: Dave Sanchez

E-Mail: dave.sanchez@nortonrosefulbright.com

Firm/ Agency: Norton Rose Fulbright US LLP

Address: 555 California Street, Suite 3300

City: San Francisco, CA 94104  
628 2316805

Phone: Send acknowledgement to: Melanie King

E-Mail: melanie.king@nortonrosefulbright.com

**Financing Participants**

BOND COUNSEL: Norton Rose Fulbright US LLP

BORROWER COUNSEL (LOAN) (Not Obligor Counsel):

FINANCIAL ADVISOR:

UNDERWRITER: BofA Securities, Inc.

DISCLOSURE COUNSEL: Norton Rose Fulbright US LLP

PURCHASER:

LENDER:

LESSOR:

**IS THE INTEREST ON THE DEBT TAXABLE?**

Under State Law:  YES (taxable)  NO (tax-exempt)

Under Federal Law:  YES (taxable)  NO (tax-exempt)

If the issue is federally tax-exempt, is interest a specific preference item for the purpose of alternative minimum

**TYPE OF SALE**  Competitive  Negotiated  YES, preference item  NO, not a preference item

**IS THIS FINANCING A PRIVATE PLACEMENT?**  No  Yes

**ISSUER CERTIFIES THAT IT HAS COMPLIED WITH GC SECTION 8855 (I) WITH RESPECT TO LOCAL DEBT POLICIES:**  No  Yes  N/A

**TYPE OF DEBT INSTRUMENT**

- NOTE**
- Bond anticipation (BAN)
  - Grant anticipation (GAN)
  - Loan from bank / other institution (LOAN)
  - Other note (Please specify below.) (OTHN)
  - Revenue anticipation (RAN)
  - Tax allocation (TALN)
  - Tax and revenue anticipation (TRAN)
  - Tax anticipation (TAN)
  - Marks-Roos Authority Loan (MKRL)
  - Commercial paper (CP)
  - Conduit Revenue Note (Private Obligor) (CRN)
  - Certificates of Participation (COPL)
  - Capital Lease (CL)
  - State Agency Loan (STAL)
  - Other (Please specify below.) (OTH)

- Bond**
- Conduit revenue (CRB)
  - General obligation (GOB)
  - Limited tax obligation (LTOB)
  - Other bond (Please specify below.) (OTHB)
  - Pension Obligation (POB)
  - Public lease revenue (PLRB)
  - Rate Reduction (GC 6588.7) (RRB)
  - Revenue (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 obligor (LOB)
- Private obligor payments (POP)
- Other (OTHS)

- Property tax revenues (PRTX)
- Public enterprise revenues (PER)
- Sales tax revenues (SATR)
- Special assessments (SA)
- Special tax revenues (SPTR)
- Tax-increment (TI)
- Utility Project Charges (UPC)

Please specify if "Other" was checked.

**PURPOSE(S) OF FINANCING**

Showing 1st 5:

**Percent**

WSTW 100

Please specify type/name of project if different from above.

1 Section 8855(i) of the California Government Code requires the issuer of any proposed new public debt issue to give written notice of the proposed sale to CDIAC no later than 30 days prior to the sale. Under California Government Code Section 8855(i), the issuer of any debt issue shall, not later than 21 days after the sale of the debt, submit a report of final sale and the official statement (or alternate financing documents) to the Commission. The Commission may require information to be submitted in the report that it considers 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 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.

3 In accordance with 8855(i) of the California Government code.

**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

Submitted: Thursday, November 05, 2020

4:05:44PM

Your completion and submittal of this on-line form assures 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.

**ISSUER NAME:** City of Modesto  
**ISSUE NAME:** Revenue Refunding Bonds Series 2020B

**PROJECT NAME:** Wastewater

**PROPOSED SALE DATE:** 10/27/2020

**PRINCIPAL TO BE SOLD:** \$25,470,000.00

WILL A VALIDATION ACTION BE PURSUED:  No  Yes  Unknown

IS DEBT REPAYABLE IN NON-US CURRENCY:  No  Yes  Unknown

**Issuance Authorization #1**

Original Amount: \$110,000,000.00

Authorization Date: 9/1/2020

Name: Resolution No. 2020-36

Reduced: \$25,470,000.00

Replenished \$0.00 Net (\$25,470,000.00)

**Issuance Authorization #2**

Original Amount: \$0.00

Authorization Date:

Name:

Reduced: \$0.00

Replenished \$0.00 Net: \$0.00

Statutory Code Under which this debt will be issued (1): Other City Charter

Statutory Code Under which this debt will be issued (2):

**IS ANY PORTION OF THE DEBT TO REFUND?**

No  Yes --- Amount proposed for refunding \$25,470,000.00

**IS ANY PORTION OF THE DEBT TO REDEEM, PAYDOWN, OR REFINANCE OUTSTANDING DEBT?**

No  Yes --- Amount proposed for redemption, paydown, or refinancing \$25,470,000.00

**Issuer Contact**

Name: DeAnna Christensen

E-Mail: dachristensen@modesto.gov

Title: Director of Finance

Address: 1010 10th Street PO Box 642

City: Modesto, CA 95353

Phone: 209 5775369

ISSUER LOCATED IN Stanislaus COUNTY

**Filing Contact**

Name of Individual representing Bond Counsel

who completed this form and maybe contacted for information:

Name: Dave Sanchez

E-Mail: dave.sanchez@nortonrosefulbright.com

Firm/ Agency: Norton Rose Fulbright US LLP

Address: 555 California Street Suite 3300

City: San Francisco, CA 94104  
628 2316805

Phone: Krystal Sandoval

E-Mail: krystal.sandoval@nortonrosefulbright.com

**Financing Participants**

BOND COUNSEL: Norton Rose Fulbright US LLP

BORROWER COUNSEL (LOAN) (Not Obligor Counsel):

FINANCIAL ADVISOR: PFM Financial Advisors

UNDERWRITER: BofA Securities

DISCLOSURE COUNSEL:

PURCHASER:

LENDER:

LESSOR:

**IS THE INTEREST ON THE DEBT TAXABLE?**

Under State Law:  YES (taxable)  NO (tax-exempt)

Under Federal Law:  YES (taxable)  NO (tax-exempt)

If the issue is federally tax-exempt, is interest a specific preference item for the purpose of alternative minimum

**TYPE OF SALE**  Competitive  Negotiated  YES, preference item  NO, not a preference item

**IS THIS FINANCING A PRIVATE PLACEMENT?**  No  Yes

**ISSUER CERTIFIES THAT IT HAS COMPLIED WITH GC SECTION 8855 (I) WITH RESPECT TO LOCAL DEBT POLICIES:**  No  Yes  N/A

**TYPE OF DEBT INSTRUMENT**

- NOTE**
- Bond anticipation (BAN)
  - Grant anticipation (GAN)
  - Loan from bank / other institution (LOAN)
  - Other note (Please specify below.) (OTHN)
  - Revenue anticipation (RAN)
  - Tax allocation (TALN)
  - Tax and revenue anticipation (TRAN)
  - Tax anticipation (TAN)
  - Marks-Roos Authority Loan (MKRL)
  - Commercial paper (CP)
  - Conduit Revenue Note (Private Obligor) (CRN)
  - Certificates of Participation (COP)
  - Capital Lease (CL)
  - State Agency Loan (STAL)
  - Other (Please specify below.) (OTH)

- Bond**
- Conduit revenue (CRB)
  - General obligation (GOB)
  - Limited tax obligation (LTOB)
  - Other bond (Please specify below.) (OTHB)
  - Pension Obligation (POB)
  - Public lease revenue (PLRB)
  - Rate Reduction (GC 6588.7) (RRB)
  - Revenue (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 obligor (LOB)
- Private obligor payments (POP)
- Other (OTHS)

- Property tax revenues (PRTX)
- Public enterprise revenues (PER)
- Sales tax revenues (SATR)
- Special assessments (SA)
- Special tax revenues (SPTR)
- Tax-increment (TI)
- Utility Project Charges (UPC)

Please specify if "Other" was checked.

**PURPOSE(S) OF FINANCING**

Showing 1st 5:

**Percent**

WSTW 100

Please specify type/name of project if different from above.

1 Section 8855(i) of the California Government Code requires the issuer of any proposed new public debt issue to give written notice of the proposed sale to CDIAC no later than 30 days prior to the sale. Under California Government Code Section 8855(i), the issuer of any debt issue shall, not later than 21 days after the sale of the debt, submit a report of final sale and the official statement (or alternate financing documents) to the Commission. The Commission may require information to be submitted in the report that it considers 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 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.

3 In accordance with 8855(i) of the California Government code.

**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

Internet Submission - <b>CURRENT</b>
CDIAC #: <b>2020-1447</b>
11/9/2020 08:15:08

Under California Government Code Section 8855(j), "The issuer of any debt issue of state or local government, not later than 21 days after the sale of the debt, shall submit a report of final sale to the commission by any method approved by the commission."

**Issuer Name:** Modesto**Issue Name:** 2020 Ref RBs**Project Name:** Series AWill a validation action be pursued?:  Yes  No  UnknownStatutory Code Under Which this Debt Will Be Issued (1): Other

Statutory Code Under Which this Debt Will Be Issued (2): \_\_\_\_\_

If Other Code 1, please specify:

If Other Code 2, please specify:

<b>Actual Sale Date:</b> 10/27/2020 (Date debt contract signed)	<b>Dated Date:</b> 11/10/2020 (Date interest begins to accrue)	<b>Settlement Date:</b> 11/10/2020 (Date assets or rights to use are transferred)	<input type="checkbox"/> Private Placement
--	---	--	--

**Principal Sold:** \$ 68,840,000.00 **Type of Sale:** Negotiated**Repayable Non-U.S. Currency:** N**Issuance Authorization 1:****Authorization Name:** Resolution No 2020-36**Original Authorized Amount:** \$110,000,000.00**Authorization Date:** 09/01/2020**Amount Authority Increased:** \$0.00**Amount Authority Reduced:** \$68,840,000.00**Net Reduction or Increase:** (\$68,840,000.00)**Issuance Authorization 2:**

2nd Authorization Not Selected

\$0.00

\$0.00

\$0.00

\$0.00

**Is any portion of the debt to redeem, paydown, or refinance outstanding debt? N****Issuer Contact:** Amount proposed for redemption, paydown or refinancing \$0.00

First Name: DeAnna Middle Name: Last Name: Christensen

Title: Director of Finance Email: dachristensen@modesto.gov

Address: 1010 10th Street Address Cont: PO Box 642

Address Cont: Address Cont: \_\_\_\_\_

City: Modesto State: CA Zip Code: 95353

Phone: (209) 577-5369 Ext: 0 Issuer Located in County: Stanislaus

**Filing Contact:**

Name of Individual representing: Bond Counsel who completed this form and may be contacted for information.

First Name: Dave Middle Name: Last Name: Sanchez

Firm Agency: Norton Rose Fulbright US LLP

Address: 555 California Street, Suite 3300 Address Cont: \_\_\_\_\_

Address Cont: Address Cont: \_\_\_\_\_

City: San Francisco State: CA Zip Code: 94104

Phone: (628) 231-6805 Ext: Email: dave.sanchez@nortonrosefulbright.com

Send acknowledgement to: Krystal Sandoval Email: krystal.sandoval@nortonrosefulbright.com

**Name of individual to whom an invoice for the CDIAC issue fee should be sent:<sup>2</sup>**

First Name: Roseann Middle Name: Last Name: Ragucci

Firm: Bank of America Merrill Lynch

Address: 250 Vesey Street NY3-004-09-31 Address Cont: \_\_\_\_\_

Address Cont: Address Cont: \_\_\_\_\_

City: New York State: NY Zip Code: 10281

Phone: (415) 913-2327 Ext: 0 Email: Roseann.ragucci@bankofamerica.com

**REPORT OF FINAL SALE**

Internet Submission - **CURRENT**  
**CDIAC #:** **2020-1447**  
 11/9/2020 08:15:08

**Financing Participants**

Financial Advisor:	The PFM Group/Public Financial Management	Office Location City/State:	Los Angeles	CA
Lead Underwriter:	BofA Securities	Office Location City/State:		
Borrower Counsel (Loan): (Not Obligor Counsel)		Office Location City/State:		
Bond Counsel:	Norton Rose Fulbright US LLP	Office Location City/State:		
Co-Bond Counsel:		Office Location City/State:		
Trustee/Paying Agent:	The Bank of New York Mellon Trust Company	Office Location City/State:		
Placement Agent:		Office Location City/State:		
Disclosure Counsel:	Norton Rose Fulbright US LLP	Office Location City/State:		
Purchaser:		Office Location City/State:		
Lender:		Office Location City/State:		

**Maturity Schedule:**

- Attached
- Included in Official Statement

**Maturity Structure:**

- Serial
- Serial and term bonds
- Term

**Final Maturity Date:** 11/01/2035

**First Optional Call Date:** 11/01/2030

**Senior Structure:**  Yes  No

**Subordinate Structure:**  Yes  No

**Official Statement/Offering Memorandum:**

- Enclosed
- None prepared

**Was the Issue Insured or Guaranteed?**

- No
- Bond Insurance
- Letter of Credit
- State Intercept Program
- Other, please specify:

**Guarantor:** \_\_\_\_\_

**Enhancement Expiration Date:** \_\_\_\_\_

**Indicate Credit Rating:**

- Not Rated
- Rated

Standard & Poor's: AA

Fitch: \_\_\_\_\_

Moody's: \_\_\_\_\_

Other: \_\_\_\_\_

**Is any portion of the debt for refunding? <sup>1</sup>**

- No
- Yes , refunding amount (including costs)  
 \$ 68,840,000.00

**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.

- Timing of the sale provided more flexibility than a public sale
- More cost savings were expected to be realized than a public sale
- More flexibility in debt structure was available than a public sale
- Issuer able to work with participants familiar with issue/r than a public sale
- All of the above
- Other, please specify: \$5,000  
 Notice Date: \_\_\_\_\_

**Interest:** 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:**

TIC: 0 NIC: 0

VAR:  Other?  \_\_\_\_\_

Capital Appreciation Debt:  Yes  No

Rate Reduction Savings: \$ .00

(In accordance with the Government Code Section 6588.7)

**Issuance Costs and Fees:**

A) Management Fee:	\$ .00
B) Total Takedown:	\$ .00
C) Underwriter Expenses:	\$ 91,496.57
<b>Underwriter Spread or Discount:</b>	<b>\$ 91,496.57</b>
D) Bond Counsel:	\$ 150,000.00
E) Borrower Counsel (Loan): (Not Obligor Counsel)	\$ .00
F) Co-Bond Counsel:	\$ .00
G) Disclosure Counsel:	\$ .00
H) Financial Advisor:	\$ 59,500.00
I) Rating Agency:	\$ 59,500.00
J) Credit Enhancement:	\$ .00
K) Trustee Fee:	\$ 2,500.00
L) Placement Agent:	\$ .00
M) Other Expenses:	\$ 9,829.00
N) Purchaser:	\$ .00
O) Lender:	\$ .00

**Total Issuance Costs: \$ 372,825.77**

Original Issue Premium: \$ .00

Original Issue Discount: \$ .00

**Net Original Issue Disc/Premium: \$ .00**

The amount of Net Original Issue Premium used to refund, redeem, paydown or refinance other debt:

**REPORT OF FINAL SALE**

Internet Submission - **CURRENT**

**CDIAC #:** 2020-1447

11/9/2020 08:15:08

**Reason for Negotiated Sale of Revenue Bonds** <sup>3</sup>

If the issue is a negotiated sale of revenue bonds, indicate the reason(s) 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 saving 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

Notice Date:

**Type of Debt Instrument:** PERB

Other:

**Source(s) of Repayment:**

- |   |  |
|---|--|
| <input type="checkbox"/> Bond Proceeds (BDPR)                                 | <input checked="" type="checkbox"/> Public Enterprise Revenues (PER) |
| <input type="checkbox"/> General Fund of Issuing Jurisdiction (GNFD)          | <input type="checkbox"/> Sales Tax Revenues (SATR)                   |
| <input type="checkbox"/> Grant (GRNT)   | <input type="checkbox"/> Special Assessments (SA)                    |
| <input type="checkbox"/> Intergovernmental Transfers Other Than Grants (ITGV) | <input type="checkbox"/> Special Tax Revenues (SPTR)                 |
| <input type="checkbox"/> Local Obligations (LOB)                              | <input type="checkbox"/> Tax-Increment (TI)                          |
| <input type="checkbox"/> Private Obligor Payments (POP)                       | <input type="checkbox"/> Utility Project Charges (UPC)               |
| <input type="checkbox"/> Property Tax Revenues (PRTX)                         | <input type="checkbox"/> Other (Please specify) (OTHS)               |

Other:

<u>Finalsale ID</u>	<u>Final ISS ID</u>	<u>Purpose Type</u>	<u>Percent</u>
20669	25046558	WSTW	100.000

<sup>1</sup> 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 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.

<sup>2</sup> This fee is authorized by Section 8856 of the California Government Code and is charged to the lead underwriter, the purchaser or the lender in an amount equal to one-fortieth of 1 percent of the principal amount of the issue, but not to exceed five thousand dollars (\$5000) for any one issue.

<sup>3</sup> Section 54418 of the California Government Code requires that any local agency selling revenue bonds at a private sale rather than a public sale shall send a written statement to CDIAC no later than two weeks after the bonds are sold, explaining the reason for that decision.

**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

Internet Submission - **CURRENT**CDIAC #: **2020-2230**

11/9/2020 08:17:56

Under California Government Code Section 8855(j), "The issuer of any debt issue of state or local government, not later than 21 days after the sale of the debt, shall submit a report of final sale to the commission by any method approved by the commission."

**Issuer Name:** Modesto**Issue Name:** 2020 Ref RBs**Project Name:** Series BWill a validation action be pursued?:  Yes  No  UnknownStatutory Code Under Which this Debt Will Be Issued (1): Other

Statutory Code Under Which this Debt Will Be Issued (2): \_\_\_\_\_

If Other Code 1, please specify:

If Other Code 2, please specify:

**Actual Sale Date:** 10/27/2020**Dated Date:** 11/10/2020**Settlement Date:** 11/10/2020 Private Placement

(Date debt contract signed)

(Date interest begins to accrue)

(Date assets or rights to use are transferred)

**Principal Sold:** \$ 25,470,000.00 **Type of Sale:** Negotiated**Repayable Non-U.S. Currency:** N**Issuance Authorization 1:****Authorization Name:** Resolution No 2020-36**Issuance Authorization 2:**

2nd Authorization Not Selected

**Original Authorized Amount:** \$110,000,000.00

\$0.00

**Authorization Date:** 09/01/2020**Amount Authority Increased:** \$0.00

\$0.00

**Amount Authority Reduced:** \$25,470,000.00

\$0.00

**Net Reduction or Increase:** (\$25,470,000.00)

\$0.00

**Is any portion of the debt to redeem, paydown, or refinance outstanding debt?** N**Issuer Contact:**

Amount proposed for redemption, paydown or refinancing \$0.00

First Name: DeAnna

Middle Name: \_\_\_\_\_

Last Name: Christensen

Title: Director of Finance

Email: dachristensen@modesto.gov

Address: 1010 10th Street

Address Cont: PO Box 642

Address Cont: \_\_\_\_\_

Address Cont: \_\_\_\_\_

City: Modesto

State: CA

Zip Code: 95353

Phone: (209) 577-5369

Ext: 0

Issuer Located in County: Stanislaus

**Filing Contact:**

Name of Individual representing: Bond Counsel who completed this form and may be contacted for information.

First Name: Dave

Middle Name: \_\_\_\_\_

Last Name: Sanchez

Firm Agency: Norton Rose Fulbright US LLP

Address: 555 California Street, Suite 3300

Address Cont: \_\_\_\_\_

Address Cont: \_\_\_\_\_

Address Cont: \_\_\_\_\_

City: San Francisco

State: CA

Zip Code: 94104

Phone: (628) 231-6805

Ext: \_\_\_\_\_

Email: dave.sanchez@nortonrosefulbright.com

Send acknowledgement to: Krystal Sandoval

Email: krystal.sandoval@nortonrosefulbright.com

**Name of individual to whom an invoice for the CDIAC issue fee should be sent:<sup>2</sup>**

First Name: Roseann

Middle Name: \_\_\_\_\_

Last Name: Ragucci

Firm: Bank of America Merrill Lynch

Address: 250 Vesey Street NY3-004-09-31

Address Cont: \_\_\_\_\_

Address Cont: \_\_\_\_\_

Address Cont: \_\_\_\_\_

City: New York

State: NY

Zip Code: 10281

Phone: (415) 913-2327

Ext: 0

Email: Roseann.ragucci@bankofamerica.com

REPORT OF FINAL SALE

Internet Submission - CURRENT
CDIAC #: 2020-2230
11/9/2020 08:17:56

Financing Participants

Financial Advisor: The PFM Group/Public Financial Management Office Location City/State: Los Angeles CA
Lead Underwriter: BofA Securities Office Location City/State:
Borrower Counsel (Loan): Office Location City/State:
(Not Obligor Counsel)
Bond Counsel: Norton Rose Fulbright US LLP Office Location City/State:
Co-Bond Counsel: Office Location City/State:
Trustee/Paying Agent: The Bank of New York Mellon Trust Company Office Location City/State:
Placement Agent: Office Location City/State:
Disclosure Counsel: Norton Rose Fulbright US LLP Office Location City/State:
Purchaser: Office Location City/State:
Lender: Office Location City/State:

Maturity Schedule:

- Attached
Included in Official Statement

Maturity Structure:

- Serial
Serial and term bonds
Term

Final Maturity Date: 11/01/2030

First Optional Call Date: 11/01/2030

Senior Structure: Yes No

Subordinate Structure: Yes No

Official Statement/Offering Memorandum:

- Enclosed
None prepared

Was the Issue Insured or Guaranteed?

- No
Bond Insurance
Letter of Credit
State Intercept Program
Other, please specify:

Guarantor:

Enhancement Expiration Date:

Indicate Credit Rating:

- Not Rated
Rated

Standard & Poor's: AA

Fitch:

Moody's:

Other:

Is any portion of the debt for refunding? /

- No
Yes, refunding amount (including costs)
\$25,470,000.00

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.

- Timing of the sale provided more flexibility than a public sale
More cost savings were expected to be realized than a public sale
More flexibility in debt structure was available than a public sale
Issuer able to work with participants familiar with issue/r than a public sale
All of the above
Other, please specify: \$0
Notice Date:

Interest: 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:

TIC: 0

NIC: 0

VAR: Other? 5.000

Capital Appreciation Debt: Yes No

Rate Reduction Savings: \$.00

(In accordance with the Government Code Section 6588.7)

Issuance Costs and Fees:

Table with 2 columns: Item (A-O), Amount. Total Issuance Costs: \$315,680.24

Total Issuance Costs: \$315,680.24

Original Issue Premium: \$8,429,723.90

Original Issue Discount: \$125,847.81

Net Original Issue Disc/Premium: \$8,303,876.09

The amount of Net Original Issue Premium used to refund, redeem, payoff or refinance other debt:

**REPORT OF FINAL SALE**

Internet Submission - **CURRENT**  
**CDIAC #:** 2020-2230  
 11/9/2020 08:17:56

**Reason for Negotiated Sale of Revenue Bonds** <sup>3</sup>

If the issue is a negotiated sale of revenue bonds, indicate the reason(s) 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 saving 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

Notice Date:

**Type of Debt Instrument:** PERB

Other:

**Source(s) of Repayment:**

- |   |  |
|---|--|
| <input type="checkbox"/> Bond Proceeds (BDPR)                                 | <input checked="" type="checkbox"/> Public Enterprise Revenues (PER) |
| <input type="checkbox"/> General Fund of Issuing Jurisdiction (GNFD)          | <input type="checkbox"/> Sales Tax Revenues (SATR)                   |
| <input type="checkbox"/> Grant (GRNT)   | <input type="checkbox"/> Special Assessments (SA)                    |
| <input type="checkbox"/> Intergovernmental Transfers Other Than Grants (ITGV) | <input type="checkbox"/> Special Tax Revenues (SPTR)                 |
| <input type="checkbox"/> Local Obligations (LOB)                              | <input type="checkbox"/> Tax-Increment (TI)                          |
| <input type="checkbox"/> Private Obligor Payments (POP)                       | <input type="checkbox"/> Utility Project Charges (UPC)               |
| <input type="checkbox"/> Property Tax Revenues (PRTX)                         | <input type="checkbox"/> Other (Please specify) (OTHS)               |

Other:

<u>Finalsale ID</u>	<u>Final ISS ID</u>	<u>Purpose Type</u>	<u>Percent</u>
20670	25047345	WSTW	100.000

<sup>1</sup> 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 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.

<sup>2</sup> This fee is authorized by Section 8856 of the California Government Code and is charged to the lead underwriter, the purchaser or the lender in an amount equal to one-fortieth of 1 percent of the principal amount of the issue, but not to exceed five thousand dollars (\$5000) for any one issue.

<sup>3</sup> Section 54418 of the California Government Code requires that any local agency selling revenue bonds at a private sale rather than a public sale shall send a written statement to CDIAC no later than two weeks after the bonds are sold, explaining the reason for that decision.



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## State Water Resources Control Board

October 19, 2020

Clifford M. Gerber, Tax Partner  
Norton Rose Fulbright US LLP  
555 California Street, Suite 3300  
San Francisco, CA 94111  
[clifford.gerber@nortonrosefulbright.com](mailto:clifford.gerber@nortonrosefulbright.com)

### **CITY OF MODESTO (CITY) CLEAN WATER STATE REVOLVING FUND (CWSRF) AGREEMENT NUMBER 11-825-550; PROJECT NUMBER C-06-5175-210**

Dear Mr. Gerber:

We understand that your firm acts as bond counsel (“Bond Counsel”) to the City of Modesto (the “City”), and that the City would like to prepay in full (the “Prepayment”) the \$106,812,879.98 outstanding principal balance of the above-captioned loan (the “Loan”), plus interest accrued thereon through the date of such prepayment. The Loan was made to the City with amounts on deposit in the California Clean Water State Revolving Fund (the “CWSRF”), which is administered by the State Water Resources Control Board (the “State Water Board”), and from which other similar loans (“CWSRF Loans”) are made. The Loan was funded over time, reaching a total funded principal amount of \$124,829,278.00, of which \$3,000,000.00 was forgiven (further described below), resulting in a net funded principal amount of \$121,829,278.00 (the “Original Principal Amount”). Capitalized interest on Loan disbursements accrued during the period in which the project financed by the Loan was constructed, in the amount of \$5,328,665.06, caused the Loan to reach a total outstanding principal amount of \$127,157,943.06.

Amounts in the CWSRF come from a variety of sources, including but not limited to the proceeds of tax-exempt bonds, federal capitalization grants from the U.S. Environmental Protection Agency to the State Water Board (“Federal Grant Funds”), “local match” funds provided by funding recipients from any legal source of funds and repayments of CWSRF Loans funded in whole or in part by the foregoing. In the case of the Loan, the \$3,000,000.00 of the Loan that was forgiven was allocated by the State Water Board to the Federal Grant Funds used to fund the Loan.

We understand from you that the City is contemplating the use of tax-exempt bond proceeds, to the extent possible, to effect the Prepayment, and that the original source of funding – i.e., the source of moneys on deposit in the CWSRF used to make the Loan – is important. More specifically, we understand from you that the portion of the Prepayment allocable on a pro rata basis to the percentage of the Loan funded directly or indirectly with the proceeds of tax-exempt bonds and repayments of CWSRF loans funded with the proceeds of tax-exempt bonds (or with CWSRF Loan repayments) will be financed by the City on a federally taxable basis, and that the portion of the Prepayment allocable on a pro rata basis to the percentage of the Loan funded directly with Federal Grant Funds will be financed by the City on a federally tax-exempt basis.

**E. JOAQUIN ESQUIVEL, CHAIR | EILEEN SOBECK, EXECUTIVE DIRECTOR**

We thus appreciate your request that the State Water Board represent to the City and to Bond Counsel the precise amount of Federal Grant Funds that were used to fund the Loan, and understand that Bond Counsel will rely on this representation in rendering its opinion with respect to the federally tax-exempt status of the City's bonds issued to finance the portion of the Prepayment allocable on a pro rata basis to the percentage of the Loan funded directly with Federal Grant Funds. We understand that you will calculate the percentage of the Loan funded directly with Federal Grant Funds based on a denominator equal to the Original Principal Amount.

Accordingly, the State Water Board represents to the City and to Bond Counsel that, of the Original Principal Amount, the amount of the Loan that was funded directly from Federal Grant Funds was \$43,802,297.97, minus the \$3,000,000.00 principal amount of the Loan forgiven, or a net Federal Grant Funds-funded amount of \$40,802,297.97. In support of this figure, we have attached to this letter as Exhibit A the State Water Board's "Project Draw Report" relating to the Loan, and as Exhibit B the State Water Board's "Clean Water State Revolving Fund Payment Schedule" relating to the Loan.

The State Water Board looks forward to helping the City in the future with other projects. If you need any additional information from us, please contact Mr. Josh Ziese at (916) 445-9501 or [Joshua.Ziese@waterboards.ca.gov](mailto:Joshua.Ziese@waterboards.ca.gov).

Sincerely,

Christopher Stevens, Assistant Deputy Director  
Division of Financial Assistance

# Project Draw Report

5175-210 - Modesto, City of  
Phase 2 Biological Nutrient Removal (BNR) Tertiary Treatment

Pay No	Date Requested	Total Amount	Date Disbursed	Grant Number	ACH Number	Transaction Code	Current Match	Cummulative Match	Current Federal	Cummulative Federal	Current Repayment	Cummulative Repayment	Current Leveraged Funds	Cummulative Leveraged Funds	Balance
<b>CWSRF</b>								2,502,701.21		41,299,596.76		71,521,794.00		9,505,186.03	124,829,278.00
1	2/16/2012	4,564,741.00	2/23/2012	All Funds		6172308	0.00	0.00	0.00	0.00	4,564,741.00	4,564,741.00	0.00	0.00	120,264,537.00
1	2/16/2012	3,000,000.00	3/1/2012	CS-060001-10	3515	6172309	0.00	0.00	3,000,000.00	3,000,000.00	0.00	4,564,741.00	0.00	0.00	117,264,537.00
2	6/12/2012	685,218.00	6/15/2012	All Funds		6172381	0.00	0.00	0.00	3,000,000.00	685,218.00	5,249,959.00	0.00	0.00	116,579,319.00
3	8/1/2012	134,376.00	8/6/2012	All Funds		6172415	0.00	0.00	0.00	3,000,000.00	134,376.00	5,384,335.00	0.00	0.00	116,444,943.00
4	10/23/2012	2,897,993.00	11/5/2012	CS-060001-11	3668	6172473	0.00	0.00	2,897,993.00	5,897,993.00	0.00	5,384,335.00	0.00	0.00	113,546,950.00
5	1/24/2013	8,221,020.00	3/4/2013	CS-060001-10	3760	6172533	0.00	0.00	8,221,020.00	14,119,013.00	0.00	5,384,335.00	0.00	0.00	105,325,930.00
6	2/22/2013	3,211,792.00	3/5/2013	CS-060001-11	3763	6172549	0.00	0.00	3,211,792.00	17,330,805.00	0.00	5,384,335.00	0.00	0.00	102,114,138.00
7	3/25/2013	1,439,187.00	3/28/2013	All Funds		6172569	0.00	0.00	0.00	17,330,805.00	1,439,187.00	6,823,522.00	0.00	0.00	100,674,951.00
8	5/28/2013	4,230,054.00	6/3/2013	All Funds		6172602	0.00	0.00	0.00	17,330,805.00	4,230,054.00	11,053,576.00	0.00	0.00	96,444,897.00
9	6/19/2013	2,437,812.00	6/25/2013	All Funds		6192617	0.00	0.00	0.00	17,330,805.00	2,437,812.00	13,491,388.00	0.00	0.00	94,007,085.00
10	7/24/2013	3,272,614.00	7/29/2013	All Funds		6172629	0.00	0.00	0.00	17,330,805.00	3,272,614.00	16,764,002.00	0.00	0.00	90,734,471.00
11	9/3/2013	6,895,280.00	9/6/2013	All Funds		6172645	0.00	0.00	0.00	17,330,805.00	6,895,280.00	23,659,282.00	0.00	0.00	83,839,191.00
12	12/4/2013	11,455,586.00	12/17/2013	CS-060001-13	3912	6172680	0.00	0.00	11,455,586.00	28,786,391.00	0.00	23,659,282.00	0.00	0.00	72,383,605.00
13	2/11/2014	5,885,396.00	2/14/2014	All Funds		6172699	0.00	0.00	0.00	28,786,391.00	5,885,396.00	29,544,678.00	0.00	0.00	66,498,209.00
14	3/19/2014	3,866,218.00	3/25/2014	All Funds		6172707	0.00	0.00	0.00	28,786,391.00	3,866,218.00	33,410,896.00	0.00	0.00	62,631,991.00
15	5/1/2014	9,817,308.00	5/6/2014	All Funds		6172720	0.00	0.00	0.00	28,786,391.00	9,817,308.00	43,228,204.00	0.00	0.00	52,814,683.00
16	7/10/2014	5,049,337.00	7/10/2014	All Funds		6172742	0.00	0.00	0.00	28,786,391.00	5,049,337.00	48,277,541.00	0.00	0.00	47,765,346.00
17	7/25/2014	10,594,253.00	7/25/2014	All Funds		6172749	0.00	0.00	0.00	28,786,391.00	10,594,253.00	58,871,794.00	0.00	0.00	37,171,093.00
18	10/28/2014	13,395,939.00	11/12/2014	CS-060001-14	4032	6172781	0.00	0.00	13,395,939.00	42,182,330.00	0.00	58,871,794.00	0.00	0.00	23,775,154.00
19	12/16/2014	3,264,378.00	12/22/2014	All Funds		6172797	0.00	0.00	0.00	42,182,330.00	3,264,378.00	62,136,172.00	0.00	0.00	20,510,776.00
20	2/18/2015	4,337,827.00	2/23/2015	All Funds		6172817	0.00	0.00	0.00	42,182,330.00	4,337,827.00	66,473,999.00	0.00	0.00	16,172,949.00
21	4/17/2015	1,326,017.00	4/22/2015	All Funds		6172839	0.00	0.00	0.00	42,182,330.00	1,326,017.00	67,800,016.00	0.00	0.00	14,846,932.00
22	6/3/2015	3,721,778.00	6/3/2015	All Funds		6172856	0.00	0.00	0.00	42,182,330.00	3,721,778.00	71,521,794.00	0.00	0.00	11,125,154.00
23	10/6/2015	1,789,585.03	10/9/2015	All Funds		6172900	0.00	0.00	0.00	42,182,330.00	1,789,585.03	73,311,379.03	0.00	0.00	9,335,568.97
23	10/6/2015	1,619,967.97	10/15/2015	CS-060001-15	4270	6172901	0.00	0.00	1,619,967.97	43,802,297.97	0.00	73,311,379.03	0.00	0.00	7,715,601.00
24	11/3/2015	612,061.00	11/6/2015	All Funds		6172908	0.00	0.00	0.00	43,802,297.97	612,061.00	73,923,440.03	0.00	0.00	7,103,540.00
25	1/12/2016	788,116.00	1/15/2016	All Funds		6172935	0.00	0.00	0.00	43,802,297.97	788,116.00	74,711,556.03	0.00	0.00	6,315,424.00
26	3/8/2016	630,544.00	3/11/2016	All Funds		6172958	0.00	0.00	0.00	43,802,297.97	630,544.00	75,342,100.03	0.00	0.00	5,684,880.00
23	5/2/2016	-1,789,585.03	10/9/2015	All Funds		6172900	0.00	0.00	0.00	43,802,297.97	-1,789,585.03	73,552,515.00	0.00	0.00	7,474,465.03
24	5/2/2016	-612,061.00	11/6/2015	All Funds		6172908	0.00	0.00	0.00	43,802,297.97	-612,061.00	72,940,454.00	0.00	0.00	8,086,526.03
25	5/2/2016	-788,116.00	1/15/2016	All Funds		6172935	0.00	0.00	0.00	43,802,297.97	-788,116.00	72,152,338.00	0.00	0.00	8,874,642.03

# Project Draw Report

5175-210 - Modesto, City of  
Phase 2 Biological Nutrient Removal (BNR) Tertiary Treatment

Pay No	Date Requested	Total Amount	Date Disbursed	Grant Number	ACH Number	Transaction Code	Current Match	Cummulative Match	Current Federal	Cummulative Federal	Current Repayment	Cummulative Repayment	Current Leveraged Funds	Cummulative Leveraged Funds	Balance
26	5/2/2016	-630,544.00	3/11/2016	All Funds		6172958	0.00	0.00	0.00	43,802,297.97	-630,544.00	71,521,794.00	0.00	0.00	9,505,186.03
23	5/2/2016	1,789,585.03	5/2/2016	2016 Series Revenue Bond		6172900x	0.00	0.00	0.00	43,802,297.97	0.00	71,521,794.00	1,789,585.03	1,789,585.03	9,505,186.03
24	5/2/2016	612,061.00	5/2/2016	2016 Series Revenue Bond		6172908x	0.00	0.00	0.00	43,802,297.97	0.00	71,521,794.00	612,061.00	2,401,646.03	9,505,186.03
25	5/2/2016	788,116.00	5/2/2016	2016 Series Revenue Bond		6172935x	0.00	0.00	0.00	43,802,297.97	0.00	71,521,794.00	788,116.00	3,189,762.03	9,505,186.03
26	5/2/2016	630,544.00	5/2/2016	2016 Series Revenue Bond		6172958x	0.00	0.00	0.00	43,802,297.97	0.00	71,521,794.00	630,544.00	3,820,306.03	9,505,186.03
27	5/5/2016	164,787.00	5/10/2016	2016 Series Revenue Bond		6172980	0.00	0.00	0.00	43,802,297.97	0.00	71,521,794.00	164,787.00	3,985,093.03	9,505,186.03
28	9/1/2016	241,919.00	9/7/2016	2016 Series Revenue Bond		6173038	0.00	0.00	0.00	43,802,297.97	0.00	71,521,794.00	241,919.00	4,227,012.03	9,505,186.03
29	1/3/2017	754,440.00	1/6/2017	All Funds		6173097	0.00	0.00	0.00	43,802,297.97	754,440.00	72,276,234.00	0.00	4,227,012.03	8,750,746.03
30	1/27/2017	2,720,607.00	2/1/2017	All Funds		6173108	0.00	0.00	0.00	43,802,297.97	2,720,607.00	74,996,841.00	0.00	4,227,012.03	6,030,139.03
31	1/27/2017	1,803,127.00	2/1/2017	All Funds		6173108	0.00	0.00	0.00	43,802,297.97	1,803,127.00	76,799,968.00	0.00	4,227,012.03	4,227,012.03
29	5/6/2017	-754,440.00	1/6/2017	All Funds		6173097	0.00	0.00	0.00	43,802,297.97	-754,440.00	76,045,528.00	0.00	4,227,012.03	4,981,452.03
30	5/6/2017	-2,720,607.00	2/1/2017	All Funds		6173108	0.00	0.00	0.00	43,802,297.97	-2,720,607.00	73,324,921.00	0.00	4,227,012.03	7,702,059.03
31	5/6/2017	-1,803,127.00	2/1/2017	All Funds		6173108	0.00	0.00	0.00	43,802,297.97	-1,803,127.00	71,521,794.00	0.00	4,227,012.03	9,505,186.03
29	5/6/2017	754,440.00	5/6/2017	2017 Series Revenue Bond		6173097x	0.00	0.00	0.00	43,802,297.97	0.00	71,521,794.00	754,440.00	4,981,452.03	9,505,186.03
30	5/6/2017	2,720,607.00	5/6/2017	2017 Series Revenue Bond		6173108x	0.00	0.00	0.00	43,802,297.97	0.00	71,521,794.00	2,720,607.00	7,702,059.03	9,505,186.03
31	5/6/2017	1,803,127.00	5/6/2017	2017 Series Revenue Bond		6173108x	0.00	0.00	0.00	43,802,297.97	0.00	71,521,794.00	1,803,127.00	9,505,186.03	9,505,186.03
<b>Balance Available</b>								2,502,701.21		-2,502,701.21		0.00		0.00	

**Total for CWSRF** 0.00 43,802,297.97 71,521,794.00 9,505,186.03

Total Draws 124,829,278.00

Total Expended 124,829,278.00 **In balance**

**State of California - State Water Resources Control Board  
Clean Water State Revolving Fund Payment Schedule**

**Recipient:** Modesto, City of  
**Project No.:** C-06-5175-210  
**Agreement No.:** 11825-550-0

**Date:** 10/19/2020  
**Amount:** 124,829,278  
**Interest rate:** 1.600%  
**Service charge rate:** 1%  
**Term:** 20 Years

Date	Disbursement/ Payment	No.	Beginning Balance	Draw Amount	Construction Period Interest (CPI)		Annual Interest Accrued	Principal Paid/Due	Interest Paid/Due	Service Charge Paid/Due	Total Payment	Ending Balance
					Amount Accrued	Amt. Trans. to Principal						
23-Feb-2012	Disbursement	1	0.00	4,564,741.00	0.00						0.00	4,564,741.00
15-Jun-2012	Disbursement	2	4,564,741.00	685,218.00	36,923.68						0.00	5,249,959.00
30-Jun-2012	End FY		5,249,959.00		5,687.46						0.00	5,249,959.00
6-Aug-2012	Disbursement	3	5,249,959.00	134,376.00	13,649.89						0.00	5,384,335.00
26-Oct-2012	Disbursement	4	5,384,335.00	2,897,993.00	31,109.49						0.00	8,282,328.00
29-Jan-2013	Disbursement	5	8,282,328.00	8,221,020.00	55,629.64						0.00	16,503,348.00
27-Feb-2013	Disbursement	6	16,503,348.00	3,211,792.00	33,373.44						0.00	19,715,140.00
28-Mar-2013	Disbursement	7	19,715,140.00	1,439,187.00	44,140.01						0.00	21,154,327.00
3-Jun-2013	Disbursement	8	21,154,327.00	4,230,054.00	99,307.81						0.00	25,384,381.00
25-Jun-2013	Disbursement	9	25,384,381.00	2,437,812.00	40,332.96						0.00	27,822,193.00
30-Jun-2013	End FY		27,822,193.00		10,046.90						0.00	27,822,193.00
29-Jul-2013	Disbursement	10	27,822,193.00	3,272,614.00	58,272.04						0.00	31,094,807.00
6-Sep-2013	Disbursement	11	31,094,807.00	6,895,280.00	83,092.23						0.00	37,990,087.00
10-Dec-2013	Disbursement	12	37,990,087.00	11,455,586.00	257,910.48						0.00	49,445,673.00
14-Feb-2014	Disbursement	13	49,445,673.00	5,885,396.00	228,548.89						0.00	55,331,069.00
25-Mar-2014	Disbursement	14	55,331,069.00	3,866,218.00	163,841.44						0.00	59,197,287.00
6-May-2014	Disbursement	15	59,197,287.00	9,817,308.00	175,289.74						0.00	69,014,595.00
30-Jun-2014	End FY		69,014,595.00		269,156.92						0.00	69,014,595.00
15-Jul-2014	Disbursement	16	69,014,595.00	5,049,337.00	74,765.81						0.00	74,063,932.00
31-Jul-2014	Disbursement	17	74,063,932.00	10,594,253.00	80,235.93						0.00	84,658,185.00
31-Oct-2014	Disbursement	18	84,658,185.00	13,395,939.00	550,278.20						0.00	98,054,124.00
22-Dec-2014	Disbursement	19	98,054,124.00	3,264,378.00	368,247.71						0.00	101,318,502.00
23-Feb-2015	Disbursement	20	101,318,502.00	4,337,827.00	446,364.29						0.00	105,656,329.00
22-Apr-2015	Disbursement	21	105,656,329.00	1,326,017.00	450,213.36						0.00	106,982,346.00
9-Jun-2015	Disbursement	22	106,982,346.00	3,721,778.00	363,145.63						0.00	110,704,124.00
30-Jun-2015	End FY		110,704,124.00		167,901.25						0.00	110,704,124.00
9-Oct-2015	Disbursement	23	110,704,124.00	3,409,553.00	791,534.49						0.00	114,113,677.00
6-Nov-2015	Disbursement	24	114,113,677.00	612,061.00	222,521.67						0.00	114,725,738.00
1-Dec-2015	Const. Compl.		114,725,738.00		207,143.69	5,328,665.06					0.00	120,054,403.06
15-Jan-2016	Disbursement	25	120,054,403.06	788,116.00			381,506.21				0.00	120,842,519.06
11-Mar-2016	Disbursement	26	120,842,519.06	630,544.00			488,740.85				0.00	121,473,063.06
10-May-2016	Disbursement	27	121,473,063.06	164,787.00			517,610.22				0.00	121,637,850.06

**State of California - State Water Resources Control Board  
Clean Water State Revolving Fund Payment Schedule**

**Recipient:** Modesto, City of  
**Project No.:** C-06-5175-210  
**Agreement No.:** 11825-550-0

**Date:** 10/19/2020  
**Amount:** 124,829,278  
**Interest rate:** 1.600%  
**Service charge rate:** 1%  
**Term:** 20 Years

Date	Disbursement/ Payment	No.	Beginning Balance	Draw Amount	Construction Period Interest (CPI)		Annual Interest Accrued	Principal Paid/Due	Interest Paid/Due	Service Charge Paid/Due	Total Payment	Ending Balance
					Amount Accrued	Amt. Trans. to Principal						
30-Jun-2016	End FY		121,637,850.06				439,247.79				0.00	121,637,850.06
7-Sep-2016	Disbursement	28	121,637,850.06	241,919.00			588,592.04				0.00	121,879,769.06
1-Dec-2016	Payment	1	121,879,769.06				739,403.93	4,736,309.47	3,155,101.05	0.00	7,891,410.52	117,143,459.59
6-Jan-2017	Disbursement	29	117,143,459.59	754,440.00			296,112.63				0.00	117,897,899.59
1-Feb-2017	Disbursement	30	117,897,899.59	2,720,607.00			212,871.21				0.00	120,618,506.59
1-Feb-2017	Disbursement	31	120,618,506.59	1,803,127.00			0.00				0.00	122,421,633.59
30-Jun-2017	End FY		122,421,633.59				1,317,392.80				0.00	122,421,633.59
1-Dec-2017	Payment	2	122,421,633.59				1,335,075.93	5,084,111.70	3,161,452.57	0.00	8,245,564.27	117,337,521.89
1-Dec-2018	Payment	3	117,337,521.89				3,050,775.57	5,194,788.70	3,050,775.57	0.00	8,245,564.27	112,142,733.19
1-Dec-2019	Payment	4	112,142,733.19				1,794,283.73	5,329,853.21	1,794,283.73	1,121,427.33	8,245,564.27	106,812,879.98
1-Dec-2020	Payment	5	106,812,879.98				1,709,006.08	5,468,429.39	1,709,006.08	1,068,128.80	8,245,564.27	101,344,450.59
1-Dec-2021	Payment	6	101,344,450.59				1,621,511.21	5,610,608.55	1,621,511.21	1,013,444.51	8,245,564.27	95,733,842.04
1-Dec-2022	Payment	7	95,733,842.04				1,531,741.47	5,756,484.38	1,531,741.47	957,338.42	8,245,564.27	89,977,357.66
1-Dec-2023	Payment	8	89,977,357.66				1,439,637.72	5,906,152.97	1,439,637.72	899,773.58	8,245,564.27	84,071,204.69
1-Dec-2024	Payment	9	84,071,204.69				1,345,139.28	6,059,712.94	1,345,139.28	840,712.05	8,245,564.27	78,011,491.75
1-Dec-2025	Payment	10	78,011,491.75				1,248,183.87	6,217,265.48	1,248,183.87	780,114.92	8,245,564.27	71,794,226.27
1-Dec-2026	Payment	11	71,794,226.27				1,148,707.62	6,378,914.39	1,148,707.62	717,942.26	8,245,564.27	65,415,311.88
1-Dec-2027	Payment	12	65,415,311.88				1,046,644.99	6,544,766.16	1,046,644.99	654,153.12	8,245,564.27	58,870,545.72
1-Dec-2028	Payment	13	58,870,545.72				941,928.73	6,714,930.08	941,928.73	588,705.46	8,245,564.27	52,155,615.64
1-Dec-2029	Payment	14	52,155,615.64				834,489.85	6,889,518.26	834,489.85	521,556.16	8,245,564.27	45,266,097.38
1-Dec-2030	Payment	15	45,266,097.38				724,257.56	7,068,645.74	724,257.56	452,660.97	8,245,564.27	38,197,451.64
1-Dec-2031	Payment	16	38,197,451.64				611,159.23	7,252,430.52	611,159.23	381,974.52	8,245,564.27	30,945,021.12
1-Dec-2032	Payment	17	30,945,021.12				495,120.34	7,440,993.72	495,120.34	309,450.21	8,245,564.27	23,504,027.40
1-Dec-2033	Payment	18	23,504,027.40				376,064.44	7,634,459.56	376,064.44	235,040.27	8,245,564.27	15,869,567.84
1-Dec-2034	Payment	19	15,869,567.84				253,913.09	7,832,955.50	253,913.09	158,695.68	8,245,564.27	8,036,612.34
1-Dec-2035	Payment	20	8,036,612.34				128,585.80	8,036,612.34	128,585.80	80,366.12	8,245,564.26	0.00
							Calculation Adjustment	0.01				
				<b>121,829,278.00</b>	<b>5,328,665.05</b>	<b>5,328,665.06</b>	<b>26,617,704.20</b>	<b>127,157,943.06</b>	<b>26,617,704.20</b>	<b>10,781,484.38</b>	<b>164,557,131.64</b>	
<b>Outstanding Disbursement Balance:</b>				<b>0.00</b>								

\$68,840,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020A (Federally Taxable)

\$25,470,000  
City of Modesto, California  
Wastewater Revenue Refunding Bonds  
Series 2020B

REQUISITION NO. 1

TO: The Bank of New York Mellon Trust Company, N.A., as successor trustee (the “Trustee”)

RE: Disbursement from Series 2020 Costs of Issuance Fund pursuant to the Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of November 1, 2020 (the “Fifth Supplemental Indenture”), by and between the City of Modesto (the “City”) and the Trustee.

You are hereby instructed to pay as Costs of Issuance of the City’s \$68,840,000 Wastewater Revenue Refunding Bonds, Series 2020A (Federally Taxable) (the “Series 2020A Bonds”) and \$25,470,000 Wastewater Revenue Refunding Bonds, Series 2020B (the “Series 2020B Bonds”) and, collectively with the Series 2020A Bonds, the “Series 2020 Bonds”), from the Series 2020 Costs of Issuance Fund as provided in Section 16.12(b) of the Fifth Supplemental Indenture the amounts set forth on Exhibit A hereto, to the persons or entities designated therein as Payee. These Costs of Issuance of the Series 2020 Bonds have been properly incurred, are a proper charge against the Series 2020 Costs of Issuance Fund and have not been the basis of any previous disbursements.

This requisition may be delivered by the delivery of signed signature pages by electronic means, facsimile transmission, or by e-mail with a PDF copy attached, and any printed or copied versions of any signature page so delivered shall have the same force and effect as an originally signed version of such signature page.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the undersigned has executed this Requisition No. 1 as of the date first written above.

CITY OF MODESTO, CALIFORNIA

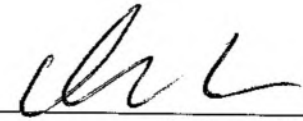
By:   
\_\_\_\_\_  
DeAnna Christensen  
Director of Finance

Exhibit A  
Costs of Issuance

Payee	Amount
Norton Rose Fulbright US LLP	\$150,000.00
S&P Global Ratings	59,500.00
PFM Financial Advisors LLC	72,000.00
Meyers Nave	3,971.00
The Bank of New York Mellon Trust Company, N.A.	4,500.00
Samuel D. Waldman	2,300.00
AVIA	1,065.00
Contingency	18,405.00
<b>Total COI</b>	<b>311,742.00</b>

**\$94,310,000**  
**CITY OF MODESTO, CALIFORNIA**  
**WASTEWATER REVENUE REFUNDING BONDS**  
**\$68,840,000 SERIES 2020A (FEDERALLY TAXABLE)**  
**\$25,470,000 SERIES 2020B**

**FUND TRANSFER MEMORANDUM**

TO: Working Group  
 FROM: BofA Securities, Inc. ("BofA")  
 DATE: November 6, 2020  
 RE: Wire Memorandum

**GENERAL INFORMATION:**

Sale Date: October 27, 2020  
 Dated / Delivery: November 10, 2020

**Closing Time/Dial-In**

Date & Time: November 10, 2020 at 9:00 AM Pacific / 12:00 PM Eastern  
 Dial-in Number: Number: (866) 747-5167; Code: 9136-3824#

**DELIVERY OF BONDS:**

The Bonds will be issued as book-entry only through Depository Trust Company (DTC). The Bonds will close via FAST close.

**FUNDS DUE AT CLOSING:**

The total amount due at closing from BofA is calculated and shown as follows:

<b>Proceeds Wired by BofA:</b>	<b>Series 2020A</b>	<b>Series 2020B</b>	<b>Total</b>
Par Amount:	\$68,840,000.00	\$25,470,000.00	\$94,310,000.00
Plus: Net Orig. Issue Premium	-	8,429,723.90	8,429,723.90
Less: Underwriters' Discount	<u>91,496.57</u>	<u>34,351.24</u>	<u>125,847.81</u>
Purchase Price	68,748,503.43	33,865,372.66	102,613,876.09
<b>Total Proceeds Wired by BofA</b>	<b><u>\$68,748,503.43</u></b>	<b><u>\$33,865,372.66</u></b>	<b><u>\$102,613,876.09</u></b>

**Application of Funds:**

Loan Payoff (Proceeds Wired by BofA):	\$68,542,429.88	\$33,759,704.27	\$102,302,134.15
Loan Payoff (Funds On Hand – Wastewater Fund)	4,774,340.39	2,351,540.79	7,125,881.18
Cost of Issuance (Proceeds Wired by BofA):	206,073.55	105,668.39	311,741.94
<b>Total Application of Funds:</b>	<b><u>\$73,522,807.82</u></b>	<b><u>\$36,216,913.45</u></b>	<b><u>\$109,739,721.27</u></b>

**Step 1 – BofA to transfer via Fed Funds wire the total refunding proceeds to the City’s Trustee:**

On the morning of November 10, 2020, BofA will send a Fed Funds wire in the amount of **\$102,613,876.09** to the City’s Trustee per the following wire instructions:

The Bank of New York Mellon  
ABA: 021000018  
Account Number: 3934658400  
Reference Account: 3934658400 MODESTO WW REV REF BDS 20 PROCEEDS

**Step 2 – Contact DTC**

After confirmation of the above step, the closing will commence at 9:00 AM Pacific / 12:00 PM Eastern. BofA will coordinate the call to DTC.

Number: (866) 747-5167; Code: 9136-3824#

**Step 3 – The City to transfer via Fed Funds wire the Funds On Hand - Wastewater Fund to the City’s Trustee:**

On the morning of November 10, 2020, the City will send a Fed Funds wire in the amount of **\$7,125,881.18** to the City’s Trustee per the following wire instructions:

The Bank of New York Mellon  
ABA: 021000018  
Account Number: 3934658400  
Reference Account: 3934658400 MODESTO WW REV REF BDS 20 PROCEEDS

**Step 4 – The Trustee to transfer refunding proceeds to the State Water Resources Control Board (“SWRCB”)**

The Trustee will wire refunding proceeds in the amount of **\$109,428,015.33** to the SWRCB related to the Clean Water State Revolving Fund Loan (Agreement Number: 11-825-550, Project Number: C-06-5175-210) payoff, per the following wire instructions:

State Resources Control Board  
Name of Bank: Bank of America NT&SA- Automate Payment Ctr. #1282, P.O. Box 37025, San Francisco, CA 94317  
Nine-Digit Routing Transit Number: 121000358  
Depositor Account Number: 01482-80005  
Name of the Account: STATE OF CALIFORNIA- Demand Account  
Account Type: Checking  
Name of Agency: State Water Resources Control Board  
Taxpayer ID No: 68-0281986

**Agreement Number 11-825-550 and Project Number C-06-5175-210** must be referenced to ensure proper credit to the account.

The Trustee will contact the SWRCB Accounting Office at [Receipts\\_Unit@waterboards.ca.gov](mailto:Receipts_Unit@waterboards.ca.gov), and/or (916) 341-5024 as soon as the EFT is completed so that the funds can be claimed. The Trustee will also circulate an e-mail to Norton Rose Fulbright US LLP and SWRCB representative at [Romana.Wortell@waterboards.ca.gov](mailto:Romana.Wortell@waterboards.ca.gov) regarding the completion of the wire transfer.

Upon receiving a confirmation from SWRCB, the Trustee will circulate an email to the City’s financing team confirming SWRCB’s authorization to release the SWRCB closing receipt and certificate.

**CONTACT INFORMATION FOR CLOSING:**

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**Bond Counsel:**

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**Municipal Advisor**

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## Syndicate Settlement

### **BofA Securities**

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**Michael Cocchiola**

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## Trustee

### **BNY Mellon**

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**James Dickson, VP, Client Services**

Phone: 213.630.6204

E-mail: james.dickson@bnymellon.com

## State Water Resources Control Board

State Water Resources Control Board  
Financial Planning & Support Unit

**Romana Wortell, Manager**

Phone: (916) 449-5552

Email: romana.wortell@waterboards.ca.gov



## City of Modesto 2020 Wastewater Refunding Bonds

Distribution List as of September 11, 2020

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<b>Trustee</b>	
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<b>Rating Agency</b>	
<p><b>S&amp;P Global Ratings</b></p>	<p><b>Malcolm D'Silva</b> Phone: 303.721.4526 E-mail: <a href="mailto:malcolm.dsilva@spglobal.com">malcolm.dsilva@spglobal.com</a></p> <p><b>Chloe Weil</b> Phone: 415.371.5026 Email: <a href="mailto:chloe.weil@spglobal.com">chloe.weil@spglobal.com</a></p>



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